Fondazione Centesimus Annus Pro Pontifice

DUBLIN PROCESS

An Ethical Debate on Finance and Technology

Highlights of the 6th Consultation Meeting – London, January 31st-February 1st, 2019

The Dublin Process was started in 2013 by the Centesimus Annus pro Pontifice (CAPP) Foundation to analyse the financial crisis from the point of view of Catholic Social Teaching, with a special emphasis on leaders' personal involvement and a responsible company culture. The 6th consultation meeting was held in London with a group of experts from the Churches, universities, business and trade unions.[1]

This specific mix of participants allowed a debate among two different, and sometimes parallel lines of thought on financial ethics: on the one side, the continued debate among financial analysts and operators, with critical, sceptic or in some cases, optimistic views about ongoing reform; and, on the other side, the discussion on finance proposed by Church personalities and academic specialists in Christian ethics. The meeting referred to Catholic Social Teaching and especially to a document published in May last year by the Vatican.[2] It received important input from members of the Church of England and from different religious standpoints, without exclusion. Participants from all sides were able to exchange information and did identify some areas which require further analysis in order to make proposals for an update of Church teachings and to provide ethical directions on real-life dilemmas, while keeping the necessary global ethical inspiration.

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[1] The event was organized jointly with the University of Notre Dame (USA) in England and took place at the University's London premises and at the House of Lords, and was co-sponsored by St Mary's University, Twickenham; the Centre for Catholic Studies at Durham University; the School of Politics and International Relations of the University of Kent; and Campion Hall, Oxford. List of participants attached. The present short summary has been read and approved in general terms by all participants.

[2] *Oeconomicae et Pecuniariae Quaestiones,* Congregation for the Doctrine of the Faith and Dicastery for Promoting Integral Human Development, May 2018.

Some recent changes in finance have brought new ethical challenges and opportunities

Participants described how they see changes happening in finance although no unanimous view emerged on the relative importance of these changes from the point of view of ethics.

1. Real change seems to be happening with social impact investment, partly brought by internal conviction of asset managers, but mainly driven by the demands of customers and investors. Some Church institutions are leading the way in engagement. The aim is not only to counter the negative sustainability effects of investments, but to add new positive social impact. This draws on the ideas of inclusion, social responsibility and ecological concerns and could indicate a path towards a coming of age of business ethics.
2. But the concept of 'purposeful innovation' remains vague while finance remains dominated by an elite mentality and the fact that decent people are easily seduced by money. Regulation is invasive, late in understanding developments and sometimes exposed to partial interests. To a large extent, finance talks to itself, trades with itself and judges itself on criteria of its own making. The financial crisis was 'a fork in the road not taken'; for example, efforts to include more women on Boards and in management have created the appearance of change but have not yet succeeded in improving connections between financial workplaces and society.
3. *Fintech* brings more potential both for good and for bad. It can help to level the playing field between wealthy elites and those less privileged. It allows customers to have a view of competing products in just a few seconds. It can bring financial services to the poorest populations and allows 'personalized' service for everyone. But algorithms are 'black boxes' where it is difficult to identify underlying prejudice, whether individualistic or altruistic, passive or proactive. Without proper controls and ethical discernment, 'social' scoring could easily lead to financial exclusion and to the disintegration of the insurance industry. Boards and supervisors will be held responsible for the use of the huge amount of digital imprint and data lakes.
4. Asset management is also being challenged by deep technological disruption of its own. After the adoption of low-cost index funds, a second wave of disruption is happening now with robo-advisors and many kinds of new entrants. In a more transparent context, the quality of transactions and trading is now a main competitive factor. This imposes changes on asset managers and distribution and will create disruption in employment.
5. In the context of new players and new business models, the future of large banking institutions is uncertain, while their reputation remains tainted by the cost of bail-outs. The profitability of the banking industry is low, with only a few

exceptions. Regulators in some countries are working to remain on top of the developments through innovation hubs in collaboration with the private sector, thus helping the sector to develop and to adapt while updating supervision. Self-regulation can be an important element for areas not ruled by law, and it remains a key factor in monitoring technological change. The unregulated sector of non-bank leveraged lending may be a source of future instability.

6. The question is asked: shouldn't finance be made more 'normal' instead of reinforcing its uniqueness with special moral codes? Perhaps this is already happening: competition moves to new areas where the tech quasi-monopolies and 'aggregation' of products can diminish customers' loyalty to banks and limit these to a reduced role as 'financial utilities'.

Ethical questioning goes deeper in practice and in principle

Participants from academia and the Churches asked wider ethical questions.

7. A keynote speaker indicated three main challenges for Christian social teaching in today's world: responding to social inequity; being able to help those dealing with the predicaments of life (helping rather than judging); and offering an alternative to the dangerous 'identity politics' brought about by change and anxieties.
8. For the Church of England, funds entrusted to the Church must influence the companies in which they hold investments and press business towards better practice. This means monitoring not only *what* is produced but *how* it is produced. It means joining together with like-minded investors and establishing partnerships with companies to monitor their performance, for example towards the Paris Agreement on climate change. Reasonable questions were asked concerning appropriate divestment policies or the possibility of achieving a 'win-win' situation, as opposed to subsidising socially oriented investments. This whole process is seen as 'theology at the heart of financial deliberation'.
9. Christian tradition upholds the virtues of moral rectitude and rejects the divorce of economics from ethics. From that point of view, there is nothing new in the basic ethical dilemmas in finance. The Catholic Church has maintained its rejection of usury, which can be applied to new forms of risky lending through *fintech*; its conception of companies as a community of persons, which can be endangered even more than in the past by hostile 'instant' take-over bids; and its scepticism about speculation defined by a speaker as "transactions which are intended to be reversed without reference to anything other than the price". Some scholars would like to see lenders take a share of the enterprise risk where they provide financing at interest, but this would probably not be easily acceptable for banking supervisors.
10. The never-ending occurrence of financial malpractice – for example in some recent money laundering scandals – shows that the commitment of the managements and Boards of financial institutions to ethical behaviour and best

practice may still be questionable. A true change of mentality at the top is key since ethical behaviour in organisations depends to a large extent on the example shown by managers. The question is not only to hold yourself to high standards, but to be prepared to hold those around you to account.

11. The base for reconstruction lies in a solid moral philosophy on what is a good practice and what excellence means for those participating in it. Finance has essentially four functions: to make and receive payments; to allow individuals and households to manage their finances over their lifetimes; to channel and allocate capital from savers into investments and infrastructure; and to help individuals and households manage the risks of modern life. In its present form, finance is an expensive instrument which probably utilises only part of its resources to providing these services.
12. As with professions such as medicine and the law, a purely profit-oriented approach now seems to dominate the financial sector. This context – which is not unique to finance – makes it difficult to promote a moral approach. A solid ethical construction needs to be inspired from within and motivated around internal demands for sustainability. A practical idea would be to have Church trained specialists able to infiltrate business through coaching or mentoring CEOs and managers.

Avenues for further discussion

This is a continuing process and more discussion will be needed.

13. Some participants argued that financial speculation can play an important role in delivering just outcomes and promoting the common good, for example by promoting food production at times of food shortages. Others argued that the conditions under which speculation can discover the just price in that fashion rarely, if ever, exists. It would be useful to examine real cases of speculation in a moral context to see if a consensus can emerge. It is important to refine thinking on speculation for those who work in finance as well as for those considered as beneficiaries.
14. Whether regulators systematically fail in correcting the market, as some would argue, or whether the question lies with updating and rejuvenating supervision, there is in any case a role for self-regulation, if only to address those areas not covered by legislation. This raises problems about information asymmetries and conflicts of interest. But Christian Social Teaching has much to say about subsidiarity in public life. It would be useful to have more debate on the contexts and conditions in which self-regulation can work and those where it is not appropriate. This is again important for many people who work in finance.
15. The role of education is paramount. Some universities are now experimenting with new approaches to business ethics being not as an optional extra course component, but part and parcel of business strategy. This approach should be generalized.

16. It was observed that even those with a strong ethical education could be seduced by greed when they entered the financial world. Today young people have different expectations and the financial industry needs to reinvent its selection processes to ensure that in hiring the best candidates it keeps a strongly ethical mindset. In debates like this, the participation of young people is necessary, their attitude towards privacy and ethics is different, though perhaps not less demanding.
17. Trade unions demand that workers participate in decisions on new technologies. At least in the UK, it seems that most employees are not opposed in principle to technological innovation, and workers should help in the process of making the choice of techniques and the quality of job transitions more positive for organisations and for the common good.
18. The question concerning the use of data is increasingly outside the scope of the financial industry and its regulators as business models push the data storage and analysis away from traditional finance. As for 'other people's money', a full range of moral standards and regulations will have to address the use of data. The extent to which risk is mutualized or socialized needs to remain a collective decision by all interested stakeholders.

In his *Laudato si'* encyclical, which is inspiring many practical initiatives around the world, Pope Francis asks that finance and its regulators see themselves in the larger context of the "care for our common home": "The economy accepts every advance in technology with a view to profit, without concern for its potentially negative impact on human beings. Finance overwhelms the real economy. The lessons of the global financial crisis have not been assimilated, and we are learning all too slowly the lessons of environmental deterioration."[3] And later in his encyclical: "Politics and the economy tend to blame each other when it comes to poverty and environmental degradation. It is to be hoped that they can acknowledge their own mistakes and find forms of interaction directed to the common good. While some are concerned only with financial gain, and others with holding on to or increasing their power, what we are left with are conflicts or spurious agreements where the last thing either party is concerned about is caring for the environment and protecting those who are most vulnerable. Here too, we see how true it is that 'unity is greater than conflict'".[4]

[3] *Laudato si'* n.109 http://w2.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html

[4] Ibid n.198.

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