Simon Lewis speech to Financial News dinner, 28.11.11

Thank you, Ben and good evening. It’s a real pleasure and privilege to address such a distinguished audience, and thank-you to Financial News for inviting me. Advance congratulations, too, to the winners of tonight’s awards.

As I look around the familiar faces in the room, I have a feeling rather like that of a drowning man – I can see my career flashing before my eyes.

I reckon I’ve worked closely with at least 10 of you in various guises over the course of my professional life.

At least two of you were graduate trainees at S.G. Warburg when I was running communications there- no names, no packdrill. Over there I can see Jonathan Moulds, with whom I’m now working closely as he’s on the Board of AFME.

I’ve been in the job for a year now, and I can honestly say it’s fascinating - believe it or not even more so than one or
two other roles I have had! AFME is at the centre of so many of the most important issues of the day, and making what I hope you recognise as a constructive contribution to improving the way markets operate and regulators regulate. Thanks to all of you who continue to support our work.

I just mentioned Warburg: the name has disappeared from the financial markets, but merely saying it brings on a sense of nostalgia. It conjures up memories of the pre-Big-Bang City, distinguished partnerships, discreet client relationships and my word is my bond.

Compare and contrast with the noise today: investment bankers as Public Enemy Number One, bonuses a touchstone for media hostility, and the banking industry to blame for the economic mess we’re in.

If you want an insight into just how serious a reputational crisis we now face, just go on Google and look for investment banker jokes. Most of them are so morbid that they don’t bear repeating. Perhaps the most telling is the latest collective noun that has been coined for our industry: an *apology* of investment bankers.
The gap between then and now is what I want to talk about tonight.
Not out of some impossible desire to turn the clock back, but because in considering where this industry is going and how it is to face its current and future challenges, we need also to remember where it’s come from.

I was reminded of this last week whilst watching a tv programme presented by the Editor of *Private Eye*, Ian Hislop. It was a potted history of banking and philanthropy in the 19th century and it carried the arresting title “When Bankers Were Good”. The comparison with conditions today could not have been more pointed.

I’ll quote from Hislop’s introduction:
“Bankers! Nowadays it’s almost a term of abuse. Widely perceived as overpaid, greedy, self-serving, amoral or actually dangerous. Their reputation has fallen below that of estate agents, or even journalists.”

That was the nice bit, by the way. It set me thinking about the issues we face today. What would it take to get us out of our current crisis and back to some form of normality?
What needs to happen for banks to be seen as they once were, as respectable institutions performing a vital economic and social function? Or to put it another way, what will make it possible for bankers to be seen again as good? Of all the questions we’re grappling with, I think this is the most important one.

Now some of you will probably be thinking that this is not the priority. Surely there are more pressing things for us to be worrying about. Turbulent markets and even the possible collapse of the euro. A tsunami of burdensome regulation. An industry business model that is having difficulty generating profits, let alone satisfactory shareholder returns. Political point-scoring and worse.

And I agree: these are all very serious problems which need to be fixed, now. My point is that they all converge in an even bigger question, which needs to be answered before we can have any hope of stability and sustained prosperity.

How can this industry win back the public’s trust, and with it a licence to operate from society?
For AFME, the issue permeates and overshadows all our work, and this is itself a problem. I’ll explain why.

The absence of trust tends to obscure the good work that is being done by the industry to reform itself and put the crisis behind us.

There has been a tremendous amount of change in the last three years. Financial services firms have undertaken significant internal reforms and balance sheet restructuring. Management systems and corporate governance have been bolstered. Significant changes have been introduced in remuneration policies and practices.

Risk management is at the heart of the matter. It is no longer regarded as a sub-set of the compliance function: in most firms it is now at the centre of the decision-making process. As we know, these systems are not yet fail-safe, but they are much stronger and continuing to improve.

Yet little of this improvement has yet registered in the public mind.
And it’s true that neither the industry nor its regulators are yet in a position to declare “Mission Accomplished”. On the contrary: the market earthquake that started in 2007-8 is still raging with Europe at its epicentre, and no one knows when those tremors will abate or whether they will yet turn into something even worse.

And we are the focus of intense public controversy which will continue for some time to come.

So, in the spirit of holding up a mirror to the industry, let me touch on two areas that I believe will be central.

The first has to do with the culture of banking itself – the way banks are run, the way bankers behave and what needs to be done to effect deep and lasting change in both. The second concerns the desirable shape, scale, scope and revenue generating capacity of the industry.

There is no doubt that the culture of banks has changed profoundly since Big Bang. Building on my fit of nostalgia about Warburg, there were certain core values and ways of doing business in the firm that were actually rather attractive. Long-term relationships. Loyalty. Never getting in front of the client in the media.
As I said, the clock can’t be turned back: the world is far too complex for that. The question is rather: how can firms now recapture some of that old spirit of partnership and responsibility in the way they run their affairs?

Doing so would have far-reaching effects on the business. It would imply, for example, a bias in favour of transparency and against over-complex financial products. It would have little place for CDOs squared and the other arcane instruments that contributed to the crash of 2008. It would drive remuneration and other management policies towards a system that gives all employees a sense of individual and collective responsibility in the way they do their jobs – a real sense that they have “skin in the game” and they are not rewarded for failure. Let’s remind ourselves that in the partnership model you have your own capital at risk, not the shareholders’.

The point I am making is about management and governance, but it has important implications for the political debate that portrays banks as Public Enemy Number One. If banks are perceived to be embracing
profound change of the kind I have outlined, then the industry’s reputation will steadily improve.

We need to do a better job of articulating what the industry’s for and how it’s been changing for the better. That’s why, for example, AFME has commissioned a book of essays by external commentators about the changes we have seen since 2007, which we’ll be publishing early in the new year.

We need to explain much more clearly the central role we have in the real economy, supporting growth, trade and investment, providing capital for our best companies to compete in the global marketplace. As some of you know, I spent several years in a previous life working for Vodafone, which would never have made its journey from small startup in Newbury to one of the world’s great companies without the support and innovation of this industry.

We also need to set out a new vision for our wider social and philanthropic role. That was what Hislop was talking about in his film – the great 19th century bankers who secured their place in the public’s affection through good works.
It may be a slightly unfair comparison given the vastly bigger role now played by the state, and the correspondingly smaller space now available for philanthropy. But the issue is not irrelevant. Where, we might ask, are the Peabodys and Gurneys of today? Why doesn’t the industry get credit for the massive amount of effort it puts into corporate responsibility programmes – supporting schools, small businesses and the arts?

As to the scale and scope of banking institutions, we are, I suspect, in the early stages of a similarly seismic change. The portents of this are all around us, from governments seeking ways to limit taxpayers’ risk exposure to difficult debates about risk, reward and allocation of bank resources.

No one can know for sure what the outcome of these processes will be. But far from hiding from them or burying our heads in the sand, I would argue that debating these issues is healthy. More than that, it is essential to the eventual restoration of public trust in our industry.
Without trust, the wave of demands for more regulation and new taxation will continue unabated. Without trust our efforts to sustain a calm and rational dialogue about banking’s role in the economy will be drowned out.

Restoring trust can create a more virtuous circle in which regulation is optimized, markets are safer and more transparent and banks enjoy a measure of public acceptability as enablers of payment flows and economic growth without ever again making recourse to the support of governments and taxpayers.

That is AFME’s goal, as I am sure it is all of yours. In the next 12 months, we aim to ensure that we make visible progress in establishing a more candid and less defensive dialogue with politicians, regulators and the wider public about the future of banking. I don’t suggest this will lead to us a new programme with the title “Now Bankers are Good”. But it will, I hope, get us closer to restoring a degree of trust and stability.

Thank you very much for listening.