Are Bankers Good or Bad for Society?

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Abstract: this paper argues that bankers are good for society if the constraints that regulate them direct bankers to behave for the good of society. It makes clear that banking keeps society civilised as, without such controls, we would have anarchy and war. It argues that bankers historically have been constrained by religious shackles that, through the fear of God, made bankers behave appropriately. It asks what bankers fear today and whether the moral compass and lessening of religious beliefs is one reason why bankers have been bad. After all, the love of money is the root of all evil. The paper concludes that for bankers to be good for society, they have to have a fear of retribution and a strong moral compass. This will happen as the American culture of casino capitalism is replaced by an Asian culture of community-based consensus combined with Islamic finance influences.

Good evening ladies and gentlemen and thank you to Professor Mainelli and Gresham College for inviting me here this evening.

This evening actually marks a major milestone to which I shall return later, as it is exactly 80 years to the day since the stock market crash on Wall Street which triggered the Great Depression of the 1930s. Yes, October 29th 1929 was that day.

Thank goodness that couldn't happen again (I jest!).

It also seems like a long, long time since we agreed this presentation theme and months later, here we are. The strange thing is that the theme we agreed back at the start of the year is more salient than ever today, as banks, regulators and policymakers argue about the role of banks and banking and whether they are morally and socially repugnant or whether their methods and manners are acceptable overall.

This argument began with the commentary from Lord Turner in Prospect Magazine[1] in September where he states that some banking activity is "socially useless". What he actually said, in a roundtable discussion with four esteemed questioners is the following:

"It is hard is to distinguish between valuable financial innovation and non-valuable. Clearly, not all innovation should be treated in the same category as the innovation of either a new pharmaceutical drug or a new retail format. I think that some of it is socially useless activity. On the other hand, I don't know whether that means the world would have been better off without any credit default swaps, or simply some credit default swaps. I just think it's difficult to work out where one can draw the line with this."

The line: "I think that some of it is socially useless activity" caught the headlines, and created a storm of reactions from the industry.

For example, the current Chairman of Lloyds Banking Group, Sir Victor Blank responded by saying we've "got to make sure we don't have headlines saying banks are 'socially useless', because they ain't. We provide bank accounts to people who would not otherwise have one. We give to charity. We provide a very important social function."[2]

And Stephen Green, Chairman of HSBC and also of the British Banker's Association, added:

"At their worst, financial markets can be engines of destructive excess. In recent years, banks have chased short term profits by introducing complex products of no real use to humanity. It is clear that very many innovations introduced by the financial markets have been socially useful, and indeed is critical to economic and social development – to our prosperity, in short.

"But it is equally clear that some parts of our industry had become overblown, and that certain products and services failed the tests of usefulness, suitability and transparency."[3]

As can be seen, there is a raging debate about what banking is and what it does today. What is the heart of banking? What is it there for? What makes it socially useful or socially useless? And are bankers good or bad for society?

Most people suspect bankers of being bad for society today, which is unsurprising because of what has happened recently and, as I gathered my thoughts for this presentation, I realised that the question: "are bankers good or bad for society?" is not only prescient but has been with us throughout time immemorial.

It is also strange that as I put this presentation together, the more I realised I would be discussing things that are core tenets of society: politics, religion and sex.

I know we're not meant to talk about politics, religion or sex in open conversation but I'm going to, as this is critical to the point of whether bankers are good or bad for society. However, in doing so, I found that the more background I put into this presentation, the more it became a religious and historical discussion so please bear with me.

I am not trying to tell grandma to suck eggs or give you a lesson in history, but purely exploring and explaining the context by which we can answer the question posed: "are bankers good or bad for society".

To do this, I have an agenda which will look at why banking is essential for society and specifically how and why bankers can be a force for both good and bad. Then we can move onto bankers today and tomorrow, and how to ensure that we make bankers a force for good in the future.

Let us begin with why banking is essential to society.

Why Banking is Essential for Society

Banking is essential for society because money and sex are at the heart of everything we do.

As Jeremy Clarkson puts it:

"Money and rumpy-pumpy are the twin engines powering everything we do."

Jeremy Clarkson may not have realised how insightful this line proves to be but Money and Sex are the core methods of controlling people and society.

Money was in fact invented to support the world's oldest profession: prostitution.

In Ancient Sumeria, 5,000 years ago, the concept of money did not exist. However, by this time, the world had moved from one of nomadic clan cultures that bartered to civilised communities based around farming.

Farming meant that rather than scavenging for food all the time, food could be created in abundance; but abundance can have its downside, as it caused fights over who had access to what lands, food and crops.

Therefore, there had to be a way of controlling the community.

Initially, this control was created by using the fear of gods, but food and abundance could sometimes take precedence over religion and fear.

This meant that the political leaders – the Church of the time – had to find an even better way to control their society.

And so they invented money to control the community.

Money was therefore a political device created by priests to keep society in order and avoid anarchy.

By way of proof here's an ancient Sumerian vase, which was one of the few remnants that survived the bombing of the Baghdad museum.

What this vase shows are the farmers of the community arriving at the temple to be greeted by the priests who give them their ancient coin: a shekel.

Now why would you want a shekel?

To buy some wine and food?

Yes, but more importantly to gain access to the Temple of Inanna.

Inanna was the Goddess of Love in Ancient Sumeria and her living embodiment were women who inhabited her temple and, by the exchange of a shekel, a farmer could be consummated in the ritual of intercourse with the living embodiment of Inanna on Earth.

Some might call sex for money prostitution, but it was very effective in controlling a society who had an abundance of produce. The political and religious leaders were happy therefore.

The basic idea of sex and money going hand-in-hand is in fact completely ingrained in our cultures and goes back to the origins of our evolution.

For example, bearing in mind we are celebrating 200 years since Darwin's birth this year, and 150 years since he published *The Origins of Species*, I thought this experiment was quite interesting[4]:

"Keith Chen, an associate professor of economics at Yale, asked himself: what would happen if I could teach a bunch of monkeys to use money?

"His monkey of choice was the capuchin which, in the tradition of monkey labs everywhere, were given names.

“Felix was Chen’s favourite.

“The monkeys lived together in a large, open cage. For currency, Chen settled on a 1-inch silver disc with a hole in the middle.

“The first step was to teach the monkeys that the coins had value. If you give a capuchin a coin, he will sniff it and, after determining he can’t eat it or have sex with it, he’ll toss it aside. So Chen and his colleagues gave the monkey a coin and then showed a treat. Whenever the monkey gave the coin back to the researcher, it got the treat. It took many months, but the monkeys eventually learnt that the coins could buy the treats.

“Chen now introduced price shocks to the monkeys’ economy. Let’s say Felix’s favourite food was Jell-O, and he was accustomed to getting three cubes of it for one coin. How would he respond if one coin suddenly bought just two cubes?

“To Chen’s surprise, Felix and the others responded rationally. When the price of a given food rose, the monkeys bought less of it, and when the price fell, they bought more. The most basic law of economics — that the demand curve slopes downward — held for monkeys as well as humans ...

“... out of the corner of his eye, Chen saw something remarkable. One monkey, rather than handing his coin over to the humans for a grape or a slice of apple, gave it to a female monkey. Chen had done earlier research in which monkeys were found to be altruistic. Had he just witnessed an unprompted act of monkey altruism?

“Then — bam! — the two capuchins were having sex. As soon as the sex was over, the female brought the coin over to Chen to purchase some grapes.

“What he had seen wasn’t altruism but the first instance of monkey prostitution in the recorded history of science.”

This form of exchange is so basic that money and finance are the core of being human, and banking therefore is the bedrock of our society.

Money and its controllers – the bankers – are the core behind control and power, politics and religion, sex and society.

And this is why bankers need strong regulation as, without it, they can be prone to be like kids in the candy store. With no store owner in sight, they would be likely to trash the store.

Therefore the constraints on bankers’ activities has to be fear of what regulates their activities. Today, that is fear of regulation. Historically, it was fear of God.

This constraint of fear has to be there, or bankers will cause society harm, and this fear needs to be there because bankers hold the keys to our world. The keys they control are the keys to power. They have the power to create or destroy countries and economies, to make or break businessmen and politicians, the ability to literally give you happiness or create misery.

Money is power.

So when we ask: “are bankers good or bad for society?” the question must start with the understanding that bankers are essential to society.

We can then ask the follow-on question: are bankers a force for good or bad.

A Banker's Role in Society

To answer this question we must take a religious and historical journey through time. Personally, I am not comfortable with that as I am not deeply religious, but the associations of bankers being a force for good or for bad are intrinsically associated with religious beliefs throughout history and the use of the fear of Gods to constrain financial markets.
Today, as mentioned, the fear of God is no more so it is more the fear of the Chancellor ... but the reason for the associations with Gods is that money was created by priests to control society and bankers are at the heart of controlling society because the goods they manage – money – is at the core of all power.

This is why banking has continually been faced with a challenge from a moralistic and religious viewpoint throughout history.

It is only by maintaining a strong moral and ethical stance that bankers can be good for society, and these rules must be enshrined in the fabric of how bankers are managed.

Without such fear, morals and ethics will be allowed to slide and many would contend that this has been the case in this most recent crisis. When this happens, then banking is a force for bad.

This moral and ethical challenge is why banking has such a strong link to religion. It is why money, and its potential for positive or negative impacts, is discussed regularly in the Bible, Qur'an and Talmud.

This is why the Bible states: "For the love of money is a root of all kinds of evil" in the Book of Timothy, because money can create sorrow and misery. Equally it can create happiness and joy. It all depends whether money is managed by bankers who see it as a source for good or bad in society.

A banker's role in society should therefore be not to love money and get rich, but to manage money on our behalf and be rewarded appropriately for managing it prudently on our behalf. The essence of banking should be to ensure money is protected, as it holds such a strong position in making or breaking societies and civilisations.

Without effective management of money, societies breakdown, wars arise and anarchy prevails.

After the Great Depression, a decade of high unemployment ensured and then a Second World War. A World War built on the back of economic hardship that allowed Hitler to sweep into power thanks to hyperinflation in the early 1930s Germany and an economy that was destroyed.

This is why money and its controllers are so critical to our lives, as they can build progress for good or hardship for bad.

Money is at the heart of most of our sins in fact, as the overindulgence in the seven deadly sins breaks people, economies and societies, and it is only money that restricts the indulgence.

For example, we've already discussed sex, so that's lust off our list but let's take envy.

Envy is being jealous of what other people have got and is the core of materialism.

Keeping up with the Joneses is all about envy and envy therefore is all about having cash to buy the goods to show you've got something better than they have.

Envy is fuelled by money as is lust which is why the love of money is the root of all evil.

The same is true with anger.

What makes us angry?

Stress?

And where does stress come from?

In many instances from money, or the lack of it.

In fact, money is at the core of why relationships fall apart as illustrated by this line from divorce.com: "The most common communication problems that create stress in a marriage are usually related to finances and sex."

This is backed up by a recent study of 2,500 Australian couples between 2001 and 2007[5] which found that 16% of respondents who were poor or where the husband was unemployed separated, compared with only 9% of couples with healthy finances.

Money and sex are the twin engines powering everything we do, and banks and bankers control money and therefore have a critical role to play in whether we are saints or sinners.

Think about the next sin: sloth, for example.

Sloth is indicative of being lazy and who do we think of as being laziest?

The unemployed and the seriously rich.

The former are the poorest of society who may or may not have chosen to be slothful; the latter, thanks to money, can choose to indulge in sloth.

If you are not wealthy, you cannot indulge in this sin happily and this is the reason why lotteries are so successful around the world because what's the first thing a lottery winner does with their winnings?

You got it, they give up work.

Which brings me to the sin that's almost the opposite of sloth: pride.

Pride.

What's money got to do with pride?

Well, we take pride in things we have and money allows us to have more things to be proud of therefore. It's back to materialism.

In fact, if you don't recognise this factor, just think about the most famous book about Pride, Jane Austen's *Pride and Prejudice.*

Money plays a central role in the plot of *Pride and Prejudice* because the Bennet women are left with a bleak financial future after Mr. Bennet dies. As a result, Mrs. Bennet's pursuit of husbands for her daughters takes on a sense of urgency that supersedes her foolish behaviour.

Austen describes people's financial situations throughout *Pride and Prejudice* in terms of actual monetary amounts:

"Is he married or single?"

"Oh! Single, my dear, to be sure! A single man of large fortune; four or five thousand a year. What a fine thing for our girls!"

Translating this into modern mantra using figures from a UK Government research paper entitled *Inflation: the value of the pound 1750-2005*[6] shows the pound valued at an all time low.

The price index for 1813 was 16.3, and that for 2005 was 757.2.

So in 2005 the average price level was roughly 46.5 times the 1813 level.

This means that to have the same purchasing power in 2005 as £5,000 had in 1813, you would need to be earning around £230,000 a year to qualify as a possible suitor to one of Mrs. Bennet's children.

Meanwhile, Mr. Darcy is not simply rich, he has £10,000 pounds or nearly £500,000 a year in today's money.   He must be a banker.

Oh yes, and when Elizabeth's father dies, she will not only be poor but will have a mere £40 or £1,850 a year.

Just £150 a month to live on.

No wonder her mother was desperate to marry them all off.

And so, as can be seen, pride is all about having money and wealth.

Which brings us to our sixth and penultimate deadly sin: gluttony.

Gluttony is indulging in eating and drinking to one's heart's content, but do you want to eat gruel or foie gras?

Of course you can be a glutton for MacDonalds, but would you rather not have fine dining at Gordon Ramsay's to pig out?

And would you prefer an alcopop or a Petrus?

I know which would be the natural choice, but money prohibits us from being a Ramsay and Petrus glutton and so we have to gird our stomachs on MacDonalds and alcopops.

Then there’s the final sin most closely associated with all things banking: greed.

It’s funny to be honest that we have everything encapsulated in greed.

Greed is good, as Michael Douglas declares in the movie *Wall Street*.

Greed is a sin but hey, being a capitalist pig is no bad thing is it?

Pigs, piggy banks, pigs at the trough, greedy pig ... anything and everything piggy is all about banking and money.

And that is because, without constraints, bankers will be gluttons of greed.

There has to be a tether to this bull in the china shop, and that tether is fear.

Fear of God historically and fear of regulations today.

So there you have it.

The seven deadly sins are fuelled by money.

Bankers should be the guardians of money enabling us to avoid excess access to the seven deadly sins.

Bankers are good for society as long as they have a tether to constrain them from indulging in greed particularly and, when they are allowed to be unconstrained, they will indulge themselves and become sinners.

This is why money and bankers hold the core of power and control, because basic human nature seeks to indulge in those basic sins.

And it is this balance between good and evil, power and politics, control and anarchy, where sex and money plays a key position, with bankers being the priests of the money halls.

Banker’s Morals and Ethics

Because money and banking is so embroiled in civilisation and society, it is why money is so immersed in religious texts.

For example, I’ve already mentioned the Book of Timothy which states that “for the love of money is a root of all kinds of evil”, but the Bible adds a lot more in the Book of James:

"What is causing the quarrels and fights among you? Isn't it because there is a whole army of evil desires within you? You want what you don't have, so you kill to get it. You long for what others have, and can't afford it, so you start a fight to take it away from them. And yet the reason you don't have what you want is that you don't ask God for it." James 4:1-2

And Mark
“Jesus looked around and said to His disciples, ‘How hard it is for the rich to enter the kingdom of God!’ The disciples were amazed at His words. Then Jesus said, ‘Children, how hard it is to enter the kingdom of God! It is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God!’” Mark 10:23-25

And Deuteronomy
“Remember the Lord your God, for it is He who gives you the ability to produce wealth.” Deuteronomy 8:18

But this is not a lecture on Christianity as the Qur’an has similar lessons on money.

1400 years ago, the Qur’an condemned today's modern banking concepts before they were put into wide scale practice:

“And what you give in interest that it may increase on (other) people's wealth, increases not with Allah.”
Qur’an 30:39

As you know, interest-bearing products are banned in Islamic law although the Qur’an goes on to state explicitly that trade is not the same as interest:

“Those who consume interest shall not rise, except as he rises whom Satan by his touch prostrates; that is because they say: ‘Trade is like interest’; whereas, Allah has permitted trading but forbidden interest.”
Qur’an 2:275

Which is why and how Islamic Finance is able to exist.

Buddhism and Judaism have similar lessons. In Buddhism, it is explicitly clear that performing meaningless work to obtain money is not right and in Judaism, the aim is to use wealth to help the poor by donating to charitable works.

In fact the Jewish attitude to money is the one that most clearly shows the role of bankers in society.

The Jewish understanding of money is similar to how we see fire. Fire can burn and destroy or it can light and warm. So, too, with money. Money can accomplish great good but it is also able to bring about great evil. It can build hospitals and schools and help the needy or it can wreck personal character and corrupt society, government and industry. It finances war and causes violence and cultivates crime and yet it can just as well succour the widow and orphan and save the helpless from disaster.

So money and banking is intimately tied into religion, politics and power, and asking whether bankers are good or bad for society should focus upon this challenge: bankers are meant to be the protectors of society by enabling the use of money for good.

Thus, the issue lies with when the protectors of society become sinners themselves.

For the love of money is the root of all kinds of evil, and many are asking whether bankers are far too often prone to fall in love of money today by indulging in unconstrained greed.

This is explained from the very earliest reasons why money was invented – to support the world's oldest profession – through the texts of the Bible, Qur'an and the Talmud.

For example, one of the most controversial divisions in religious teachings is the occasion when Jesus threw the moneychangers out of the temple.

In this exchange, Jesus is stated to have visited Herod's Temple in Jerusalem where the courtyard is filled with livestock and the tables of the money changers, who changed the standard Greek and Roman money for Jewish and Tyrian money, which were the only coinage that could be used in Temple ceremonies. According to the Gospels, Jesus took offense to extorting profit from the people to hear the word of God and used a whip to drive out the moneychangers and turn over their tables.

This is one of the first times that bankers are recorded in history as causing issue, and it created the massive divide between Christianity and Judaism. So it is in history that we continually see bankers being questioned about their value to society, creating political and cultural divides and chasms between people and power.

In fact, this divide is one of the core tenets of the huge divide between Islamic and Christian values based upon Usury.

Usury is generally defined as the charging of interest on loans and has historically been condemned or banned in most societies.

The First Christian Council of Priests who convened in Nicaea in 325 AD, forbade clergy from engaging in usury.

The Third Lateran Council who met in 1179 to bring to an end the Holy Wars, decreed that persons who accepted interest on loans could receive neither the sacraments nor Christian burial.

Pope Clement V proclaimed that the belief in the right to usury was a heresy in 1311.

Pope Sixtus V condemned the practice of charging interest as "detestable to God and man, damned by the sacred canons and contrary to Christian charity."

The Hebrew Bible regulates interest taking too, although interpretations vary widely.

One understanding is that Israelites were forbidden to charge interest on loans made to other Israelites, but allowed to charge interest on transactions with lesser non-Israelites. Another states that the Hebrew Bible treats lending as philanthropy in a poor community.

Interest of any kind is forbidden in Islam, although specialised codes of banking have now developed to cater to investors wishing to obey Qur'an law through Islamic banking.

And therein this sermon ends, so to speak.

Before we move on however, the key is that when we ask: "are bankers good or bad for society?" we are actually dealing with fundamental cultural issues around the core of what motivates mankind. The core engine that powers everything we do: money. The core of what can lead into hedonism and indulgence in the seven deadly sins. The core of what causes issues and confrontations between nations and peoples. The core of religion and religious divide.

And the issue lies with bankers, who are the protectors of this core engine of society, and whether bankers become sinners themselves. If bankers are not regulated by fear of gods, then what are they regulated by? Politicians who, in this country, were caught feeding at the same trough of greed as the bankers? No wonder the industry went slightly off the rails.

The critical point made is that money and money minders, bankers, are at the heart of society, they are the essence of civilisation, and their role is one that has strong ties to religious and societal order.

Finally, before we look at this crisis and what comes next, I would like to briefly review why bankers can be good or bad for society through history.

Here is a brief walkthrough of four of the biggest boom-bust crisis of the past – the fall and rise of the Roman Empire, Renaissance Italy, the South Sea Bubble and the Great Depression. In each instance, bankers were a major force for good in creating these booms, and bad in allowing them to bust.

Banking for Good or for Bad

From the earliest example of Jesus throwing the moneychangers out of the Temple, society was transforming from Pagan cultures in villages to Christian, Islamic, Jewish and Buddhist cities of civilisation. It was a period of major commercial and Empire expansionism, fuelled by a clear work ethic and rewarded by riches of wealth based upon early banking practices.

The ability to build, develop, acquire and grow requires funds and bankers provide the ability to connect those who need funds with those who can provide them.

This is where banking is a force for good – in enabling growth, progress, development and expansionism – and was clearly illustrated by the building of the Roman Empire.

The Rise and Fall of the Roman Empire

Roman society grew to be the most powerful because it was a very paternal and organised society and structure. It is where the whole concept of patronage came from, and you were either a patrician or a plebeian. The plebeians were dependent on the patricians, because the patricians supported them financially and legally in exchange for their services.

Religion was also very important to the rise of Rome, as the Senate would not allow any other form of worship. The Senate used religion to control the lives of Romans as a way to prevent personal freedom.

Finally, Rome became an Empire because of the acquisition of lands after the wars against its neighbour's cities. Becoming geographically larger, Rome became more powerful socially, politically, and economically over the conquered cities and the financial and political order of Rome based upon patronage and the Senate were at its heart.

Why did Rome fail?

Many historians speculate that the rapid growth of the empire over a relatively short period of time and the economic inflation that followed could have contributed substantially to the empire's decay.

Due to the incredible size of the empire, it required a huge budget to maintain many key elements in its survival such as roads which were essential for communication, transportation and the moving of armies, and aqueducts as Rome's cities relied on the water such aqueducts provided.

At the time the empire was fighting enemies on all sides due to its expansion into their territories and was already contributing huge sums of silver and gold in order to keep up its armies. In order to try and combat both problems, the empire was forced to raise taxes frequently causing inflation to skyrocket. This in turn caused the major economic stress that many attribute as one of the major causes for Rome's decline.

So, in simple terms, the rise and fall of the Roman Empire was facilitated by bankers who helped to fuel its growth through financing but sourced its failure by the same token, in this case by expanding too far and fast for financing to be sustainable. In other words, they were over-leveraged.

This boom bust cycle of empire building and expansion fuelled by financial leverage leading to empire implosion and contraction caused by over-leverage can be seen time and time again throughout history.

But without such expansionism supported by financial innovation, we would see little expansionism or progress at all.

Turmoil creates innovation and banking creates progress as proven again a thousand years later as the origins of modern banking developed in the merchant banks of Renaissance Italy[7].

The Rise and Fall of Renaissance Italy

Visit Italy's major cities of Rome, Florence and Venice, and you can still see the opulence and grandeur of the merchant banking revolution of the Renaissance.

In particular, if you look beyond the facades of the river and seaport buildings, you can literally see the direct origins of our modern economy. Italy housed the first private corporations, insurance companies and banking conglomerates.

For over 500 years, Venetian traders and bankers dominated European commerce with, at their peak, over 3,300 merchant ships and 36,000 merchant marines. They forged long-lasting business relationships throughout the Mediterranean and beyond.

They built the first capitalist empire, and the evidence is everywhere.

By the 14th century, there were over 140 Italian banks, mostly in Venice, and the biggest bank was run by the Medicis.

The Medicis had long been involved in banking and were innovators in accounting. At one point the Medicis managed most of the great fortunes in the world, from royalty to merchants. There was even a time when the currency issued by the Medicis was accepted and used throughout Europe as the preferred currency.

Founded in 1397, the bank expanded quickly such that, by 1427, the Rome branch had approximately 100,000 florins on deposit from the State; in comparison, the total capitalization of the entire Medici bank was about 25,000 gold florins.

Then the decline of the bank began in the 1460s. This is because many of the banks were run by families and would last a single or few generations as father to son expertise could not always be handed down or replicated.

However, a specific cause was defaults on loans with 'trusted clients', such as King Edward the Fourth of England who had been fighting the War of the Roses between the Houses of York and Lancaster. In 1467, the King owed 10,500 pounds sterling to the Medici Bank; the nobility had borrowed 1,000 pounds; and another 7,000 pounds were tied up in various illiquid assets.

The Wars of the Roses rendered Edward IV unable to repay the loans, and all of them defaulted.

The London branch of the Medici Bank closed in 1478, with total losses of 51,533 gold florins.

Many of the other Italian banks went through a similarly turbulent rise and fall. For example, the Peruzzi Bank loaned 600,000 florins to the English King Edward whilst Bardi Bank loaned him 900,000. When King Edward reneged on his debts, both of these powerful banks went bust. Today, the only surviving bank from that period is the Bank of Monte Paschi di Sienna, established in 1478.

One of the key lessons that came out of this period is that Italy's merchant banking dreams were crushed by complacency.

Even after Venice passed its peak, its merchants and investors saw only blue skies ahead. They underestimated the growing power of foreign competition. They failed to participate in the new markets opening up in the 16th and 17th centuries with the discovery of the new world and new trade routes to Asia.

They didn't understand the importance of the Spanish awash in gold from South America, England and France settling North America, or the Portuguese making inroads in "the Japans."

Venetian dominance was broken. And by the time Venice woke up to the change, it was too late. The world's first capitalist empire declined, and today all we can see are its glamorous remnants.

But yet again, it is just an illustration of the boom and bust cycle created by economic strengths where bankers are good for society – how would Italy have ever enjoyed its Renaissance without them? – and bad for society – the Empire was crushed because of poor credit risk management in giving loans to people who wouldn't repay them.

Does any of this sound familiar?

But also take note the rise and fall of Renaissance Italy, fuelled and fooled by bankers, was a vibrant and successful period of massive progress. As Orson Welles makes clear in the film *the Third Man*.

In Italy, for 30 years under the Borgias, they had warfare, murder and bloodshed, but they produced Michelangelo, Leonardo da Vinci, and the Renaissance. In Switzerland they have brotherly love. They had 500 years of democracy and peace, and what did that produce? - The cuckoo clock!
Harry Lime, the Third Man

So bankers are good for society when creating progress and development.

Moving on, in tracking our case for whether banks are good or bad for society, we find the next serious market implosion in the early 18th century when Britain experienced the boom and bust of the South Sea Bubble.

The South Sea Bubble

The South Sea Bubble takes us from the age of commercial banking innovations of the Renaissance to investment banking innovations during the European Empire Building of the 17th and 18th Century.

You could not launch massive overseas colonisation exploits without capital, and companies that were being created to leverage these new trade routes needed a lot of it.

As a result, investors created the earliest stock exchanges for raising capital in the late 1600s and in 1711, after a war which left Britain by 10 million pounds in debt, the government proposed a deal with the South Sea Company to allow Britain's debt to be financed in return for 6% interest. In order to sweeten the deal, the government added another benefit: sole trading rights in the South Seas.

Because of their monopolistic position and strength with government backing, shares in the South Sea Company were incredibly popular and their value rose to ten times their initial public offering price.

Seeing the success of the first issue of shares, the South Sea Company quickly issued more.

Again, the stock was rapidly consumed by the voracious appetite of the investors.

Investors saw that the stock was going to the stratosphere and they wanted in.

Equally, many investors were impressed by the lavish corporate offices the Company had set up even though, at the time, they had not even started trading in the South Seas.

The extent of the South Sea bubble can be seen by the fact that 462 members of the House of Commons and 112 Peers had some sort of stake in the South Sea Company.

Everyone bought into the stock.

Then the 'bubble' burst because people discovered that the South Sea Company, after several years of trading, had yet to actually deliver any goods or produce from the South Seas.

The shares had been valuable on paper, but worthless in reality.

Hence, the herd mentality that caused this madness of crowds suddenly sobered up and everyone pulled their money out of the markets.

People all over the country lost all of their money. Porters and ladies maids who had bought their own carriages became destitute almost overnight. The Clergy, Bishops and the Gentry lost their life savings. The whole country suffered a catastrophic loss of money and property.

There was even a call in Parliament to resurrect the Roman punishment of Lex Pompeii, where bankers and those involved in this disaster would be tied in sacks with snakes and thrown into the Thames.

The South Sea Company Directors were arrested and their estates forfeited and frantic bankers thronged the lobbies at Parliament.

We read about the South Sea Bubble today and maybe wonder how so many people got involved in such a dubious undertaking.

Or maybe not as, today, we have seen other bubbles – such as the internet and house market bubbles – which has also burst.

The lesson is always the same: if you find a get rich quick scheme, you'll find a get poor scheme just as quickly.

What is surprising is that the basic knowledge of the herd mentality and the madness of crowds was summarised clearly by Robert Mackay back in the 1840s with his book, *Extraordinary Popular Delusions and the Madness of Crowds*, which studied the South Sea bubble along with the Mississippi Company bubble of 1719–1720 and the Dutch tulip mania of the early seventeenth century.

This text is well read amongst finance professionals so you would think we would know better wouldn't you?

And this is the point.

You don't have progress without bankers to facilitate it, but equally progress fails when society moves from developing to destroying value. And nothing destroys value faster than a get rich scheme, otherwise known as a bubble.

But without such bubbles of wealth generation, we would not have seen the rise and fall of the Roman, Italian and Medieval Societies nor would we have had civilisation, cities, empires, colonisation and progress.

Were bankers to blame for ruining Georgian society?

Yes and no, as the expansionism and colonisation of countries and continents led to the Industrial Revolution and became the core of Britain's Empire building a century later.

Without the leverage the banking system gave to such trading; without the oiling of the system of commerce that enabled growth; without learning basic lessons of raising capital and moving money from those who have it to those who need it and are willing to pay for the privilege; without these things, none of the Industrial Revolution would have happened as quickly and dramatically as it did.

So bankers were good for British Society by enabling the origins of capital markets that led to the South Sea Bubble, and were bad for society by having the love of money which allowed greed to take over from the effective management of the risks inherent therein.

This is exactly the same lesson that the merchant bankers experienced and the Romans before them.

The Great Depression

Finally, and briefly, it is worth looking at the last and most recent phenomena of financial crisis: the Great Depression.

As mentioned in my opening remarks, the Great Depression began exactly eighty years ago today.

The crash was caused by the policies created just after the Great War, when governments encouraged monetary policy to be loosened such that markets expanded rapidly resulting in the 1920s being a boom period.

For example, leading up the October 1929 stock market crash, US margin requirements for financial firms was set at only 10% so that firms could lend $9 for every $1 an investor had deposited, and lend they did. Bear in mind that this was a great period for manufacturing and industry, with one of the biggest revolutions being the introduction of mass access to the automobile thanks to the launch of the Model T Ford and similar vehicles.

Roads needed to be built, and everyone should have access to money to buy cars according to the governments' rules, so banks pretty much gave loans to anyone wanting a car.

This free access to credit created the automobile revolution and led to a boom economy.

Unfortunately, by the end of that decade, as with most booms, the markets bust due to the total collapse of US stock market prices on October 29th, 1929, known as Black Tuesday, and the ensuing loss of confidence in the banking system.

The Depression kicked off full force from 1931 onwards when banks called in the loans they had pretty much been giving away and forcing on people, only to find they could not be paid back.

The result was that over 9,000 banks failed during the 1930s and, by April 1933, around $7 billion in deposits had been frozen in failed banks.

What the Great Depression taught us is that the boom cycle, in this case from industry and manufacturing, is facilitated by finance. If the financiers loosen monetary control too far however, as was the case with lending during the 1920s, then you will create a false boom and the bigger the boom, the bigger the bust.

We should have learned our lessons but, without the Great Depression, we would not have experienced a Second World War which led to the creation of the World Trade Organisation, the Bretton Woods agreement, the European Common Market and over sixty years of relative world peace.

Equally, we would not have created the foundations of the next great revolution: the office worker and the technology boom of the last century.

And so these booms and busts of the past have always created foundations for the next great wave of the future.

Sumeria enabled Athens and then Rome to build Empires.

Empires led to Colonisation and Exploration further afield.

After we circumnavigated this planet, we then began to harness its resources moving from agriculture to industry and from industry to intellect.

And all of these revolutions in society and structure were enabled by financiers who were able to use money to facilitate progress.

So bankers are good for society, in enabling progress, but bad for society if they allow such progress to be created at the cost of the value it is built upon.

Each rise was driven by expansionism supported by finance. Each fall was fuelled by financial controls becoming too loose, or too risky or unfocused to allow progress to continue.

Regardless of your views, the lessons leading up to each crash once again reverberates with today's issues.

Which finally brings me to today's crisis.

Bankers Today

In the same way that previous crisis enabled expansionism, growth and progress, so it is with today's crisis.

Today's crisis allowed and was fuelled by globalisation and technology which, in fact, were two revolutions taking place in combination – the revolution of global trade and the revolution of the networked economy.

This makes today's crisis different to the preceding ones.

In fact, you could say that the internet bust of 2001 was the stutter before the fall which, when it occurred, made us all realise how networked and inter-twined our economies are, not just the economies of Europe and America, but the global economies of all nations.

A second striking point of today's crisis is that it demonstrated how much our financial instruments have become divorced from trade and commerce. This is due to the complexity of today's trading technologies. These trading technologies allow 'rocket scientists' to create financial instruments that even the most intelligent MENSA graduate could not understand. Add on to such complexity the fact that these are globally mapping, wrapping and intertwining all economies and trade globally, and you can see how these markets became dangerous and potentially toxic.

The delinking of goods and services from trade and finance, through globalised financial markets networked through technology, is a root cause of this crisis and its loss of focus upon risk.

Equally, the moral compass moved.

Today, most of those working with finance have little fear of God or gods. Therefore, there needs to be some new form of fear: the fear of regulation.

But this industry was highly regulated ... or was it?

Well, there's a fascinating insight into this market from comments made years ago.

The year was 1987 and *Wall Street* the movie, with that immortal line Greed is Good, had been released based upon the exploits of investment bankers.

A book had also been written at that time called *Liar's Poker* and, in the book, there is a direct quote from Donald Feuerstein, the head of legal counsel at Salomon Brothers where Michael Lewis worked, that goes like this:

My role is to "find the chinks in the regulators' armour".

It was obvious that the only way to make money was to buck the system and create risk. That is an investment bankers' job.

This book leads me to another great book: "*Infectious Greed*" by Frank Partnoy, which reviews the history of arbitrage and derivatives.

In the book, Partnoy traces the history of these tools and each time demonstrates how the risk models behind derivatives were fatally flawed.

He begins with the invention of derivatives risk models by Fisher Black and Myron Scholes in the 1970s. Their model looked good, but proved to have fatal flaws which led to disastrous losses.

In particular one firm, Salomon Brothers as described in *Liar's Poker*, used these tools to arbitrage leading to the ultimate destruction of the firm which has since been acquired by Smith Barney adn subsequently Citibank.

The man who many claim destroyed Salomon's – John Meriwether – moved to his next big arbitrage adventure: Long Term Capital Management. This was another venture that failed massively when the firm collapsed in 1998 and almost destroyed the world's financial markets with it.

Amazingly, Mr. Meriwether continues his trail of destruction to this day, setting up a new hedge fund only three months after closing his latest fund manager, JWM Partners, after clients saw the value of their investments fall by more than 44% during the course of the financial crisis[8].

Meanwhile, Partnoy's book continually shows how derivatives create arbitrage, arbitrage creates risk, the more risk the more profit, the ultimate risk however creates the ultimate losses.

You therefore have this toxic mixture of technology creating ever more complex instruments based upon rocket science risk models that feed derivatives tools to generate arbitrage risk.

However, ultimately, it is all just speculative trading where someone wins and someone has to lose. This was demonstrated time and time again through the dotcom boom and bust; the way in which derivatives contributed and were largely responsible for the Enron disaster; and ultimately by the trillions of dollars of losses of the subprime and ensuring credit crisis.

Throughout the book, it is clear that these complex tools are being used, with technology, to create massive risk and yet, in every instance, the risk models they are based upon are fundamentally flawed.

This is why we end up making massive losses.

No wonder Warren Buffett referred to derivatives as "weapons of financial destruction" although he said that way back in 2002 when Enron collapsed.

Alan Greenspan, the head of the US Federal Reserve and Economist in Chief of the largest economy in the world, said: "It is not that humans have become any more greedy than in generations past. It is that the avenues to express greed have grown so enormously", at that time. And yet it was distinctly Greenspan's policies of free market economics that led to this crisis.

When the USA was faced with the dotcom bust and a potential systemic crash of the financial markets thanks to this and other factors, Alan Greenspan cut interest rates from 6.5% in 2000 to 1% in 2003. The apparent success of that strategy made Alan Greenspan a US hero but, just four years later, American markets imploded as the low interest rate environment had combined with a new kind of greed: mortgage market derivatives.

Again, a market based upon derivatives and again, a market based upon derivatives that had flaws in their risk models.

The risk model being used had been designed by a math wizard, David X. Li, who everyone thought, even in 2007, that he might someday receive a Nobel Prize.

Today, his name is mud as it was his formula that screwed the markets.

His formal, known as a Gaussian copula function, seemed to be a massive breakthrough when it was first released upon the world as it allowed hugely complex risks to be modelled with more ease and accuracy than ever before.

However, his risk models were based upon theories, not real world market movements; and the real world never moves the way theoretical models do.

For example, his theory used standard deviation points that would occur only once in a 100,000 years ... and yet sometimes they occurred several times in a week.

The first sign of this was seen on August 14th 2007 when Goldman Sachs' systems lost 30% of their flagship global equity funds value in a week, because their systems made incorrect assumptions.

David Viniar, Goldman Sachs' CFO, said: "We are seeing things that were 25-standard deviation events, several days in a row. There have been some issues in some of the other quantitative spaces, but nothing like what we saw last week."

Apparently, a "25-standard deviation event" only happens once every 100,000 years or more according to the models built into the systems, but then they occurred last week and the fund lost around $1.5 billion.

Some would say that something that should take place every 100,000 years also seems to be starting to occur with more frequency. For example, Lehman Brothers made an announcement in the same week that: "models are behaving in the opposite way we would predict and have seen and tested for over very long time periods."

That is not good, as we now know.

And it is all related to risk created by flawed models fuelled by complex technologies intertwined globally to allow greed to be expressed in new ways.

This is why these markets have been so hard to regulate – bearing in mind that the focus is to create risks by identifying the “chinks in the regulator’s armour”.

Added to which, the Greenspan and Anglo-Saxon approach to market regulation failed.

Free market economics and free market forces felt that the market would regulate its own dynamics. This is why the USA and UK took a light-touch approach to regulation.

How wrong could we be?

There was also a failure as, with no fear of regulation or other issues, the money managers were untethered from constraint and greed could run rife.

The result is that bankers were managing money without effective risk management.

If you are unsure of that one then let me illustrate with the comment that, just before the ABN AMRO merger, I presented to Royal Bank of Scotland’s internal Risk Management Conference. The Bank had risk managers for operational risk, market risk, credit risk, reputational risk, environmental risk, regulatory risk ... you name it, they had a risk manager for it.

2,500 of them globally.

But there weren’t any managers for liquidity risk or to manage the complex global technology interlinkage between real world and virtual markets.

Finally, we have the role of technology.

Technology created a world where screen based traders working in high frequency trading rooms could make or lose billions in a microsecond.

The €7 billion losses that Jérôme Kerviel made at Société Générale were, some would say, down to the fact that he only saw spreadsheets, digits on a matrix, a screen full of pluses and minuses.

This testosterone fuelled world of trading machismo is, in fact, very akin to playing video games.

The emotions and brain activity is very similar for a trader as it is for a videogamer.

In fact, if you look at a video game convention, it could be a trading floor.

So there are several big differences between this crisis and previous ones: first, technology has divorced trading from reality; second, the crisis is a global one, not just related to a singular geography or nation, as all nations are tied through technology and trade this time around; third, that risk models and risk management were fatally flawed; and finally, "that the avenues to express greed have grown so enormously".

The result was a form of casino capitalism, where bankers plied their trade using screens of numbers. In the real world, we can see the real value of our goods and services, investments and operations; in a pure play world of complex arbitrage using investment vehicles that are once, twice or three times removed from the real assets they link into, it is hard to see the risks involved or the realities.

For example, the failure of a dealer with $2 billion in Credit Default Swap contracts – a form of derivative that lies at the heart of htis crisis – outstanding could lead to losses of between $36 billion and $47 billion for counterparties in those trades, according to a report by Barclays Capital last year. There is the core of the issues we face today in the capital markets, as no-one knows their total exposure to losses and the losses made are magnified ten-fold.

Lehmans collapsed with $400 billion of losses on the balance sheet. Based upon the numbers above, this would equate to $7.2 trillion to $9.4 trillion of losses in the market.

Who had them? Where were they?

No-one knew and that is why the markets dried up.

And $10 trillion of losses could be the amount for just that one failure. What about the rest?

This is why governments have had to pump in almost $11 trillion to keep the lights on in the financial markets so far throughout this crisis, and why it is no wonder that banks have written off $1.6 trillion to date.

And now to the point about whether bankers are good or bad for society: they are only as good as their constraints.

Without constraint, bankers will lose their moral compass and indulge in the ultimate sin of greed.

The constraint used to be fear of God and is today the fear of the regulator.

And yet, the regulator's cannot regulate a market that is so complex and divorced from reality.

When banks are run for the common good, they run in the rose-tinted manner as sung by Mr Banks in the film *Mary Poppins*:

"A British bank is run with precision
A British home requires nothing less!
Tradition, discipline, and rules must be the tools
Without them - disorder! Chaos!
Moral disintegration!
In short, we have a ghastly mess!"

When bankers are allowed to be bad, then we have a ghastly mess. And that is just what we have this time: a ghastly mess.

This ghastly mess is to blame on the bankers' moral compass losing its direction and not having strong tethers to reign it back in.

However, bankers have still been good for society today. They have allowed the expansion of trade and commerce to move from regions to globalised industries; they have fuelled work and lifestyles for many to enjoy an unprecedented period of stability in the world's economies with wealth and comfort for many; the financial system has allowed us to start talking about a billion new consumers in the BRIC economies who are becoming middle class, whilst also considering creating new ways of working entirely through the networked economy; and the combination of innovations in technology and financial markets has meant that we can see huge improvements in gaining access to capital and liquidity when required.

But banker's today have also been bad for society. They have lost their moral compass and become greedy to the point of inciting civil unrest; they have behaved irrationally without any recognition of the risks they are taking; they have gambled on world markets with capital and assets that belong to others; and they have destroyed companies, lives and economies through reckless trading without control of risk.

How will this change tomorrow?

Bankers Tomorrow

I said at the start that there is a raging debate about whether banking is socially useful or useless today.

The leading bankers of Britain agree that there are issues, but make clear that these issues are in isolated pockets of the market and not endemic to banking overall.

And many of them are questioning the moral compass of bankers and asking if their direction is facing the path of good or bad. Without a moral tether to banking, greed runs unchecked and this is one of the issues which they are grappling with today.

In particular, it is clear that banking cannot allow the isolated few who harm the markets to continue for the future, and therefore will be seeking to avoid reckless innovation in complex instruments, such as the flawed derivatives models that created this crisis.

However, avoiding flawed derivatives in the future will be a challenge as innovation always has risk and risk is the method for creating arbitrage and profits. Can we truly regulate with foresight for markets that are complex, technology turbocharged, global and hugely innovative and therefore full of risks?

As Stephen Green says: "To restore trust and confidence, we will need to recognise the moral dimension of what has happened, and to restore a proper sense of values in our corporate lives."

But how do you do that?

How do you bring the moral compass back into banking?

What is the role of morality and ethics in finance?

It has to come back to the core view that banking is only bad if the policymakers allow it to be bad.

This is because banking is all about making money. The more money you make the better. The better it is for the economy and for the society the bankers represent.

However, if the policymakers do not understand how bankers are making money, the instruments they use and the technologies they deploy, then they allow bankers to become bad. They allow the bankers to become like the kid in the candy store.

The kids are needed in the candy store for the store to survive. The store can only make a cent if the kids come and buy the sweets. But if the store owner leaves the store open, allowing the kids free rein to eat the sweets, then the kids will trash the store, eat all the sweets and make the store bankrupt.

This effectively what has happened with the banking system.

The policymakers and legislators are the storeowners and the storeowners lost the plot.

They thought Greed was Good but Greed is not Good. Greed is one of the seven deadly sins and that is why bankers became bad for society.

Banking is a force for good only as long as the policymakers – the owners of the store – direct it that way.

Without such direction, bankers will ruin society, just as the kids will trash the candy store.

It takes me back to my opening foundations of this speech with regard to the fact that banking is wrapped up in the essence of society, civilisation, politics, power and religion.

It can be used as a moral force that stops society falling into anarchy by using money as a method to regulate our lives and lifestyles. It can be used to raise people from extreme anguish to comfort, and to create peace and harmony. Or it can be allowed to become an unregulated ghastly mess, a force for bad, where war and friction abounds.

As we look for solutions to this crisis, you will not find it in the Anglo-Saxon model of finance, as this is the model that has failed our moral compass.

Nor will you find it in the European model of finance, where we have enough challenge in trying to agree a Constitution, let alone a way of making banking work for the future.

No, if you want to look anywhere for the future of finance and banking, you need to look towards Asia and, in particular, China.

As China moves from being communist to capitalist, what form of capitalism will they create?

Well, one thing is clear. It won't be like ours where it's every man and woman for themselves.

The concept of survival of the individual and our selfish attitude to life and living is not the one that Asia will employ.

Asia has too strong a history of the commune, the working together for the common good, the family oriented way of life, to drop that history.

From the keiretsu's of Japan to the chaebol of South Korea, the family operated structures of Asia are a clear model of management that China and many other Asian economies can operate effectively.

And this is how China will change the world of banking, by bringing the strength of the committee-based approach to finance, the family-based approach, the approach where an individual voice has strength but not finality.

And China will influence our world of banking in this way because their banks are rising rapidly to become the most important global banks. That is why HSBC's Chief Executive, Michael Geoghegan made the decision to move his office to China recently.

When the announcement was made at the end of September, the statement[9] said that Michael Geoghegan will relocate to Hong Kong because it is "the group's most strategically important region". Bear in mind this is a global bank.

Meanwhile Vincent Cheng, Chairman of HSBC's Hong Kong bank and a main board member, announced he would now focus upon moving into China to "build its international bank leadership".

China and Asia is the future. America and Europe the past.

And in this context, there's one other piece missing.

If the balanced Buddhist approach to banking breaks through, expect it to be mingled with a little bit of Islamic spice.

After all, Islamic banking has grown in stature and interest mightily in the past decade, particularly since 9/11 when the world's authorities realised that the best way to move towards peace and harmony is through financial inclusions rather than exclusion.

For example, Islamic Finance has seen stellar asset growth of over 30% over the past 5 years, and revenue growth is in excess of asset growth at around 44% CAGR between 2003 and 2007. Last year, the Islamic banking sector grew by 27%, versus 19% for the conventional sector, and this rate of growth is predicted to continue at around 20% CAGR for the future.

As a result, Islamic finance assets worldwide total more than $800 billion today, are forecast to reach over $1 trillion next year and, according to predictions, this figure could increase to around $4 trillion over the next six years.[10]

Not bad for an industry that only saw its first European bank specialising in Islamic Banking open its doors five years ago[11]. Speaking of which, the Islamic Bank of Britain was the first European Islamic Bank, opening its doors in 2004 to their first customer who just happened to be a non-Muslim Christian from the East End of London who believed their way of banking sounded better than traditional ways of banking.

Conclusions

In conclusion, it is a basic fact of trade and development that without leverage and risk, you cannot have progress or innovation.

This is why our banks and bankers, our financial markets and financiers are good for society.

They allow nations and the human race to develop, make progress and innovate.

This is why they are socially useful.

Whether we like it or not, if we are to develop as a society, we have to live with crisis in the financial markets. To have progress, we need turmoil. To improve, we need to experience pain.

The pleasure pain principles apply as much to economic development, innovation and progress fuelled by financial markets that operate freely, as they do to any other form of human function.

And the fact is that you cannot expand, grow, develop or innovate, you cannot progress, if you do not have speculation and risk.

As Will Hutton stated in a recent article, "From 1750 to 1870, Britain won wars, assembled an astonishing navy, built an empire and launched an Industrial Revolution to become the envy of Europe, yet the national debt was consistently above 80% of GDP ... periods when the over-riding preoccupation has been lowering the national debt have coincided with industrial, economic and strategic decline."[12]

Bankers can be bad for society only if they are allowed to be, but are good for society in enabling revolutions in commerce to take place.

From the revolution of Cities and Civilisation in Ancient Sumeria to the Empires of Rome, capital and capitalism was integral to growth and development.

From the foundations of merchants and corporations in Renaissance Italy to the colonisers and industrialisers of Victorian Britain, innovations in banking and financial instruments were critical to enabling progress to take place.

And from the creation of white-collar workers to the globalisation of trade, complex but innovative financing and capital were at the heart of enabling growth.

So, on the one hand bankers can be bad for society if they are allowed to indulge in pure hedonism and immersion in greed with impunity. If a banker can take risks and speculate without any thought for their accountability or retribution for their mistakes, then bankers will be bad for society.

But if banks are tethered to a path that focuses upon the right results for nation's economies, enabling growth and prosperity for those nation's, and raising the lot of citizens from poverty to comfort, then bankers can be good for society. And by facilitating commerce, growth, trade and progress, bankers do create socially useful services that are good for society.

The truth about today's society and today's bankers is that they have been allowed to be bad.

A little bit like the bull in the china shop or the kid in the candy shop, a banker who is not tethered by some form of accountability will just run amuck.

This has been the issue with this crisis: that a small group of investment bankers have been speculating, taking risks and dealing in get rich schemes without risks, accountability or retribution for the actions they take.

This has to change.

In future, banks and bankers, policymakers and lawmakers, regulators and politicians must all be accountable for the risks they create in our fragile model of economic development.

That is why they are all working together in unison to try to create the next generation of financial markets and financial market rules.

And it needs this collaboration to create a safer market for the future.

We still need banks and bankers to take risks to enable progress, but we cannot allow banks and bankers to take such risks with no rhyme or reason, accountability or control.

In particular, we cannot allow bankers to operate without some form of fear that keeps their moral compass focused upon the good for society, rather than the bad.

The bad only occurs when bankers can indulge in greed with impunity.

If bankers are allowed to take risks purely as a ‘get rich quick’ gamble, then they will be bad.

Bankers need censure and responsibility to be at the heart of their actions. There needs to be fear about how risks are assessed and actions taken, not impunity and irresponsibility.

Herein is the real concern you, me, we, them and us, all have right now, as we all ask whether we can really allow a system to continue where bankers are rewarded for taking risks without responsibility.

If we live with that system then yes, bankers will be bad for society.

For bankers to be good for society, the whole system – not just the banking system, but the politics and religion of that society – should have a moral compass focused upon things that are socially useful and not socially useless.

Otherwise, greed becomes the priority at the expense of judgement.

Greed must be tempered by fear.

Therefore, for bankers to be good for society, there must be a structure where risks are tied to rewards, responsibility is measured by accountability and greed is tempered by fear.

Thank you.

About Chris Skinner

Chris Skinner chairs the European networking group the Financial Services Club. The Financial Services Club is a prestigious meeting place, and allows networking between members and regulators, practitioners and futurists. Our guest speakers include Charlie McCreevy, John McFall, Angela Knight and other luminaries shaping the future of banking and insurance.

He is also well known as an independent commentator on the financial markets and, as Balatro, Chris assists clients as an advisor, as well as sometimes being commissioned to write or speak on their behalf at conferences and tradeshows.

He is well-known for his regular columns and media appearances as well as for his daily blog The FinanSer.

He has also written several books on banking, covering retail and investment banking, payments and the supply chain, and general technology trends. Current titles include "The Future of Banking", "The Future of Finance after SEPA" and "The Future of Investing after MiFID".

Prior to founding Balatro, Chris worked for various technology firms and is a co-founder of the website for strategists www.shapingtomorrow.com.

He is a Fellow of the British Computer Society, a Fellow of the Institute of Management Services, an Associate of the Chartered Insurance Institute and a Chartered Insurance Practitioner.

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