



ASIC

Australian Securities & Investments Commission

ASIC Annual Forum 2018: Opening address by ASIC Chair, James Shipton

Keynote speech by James Shipton, Chair, Australian Securities and Investments Commission, ASIC Annual Forum 2018

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CHECK AGAINST DELIVERY

1. Welcome

Thank you Michael and Yvonne.

On behalf of my colleagues at ASIC, I warmly welcome you to the 2018 ASIC Annual Forum.

This is my first Annual Forum as ASIC's Chair.

After spending the last two decades overseas, I am delighted to be back home in Australia.

It has been just over 6 weeks since I started.

In addition to getting up to speed on ASIC's work, I have been really enjoying getting to know Peter, Cathie and John, as well as all the ASIC staff.

I want to thank all of them for welcoming me as their colleague and want to reiterate how impressed I am with the team at ASIC.

2. Introduction

The theme for this year's Forum is '**Maintaining Trust**'.

Trust is a fitting topic for the finance sector right now – both domestically and globally – and it is one that I have spent many years thinking about.

As some of you may know, I spent the last few years running the program on international financial systems at Harvard University. During this time I had the opportunity reflect on one of the key fault lines in the financial system:

- the trust deficit.

I'd like to use my address today to share some of my reflections on this deficit.

In particular, I want to explore

- the *role* of trust in finance;
- *why finance is so important to society*; and then
- suggest some ways that may help address the trust deficit.

3. Trust and finance

To start with: *what is trust?*

As you all know, trust is intangible. There is nothing you can point to and say – 'look, there is trust'.

However, it is possible to identify relationships, sectors and industries that display high levels of trust.

And where this exists it is because they have earned this trust – indeed they are *worthy* of trust.

Trust – and trustworthiness – is at the very heart of our financial system and the relationships that underpin it.

And this has been the case since ancient times. In fact, the Latin origin of the word *credit* is *crē-dō* or *cre-dere* which means: to believe, to **trust** in.

In the financial system, trust can be broadly classified into two categories:

1. **First, trust in the *infrastructure*.** That is trust in the bricks and mortar that make up the financial system. For example, we trust that the payment system and exchanges will function effectively, that banks will hold safe our deposits and so on.
2. **Second, trust in *people*.** We need confidence that the people in banking, insurance and funds management will keep their promises, act in our interests and live up to community expectations. We also need to trust that directors, auditors, mortgage brokers, and financial planners will do their jobs with competence and honesty.

There is an important relationship between these two categories of trust. Should there be decay in one it will inevitably degrade the other.

Relevant to today's discussion, the sustained degradation in *trust in the people* in finance will eventually start to degrade trust in the financial infrastructure itself. And this would be catastrophic.

For there to be sufficiently high levels of trust in the financial system, we need both infrastructure and people *worthy* of that trust.

In my observation, there is generally – at present – high levels of trust in the infrastructure that supports our system and enables the underlying financial ‘plumbing’ to work.

Studies in recent years, that will be explored in the next session, suggest that while we have high levels of trust in this underlying financial plumbing, financial services is one of the least trusted industries.

And since trust in the financial infrastructure appears to be sufficient, the sad conclusion must be that Australians don’t look to people in finance with enough trust.

As I mentioned earlier, in order to be *trusted* we must be *worthy* of trust – we must be *trustworthy*.

So, how do we become trustworthy?

According to some useful work by the CFA Institute, there are 3 factors that assist in being seen as trustworthy in the financial services context:

1. First – competence – that is having the right skills and knowledge to do the job.
2. Second – care – the extent to which a person wants to do a good job.
3. Third – ethics – that is doing the right thing, even when no one is watching.¹

We also know that trust has to be earned, it cannot magically appear or, importantly for me as a regulator, be legislated for overnight.

So to rectify the trust deficit in finance, we need to recognise that:

- first, we must work hard to earn and re-establish trust; and
- second, that this rebuilding must be done by establishing the *trustworthiness of people* in finance through: competence, care and ethics.

I’ll come back to these points later in my remarks. Before doing so I want to explore what may seem a basic question, but is one that is frequently overlooked in this era of specialisation, and that is:

- What is the role of finance? What purpose does it serve?

I ask this since awareness of its answer is crucial to the rebuilding of trust in finance.

¹ This is based on a framework for understanding trust by Dr Tony Tan, CFA – Co-Head of Ethics, Standards and Professional Conduct at the CFA Institute. I am grateful to Tony for presenting this model to ASIC’s senior leadership in March 2018.

4. The role of finance

To start with, and this is also often overlooked, we need to recognise, every cent in the financial system is '*other people's money*'.

Finance is not 'just numbers on a computer screen' or just a means to receive a commission or a bonus. Nor is it just about institutions or companies.

The institutions and companies – banks, large super funds, managed investment funds and so on – that we all usually focus on are merely veils for the individual Australians that stand behind them: individual shareholders, investors, consumers and depositors.

It always comes back to people: finance is a vital component of *real people's* lives.

And, because we are dealing with other people's money, we must never forget that financial risks can, and often are, catastrophic to real people. Financial harms can cause real human suffering.

So we must never forget that, ultimately, the financial system provides vital functions for the economy and for society. And if we get things wrong the result could very well have a devastating impact on real people.

In other words, finance exists to serve everyday Australians

- it is a means to an end;
- not an end in itself.

And the consequence of this is that finance always needs to be anchored to the core functions it serves for society.

And what are these functions?

This is a question I used to ask finance students and serving financial regulators when I was teaching. Notably, they rarely were able to identify all of the constituent functions.

Similarly, I expect that most of the men and women that work in finance may struggle to fully answer this question.

So, I want to take a step back today and remind us all of these functions, and in doing so highlight that what we do *matters*.

There are different descriptions of the role of finance, but I like to use Professor John Kay's four functions, from his book *Other People's Money*, to guide my thinking:

1. The first function is capital allocation: matching those who need capital with those with excess capital.
2. Second, inter and intra generational transfers of wealth.
3. Third, hedging and insuring against risks.

4. And finally, the payment system. Interestingly, this the most fundamental function, is the one that many of my students tended to overlook.

On one view, the failure to be able to articulate our ultimate purposes is emblematic of a broader attitude amongst the finance industry – too often, those working in finance are so focussed on complexity, or their particular specialisation, or their own commissions or bonuses that they lose sight of the broader purpose.

A purpose that *does* matter to people, society and the economy.

So having established that finance, at its heart, exists to serve people via its core functions it is vital that it can be relied on by Australians. This is where trust comes back into play – people must be able to *trust* finance.

What is also important is that people need to perceive they are getting value, both economic and non-economic, from finance. My own personal view is that people don't perceive they are getting sufficient *value* and benefit from finance and that this is also at the heart of the trust deficit.

This means that the financial industry needs to look at its broader value proposition. And what I mean by this is, they need to ensure that the service they are delivering is mindful that it relates to other people's money and, whatever the service may be, that it is firmly anchored to one of the core functions of finance.

Moving to solutions

And so, how do we re-build trust in finance?

It has been 10 years since the global financial crisis, and it strikes me that, too often, we are still going over old ground as we struggle to find solutions.

The answers won't be easy, but I am hoping that over the next two days we can explore some new ideas, and, collectively, make progress.

In that spirit, I want to explore an idea with you.

Professionalism

Earlier I mentioned that in order to rebuild trust, we need to re-establish *trustworthiness* – that is exhibit

- competence,
- care, and
- ethics.

Interestingly, the concept of *professionalism* is similarly defined and is constituted by

- competency; and

- conscientiousness.

And since conscientiousness turns on a person's ability to care about *people* and the person's *ethics* I would suggest that one way of exhibiting *trustworthiness*, and thus rebuilding trust, is to exhibit *professionalism*.

Accordingly, I am suggesting that we need greater levels of professionalism in finance.

This idea also has other benefits.

If you put yourself in my shoes – those of a regulator – you would ask yourself ‘why are there so many examples of poor conduct in finance?’. One view is that there is a lack of professionalism throughout the sector.

So how do we heighten professionalism in finance? Like all complex problems, it is likely it will need a range of solutions.

To start with, we need to recognise that it will need whole and undivided commitment across the entire financial ecosystem to address this challenge.

Industry, and the people within it, need to do more and need to take more of a leadership role.

ASIC will play its part and we stand ready to advance this goal.

For example, ASIC has long advocated for enhancements to the education requirements and ethical standards for financial advisers. We strongly support the Government's reforms in this area, which have culminated in the establishment of the *Financial Advisers Standards and Ethics Authority*.

We are doing what we can to support the work of FASEA and to help the industry transition to the new professional environment.

In that particular case, we supported a policy tool as the catalyst. And we are prepared, if necessary, to pursue this approach again. However, that isn't the only way.

Another way is for the industry itself, working with standard setting and professional bodies, to promote and perhaps even require, professionalism within their sectors.

In other words, there is a window of opportunity for the industry to take the lead without the imposition of a regulatory catalyst.

Another very important point is that I do not exclude myself and my own organisation from the same responsibilities and standards we expect of industry.

We are after all a key part of the financial ecosystem.

ASIC also needs to exhibit professionalism.

And there are changes underway that will make this even more evident.

As you may know, legislation for industry funding for ASIC was enacted last year and the scheme will commence later this year.

For industry funding to work effectively and fairly, ASIC must continue its approach to transparency and engagement with a professional mindset.

And this is something I am committed to making sure ASIC does.

Conclusion

In closing, I hope that I have set the scene for the discussion that will occur in the coming days.

I have been looking forward to the Forum for some time, and am really looking forward to meeting you over the next two days.