

TRUTH AND RECONCILIATION

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The severity of the recent financial crisis has struck at the heart of the relationship between the Financial Sector and wider Society. Finance is a fiduciary industry, yet the bonds of trust, both within the industry and between the industry and its customers, that enable the financial sector to operate have been broken. In place of the usual fiduciary trust and good faith there is now on the one side a defensive and dysfunctional industry and on the other huge anger and an increasingly vengeful desire for retribution. And without trust, the ability of the financial sector to continue to work for the benefit of all is much diminished.

It is therefore necessary, if not urgent, that the bonds of trust between the industry and Society should be rebuilt as soon as possible. It is precisely now, when the real economy in many developed countries faces a difficult time in the years ahead, that Society needs the financial services industry to support those experiencing hardship, to provide funding for those facing temporary shortfalls, and to help build the recovery and stronger economy of the future. Yet there is depressingly little sign that either side is prepared to make the required moves to rebuild the respect and trust that is needed for this to be possible. Instead we see endless discussions and investigations of what went wrong, who was to blame, and what new restrictions and regulations should be imposed on financial companies to avoid a repeat of the collapse.

The relationship between the financial sector and Society can be likened to a marriage. Both partners need the other for the relationship to prosper, and both need the trust of the other to be able to contribute to the full to their mutual well-being. At the moment, Society is like the wife whose husband has been unfaithful: the financial sector has, in many people's eyes, been caught cheating on her. But – to continue the analogy – divorce is out of the question, as Society needs a well-functioning financial industry, and the only question is therefore the terms under which Society and Finance try to rebuild the marriage.

At this point, the husband has a choice. On the one hand he can express remorse, promise to try to mend his ways, and seek to restore the trust that previously existed in the relationship. With hard work, and in time, this might succeed, and the marriage may eventually be as strong and fruitful as before. But equally, he could be defiant and unrepentant – “That's just the way I am” – and in this case the marriage, while legally still in existence, is likely to be cold and fruitless for both partners. Importantly, arguing over the causes of the breakdown in the relationship is seldom the key to rebuilding it: regardless of where fault lies – and it is likely to lie with both sides – it is the actions of the partners going forward which determine whether their relationship will return to life.

For the financial sector, this analogy is uncomfortably close to home. The causes of the crisis are undoubtedly many – over-confidence, poor risk management and avarice on the part of the financiers, certainly, but weak and misguided regulation, incomplete and inadequate supervision, political cowardice in addressing global imbalances and straightforward investor incompetence and greed all played their part too. Anyone in the official sector who claims that all the fault lies with the financiers is as misguided as those in the financial sector who still cannot admit that they did anything wrong.

But this is largely immaterial to the task in hand: we are where we are, and we have to rebuild and restore to health the financial sector and its relationship with Society, so that it in turn can help rebuild our economies. And that requires the financial sector to understand Society's anger – justified or not, it is real and must be recognised before the reconciliation can start and the trust can be rebuilt. Only after the relationship is rebuilt and the trust restored can both sides dispassionately analyse what went wrong and how matters can better be arranged going forward.

Unfortunately there are depressingly few signs that the financial industry understands this. Rather than being humbled by the scale of the crisis and the support from taxpayers that has been required to avoid complete collapse – support which has benefitted all financial companies, not just those that have directly received public funds – too many are claiming that their survival is justification and vindication of their stance in itself, and that they have both a right and indeed a need to be allowed to return to their former ways, bonuses and all. This is squarely in the style of the husband who says "That's just the way I am", and challenges his partner to accept it. And faced with such defiance and lack of repentance, Society's anger is not diminished, and Society's desire for retribution – in the form of tighter controls and higher taxes – is entirely predictable.

It does not need to be like this. Other societies have faced more traumatic events in the past, and have had to handle far more damaging crimes against the ordinary population, and yet have found a way to forgive, rebuild and live together. Post-Apartheid South Africa's Truth and Reconciliation process is an example of what can be achieved: while no-one would claim it is perfect, and it certainly does not expunge the memory of the previous regime, it has given South Africans of all races their best chance to rebuild their country.

Finance needs its own Truth and Reconciliation process to be able to complete the recovery from the crisis. If financiers want once again to enjoy the trust of Society, they must put to one side the argument over who is to blame and overcome the feeling of being victimised by regulators who do not understand, and show that they understand the need to change.

There are times when those most in need must make the first conciliatory move – and Society is waiting.