

'What's gone wrong in the City and how to fix it?' – Jeremy Marshall

On Friday, 25 October 2013 Jeremy Marshall spoke on the subject 'What's gone wrong in the City and how to fix it?' at Greyfriars Church in Reading. The event had been arranged through a partnership of Reading Churches Men's Group, Reading at Work & Industrial Christian Fellowship (ICF). Jeremy is CEO of C. Hoare & Co, the UK's oldest private bank, founded in 1672 and still wholly owned by the Hoare family.

Jeremy reviewed the problems in the banking sector as an ill patient and summarised three non-Christian commentators and their diagnosis of what the cure should be, aligning on three principles: firstly, stewardship, as it was someone else's money. Secondly, rules are not enough, as it is what's inside us that matters, and thirdly human beings wanted to be treated as humans.

The first commentator E F Schumacher and his "Small is Beautiful" approach, being opposite to the current mantra of Too Big To Fail. Not only a function of regulation but also of humans, and their inability to manage such large banking organisations, leading to banks now becoming smaller and less complex operations through demerger.

Secondly Professor John Kay and his recently published the Kay Review, examining the role of the City of London and banks within that environment. His diagnosis is that the UK is based on short termism, with low investment, a hyperactive market with lots (if not too many) mergers and acquisitions (the UK has the highest level). For the city, focus on transactions as opposed to relationships, with a dramatic fall over time from around 50% to 10% of shareholders being individuals, and transactions being routed through intermediaries, who have a bias towards action, buying and selling.

Thirdly, Andy Haldane, director of financial stability at the Bank of England, who published a booklet called The Dog and the Frisbee. A more sceptical view of the complex models of risk in banks, and the need for more judgement being deployed than rules. The models deployed in 2008 prior to the crisis had reduced their safety margin of capital and were unable to cope – even though their complex rules were showing they would have sufficient resilience.

Jeremy summarised these three thinkers and their diagnosis as: too big, and need smaller; too short term and need to look longer term and lastly, too complex, and need to be simpler.

Jeremy then went on to explain how these approaches would not resolve the underlying problem. There is a basic underlying problem – we are human and innately sinful, and the mess we are in – whether the financial crisis or any other – needs underlying sin to be addressed.

Jeremy referred to three aspects of Christ. Firstly, through the lens of Rembrandt's painting 'The woman taken in adultery' – let those of you without sin cast the first stone. Only Jesus could stay with the woman, being sinless. So for the City of London, we are all friends in the same boat. Being a Christian is not about being better than someone else but having found a cure for ourselves and others.

Then to Rembrandt's 'The Prodigal Son' and the two brothers in the story representing different types of people – those who like independence, who may be looked down upon by the 'older brother' types who consider themselves more acceptable and good. Yet the story reminds us that both brothers need the father's forgiveness, and the barrier for the older brother is pride. If something happens, you would go and seek to help your brother, yet here it is the older brother who is left outside. We have an older brother in Christ, and Jesus came on a rescue mission to die on a cross for us, opening up a way for us to come back home, as our home is with God. Jesus Christ came not only to die, but to rise again in three days. Whilst we can fix the banking crisis, we cannot of course fix death: we are all going to die, but the question is when, and the realisation of Christian faith meaning we can rise again with Christ. So the treatment is Jesus Christ, who came not to leave us in the pig sty of life but to give us eternal life in heaven.

Thirdly, for banking consider The Parable of the Talents, and the need to be a good steward of what God has given to us to look after. Need to remind ourselves of the need to be good stewards of other people's money.

Consider too in this context the parable of the The Good Samaritan and bankers who have helped others, for instance in the past, Angela Burdett-Coutts (1814-1906) for the Royal Marsden Hospital funding originally (being around £300m in today's money) and the Hoare family in the past who

supported William Wilberforce. We must use the money we have to tackle the bad and ill in the world around us. Social banking and philanthropy have been growing since the recent banking crisis erupted.

Whilst there are human interventions that can be made – the only real solution is the message of Christ crucified, who came for both old and younger brother types. To believe, we need to ask Christ and follow him. Every day we confess our sins, He is faithful and just to forgive our sins.

Q&A Session

Jeremy then responded to a number of questions from the gathered audience.

Encouraged by the growth of philanthropy and good deeds – what should the Church of England do? Jeremy noted the Archbishop of Canterbury Justin Welby had already spoken out on some of these aspects, like Wonga, and noted the moves proposed for the future regarding credit unions and other aspects. There is the Kingdom Bank based in Nottingham. In short, Christians have to ‘get off their seats’ and move on to the stage of life and put money to work for good. Jeremy noted a lot of the banks were founded by Quakers, like Barclays.

Are banks looking at their roots more then, with their associated virtues and values? Jeremy considered it was very difficult to change the culture, but we are seeing CEOs stand up and say what is needed to be said. Some writers wonder if this is really a lot of ‘PR’ rather than true changed perspective? An example could be the compensation paid for PPI, where recipients are receiving considerable sums, indicating that the key problems have not been fixed in the last few years. Jeremy noted there is a big difference between what is the right thing to do, and what is best to do to benefit the shareholders. It is easy for someone to be good when it benefits them. It is not so easy to be a CEO of a big bank and to change the direction and culture of the whole organisation, especially quickly.

One delegate asked whether the session would qualify as CPD, given his banking compliance role. Jeremy wishes him well with the aim to qualify the event for CPD, and would be happy to support that cause in writing.

Parables of the Talents – what if the talent were traded and lost? Jeremy noted parables are used to illustrate one truth, and there is a strong Christian ethic of Christian responsibility in this parable. So to allow individual responsibility, yes you do need to see opportunities and take them. With a risk of too much regulation, you might end with homogenous thinking (or herd instinct to put it another way), that means it is considered to be better to be wrong with everybody else than right on your own. A contrarian view has been for example Neil Woodford of Invesco Perpetual, a Fund Manager with an approach for investing for the long term.

National Debt remains for the UK to be very significant – how long can it last? The UK is one of the most indebted countries in the world noted Jeremy – and our debt has gone up since the start of the current crisis, whereas for some other countries like the USA it has gone down. The government in the UK retains interest rates low to encourage personal borrowing, although companies have reduced their borrowing, sometimes through capturing profits via labour rather than financing. The level of corporate (company) debt is a lot lower than in previous recessions in the early 1980s. So we would benefit companies to invest their funds in smaller companies that then go on to employ more people. So, the Government may want inflation to erode the debt, and the value of Sterling relative to other currencies has been devaluing for a significant period of time, but the focus should perhaps change to encouragement of enterprise and productivity. Jeremy concluded by noting it is hard to manage some inflation: easy for it to grow very quickly to more than you would want.

Fines and compensations levied on banks – where do they go? Previously, it used to go back to other banks, via regulators, but now they head to taxpayers via the Government. Jeremy noted still a lot smaller than the fines levied in the USA.

The Co-Op used to have ethical roots – what has gone wrong? The Co-Op was founded by Rochdale pioneers who were non-conformists and unionists, responded Jeremy. As a mutual owned group, they cannot raise money easily like listed banks via rights issues. So to buy Britannia, who it turns out had bad property linked loans, meant the issue of new debt by the Co-Op and hedge funds bought into this debt, and has now through the weakness of the bank (partly through the poor decision to acquire Britannia) the lenders (hedge funds) have managed to change the amount of the shareholding/control held by the Co-Op Group to the lower level of 30% in the Co-Op bank. For future ethical banking, Jeremy noted there are others such as Triodos, Kingdom Bank and some other new operators, like Metro Bank, are seeking to provide a decent service. Jeremy expected the Co-Op to face a challenge to keep its appeal as an “ethical” bank .

Hyperactivity (lots of M&A activity) – are they driven because it is the right thing to do, or because bankers wish to make fees? Jeremy considered many have been promoted by bankers for fees rather than for the goodness of the trade – but some Mergers and Acquisitions (M&A) are needed for economic necessity. Jeremy noted that 80% may be for the wrong reason, based on academic literature which refers to this proportion of M&As leading to value destruction rather than creation.

Given every time we buy and sell there is someone taking a cut and slice of the transaction, and given there are so many of them doing so, do we need to have many cuts to support them all? Yes, said Jeremy, but to avoid high costs, invest through for example Exchange Traded Funds, for instance there is a firm (Vanguard) which has low cost ways of investing in the market via trackers. Some fund managers, like M&A, don't deliver long term value and can be more for the benefit of those involved in organising the transactions.

If Financial Services are at 11% of GDP, and this is too large, and view it as a goldmine for the country, should it be that other sectors grow if not shrink the Financial Services industry? Jeremy noted we have more Financial Services than any other part of the world in the UK. However, entrepreneurship is growing in the UK and this is good for the UK economy. Many young people want to start their own companies and this should be encouraged by Government, and the failures when they happen should be seen as an opportunity to learn. Such start-up enterprises create the most new jobs, supporting the economy.

What is the impact on social structure and people in the UK – e.g. welfare and medical system? As a Christian, Jeremy did not think the answer is in politics but in Jesus Christ. The unfortunate thing since 2008 with austerity programmes, and low interest rates than benefit those who are more wealthy, is the relative burden of the response of the crises across the population. It is really unfair to punish the innocent for the sins of the guilty.

The event was attended by around 40 people.

Magnus Smyly

Reading at Work

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