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MARKET FAILURES, MARKET SOLUTIONS

RESPONSIBLE PROVIDERS

INSPIRING CONFIDENCE IN FINANCIAL SERVICES INITIATIVE

BUSINESS WITH CONFIDENCE

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THE *INSPIRING CONFIDENCE IN FINANCIAL SERVICES* INITIATIVE

The *Inspiring Confidence in Financial Services* initiative was established by ICAEW's Financial Services Faculty in early 2007, shortly before the start of the global financial crisis. It aims to provoke new thinking and identify better ways of tackling long-term challenges in the sector.

Confidence is vital to financial services. A stable financial system is important to the economy and sustainable levels of confidence in financial services are needed for this stability.

Our work is based upon four themes:
- Responsible providers
- Responsible consumers
- Better information
- Better regulation.

These themes are interdependent and cannot be considered in isolation.

Our work involves developing reports and provocative issues papers, holding high-profile conferences and having discussions with stakeholders. We aim to bring together the financial services sector, other industry professionals, consumers, regulators and policymakers. We believe that financial services will only inspire confidence if the sector engages with all of its stakeholders.

For more information, visit icaew.com/fsf.

THE FINANCE INNOVATION LAB

The Finance Innovation Lab was jointly established by ICAEW and WWF-UK in 2008. It is designed to inspire profound change in the financial system by incubating and accelerating new forms of prosperity, for people and planet.

The Lab is a community of people who are aligned with its purpose and principles. It has attracted over 3,500 participants from all over the world. They come from a broad spectrum of backgrounds, including mainstream finance, the creative industries, academia, NGOs and the alternative business and finance world.

For more information, visit thefinancelab.org.

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MARKET FAILURES, MARKET SOLUTIONS

RESPONSIBLE PROVIDERS

FOREWORD

Financial services have developed a toxic reputation. Public opinion views some parts of the sector as being institutionally rotten. That perception needs to be addressed and detoxification will need radical changes in culture and business practices.

Financial services are built upon trust and trust needs to be earned. Once it is lost, trust takes a long time to regain. The recent global financial crisis started in 2007 and we have not yet emerged from it. For over five years, the focus of attention in looking at the financial system across much of the world has been the crises in banks, markets and, in some cases, the creditworthiness of governments. While that is understandable given the costs and implications of systemic crisis, this has obscured a number of deeper issues about how finance serves society.

In many countries, there is a low level of trust in financial services, and a widespread view that finance could serve society better. Restoring trust – which is in the interests of financial firms as well as wider society – is not just a matter of avoiding a repeat of the acute systemic vulnerabilities seen in recent years, but also a question of whether finance could be conducted more responsibly, and in a way which reflects its fundamental economic role.

While it was inevitable that regulation would be strengthened in light of the crisis, resolving the problems must not be left to regulators. It would concede that the sector cannot address issues and reinforce the idea that firms and individuals are incapable of acting responsibly. Heavy regulation can also inhibit the ability of the sector to provide services that meet the economic needs of society. This is not a call for deregulation. A robust and effective regulatory system is needed in the light of repeated failures.

It is instead a call for market participants to develop their own solutions to market failures. If financial services are to be trusted, institutions must demonstrate that, individually and collectively, they take their responsibilities seriously and are able to tackle problems without having to wait for public authorities to do it for them. Market solutions need to supplement public regulatory interventions. However, if market solutions are shown to be effective ways of addressing problems, there should be less need for regulatory interventions in the future.

Market solutions can take a number of forms. We use a broad definition that includes actions led by market participants. Experience has shown that the invisible hand of market forces is insufficient even though it is in the enlightened self-interest of businesses to act in ways that build trust.

A change in culture and attitude is needed, with more focus on long-term sustainability. Providing services that meet the economic needs of society should be placed above short-term profits and bonuses. Institutions will be able to achieve some changes themselves. Others will need the sector to work together, and with consumers, regulators and policymakers.

We launched the *Inspiring Confidence in Financial Services* thought leadership initiative in 2007. Since the onset of the financial crisis, confidence and trust in the sector have dropped dramatically. To be inspiring confidence may seem now like a distant dream. While restoring trust will be a challenge for the financial services sector for the next decade, it must retain the longer-term ambition to inspire confidence. Only when it achieves this will it be able to properly fulfil its role in economic development.

Iain Coke
Head of ICAEW Financial Services Faculty
November 2012

THE MARKET SOLUTIONS CHALLENGE

A MORE STABLE FINANCIAL SYSTEM IS NEEDED THAT BETTER MEETS THE NEEDS OF CUSTOMERS, INVESTORS AND WIDER SOCIETY

This issues paper has been developed as part of the ICAEW Financial Services Faculty's thought leadership programme *Inspiring Confidence in Financial Services*. It summarises various ways in which financial markets currently appear to be failing, or at least not working as well as they should, and proposes that financial services providers work together to implement market-based solutions to these challenges.

It is intended to be provocative and to stimulate debate on complex issues. It also suggests a range of practical measures that can be taken, primarily by the financial services sector, to address problems it faces.

This paper discusses seven ideas:

1. financial services are essential;
2. regulation can't achieve everything;
3. failures are inevitable;
4. professionalism is needed;
5. business models should promote integrity;
6. financial services must be understandable; and
7. consumers have responsibilities too.

It also suggests solutions to support these ideas and provides examples from different areas of how such solutions might work. Our proposals cover better ways of instilling integrity in organisations and developing a professional model within the sector.

These solutions require further development and will require significant investment from financial institutions. They call for a different attitude from the sector as many of the benefits may be indirect and shared across the whole sector. Such investment should not be measured against the immediate returns to the bottom line, or be part of a communications or public relations budget. It should instead be viewed as an essential cost of building a sustainable business.

INVITATION TO COMMENT

This is an issues paper, intended to move forward the debate on a complex issue. It includes some ideas that are controversial or contrary to conventional thinking. If you have any comments, reactions or would like to discuss our ideas further, please contact iain.coke@icaew.com or ian.michael@icaew.com.

1. FINANCIAL SERVICES ARE ESSENTIAL

The financial economy is sometimes described as being somehow separate from the real economy. This is a mistake. Financial services provide a range of functions which are essential to the operation of modern economies, but the importance of these functions is not understood well enough. Often, financial services are discussed in terms of their contribution to economic growth, without recognising their wider significance. Financial services also make a real contribution to social well-being and should not be thought of as simply a means to an end.

The financial services sector comprises a large and diverse set of financial institutions and financial products. Products have become more complex and can be difficult to understand. However, the sector fundamentally provides only a small number of essential functions, even at its most complex:

- forms of money and payments systems;
- stores of value, for example bank deposits;
- finance, whether through banks or capital markets;
- investment opportunities; and
- risk management, for example through insurance and derivative financial products.

Many financial products combine a number of these features. Each has a value that customers should be willing to pay for and each should be relatively understandable. Each also involves risk or cost.

The global financial crisis has highlighted the costs that arise when the provision of these functions becomes impaired. Immediate danger to the stability of the financial system is usually due to doubt being cast on the security of accepted forms of money (primarily deposits with the banking system).

But there is more to a well-functioning financial system than simply avoiding systemic meltdown. It is critically important that the system facilitates saving and productive investment, and provides effective ways to manage financial risks. It should also support well-founded public policy objectives, for instance adequate levels of saving for retirement and long-term investment in economic growth.

The provision of financial services involves long-term relationships. The sector, however, increasingly talks about products and trades. This language may reflect and contribute to more emphasis being placed upon sales targets and less on the provision of useful services.

A way forward

The financial services sector needs to do more to explain its contribution to the economy, not in terms of share of GDP but in engaging with its customers and the public. It must also focus more on providing services that support the needs of the economy in a cost-effective manner. This should include the sector remembering that it is, at heart, in the service business.

EXAMPLE: The Finance Innovation Lab

The Finance Innovation Lab, a partnership between WWF-UK and ICAEW, has created a diverse network of finance experts, NGOs, social entrepreneurs and academics dedicated to stimulating change to the financial system that serves the public good. This group broadly believes in the importance of financial services and that markets achieve goals that we could never accomplish by ourselves. But they believe that markets should serve society's needs and those of the planet we live on, not control them.

The Lab's Disruptive Finance Policy project has mapped some of the policy ideas designed to disrupt the finance system in order to transform it to one that can support people and planet. Disruption can come from three directions: it can be imposed by government and regulators in a top down way, it can come from mainstream players changing the way they operate, or it can come from new business models rebuilding the system from the bottom up.

2. REGULATION CAN'T ACHIEVE EVERYTHING

Independent public regulation is invariably called for in response to market failures. This is understandable as market failures undermine trust in any sector, let alone one such as financial services that is based upon trust. Robust public regulation is needed in financial services given the public interest in its success due to its importance to the economy, and the specialist nature of the services it provides. It can provide common standards of solvency or conduct across the industry.

However, there are limits to what public regulation can achieve and too much reliance on public regulation can create its own problems. These include:

- Regulation can lead to an emphasis on compliance with the rules rather than meeting the objectives behind the regulation as it is imposed externally.
- External regulation can lead to market participants – both providers and users of financial services – placing too much reliance upon the judgements of regulators and lead them to take less responsibility for their own decisions.
- In practice, regulation can protect the financial services sector rather than consumers by creating barriers to entry for new entrants or by creating a defence against charges of misconduct by complying with rules.

Independent external regulators are sometimes portrayed as protectors of the public interest. However, regulators also face external pressures and conflicts of interest, both from the industry they regulate and from politicians and the public. Regulators face severe criticism for any problems in the market they regulate, and also changing pressures from politicians. Far from being pressurised to lean against the economic cycle, financial regulators face pressure in upturns to prolong the good times while they are asked in downturns to prevent any failures from happening again.

A different approach is needed that promotes long-term stability in the financial system. The financial services sector must take the lead in developing standards that meet the needs of the economy and society, engaging with users of its services, regulators and policymakers. This will be in the long-term interests of financial businesses as it should lead to a more stable and sustainable system, even if it may mean lower short-term returns to those firms.

A way forward

Just as the public may have called too readily on regulators to address market failures, the industry could do more to resolve problems without waiting for regulatory solutions. The ability, and willingness, to resolve failings credibly is important in building trust.

The industry also needs a different approach to dealing with regulators and consumers. It should seek to promote solutions that better serve the needs of the economy, rather than being seen to lobby for its own immediate self-interest.

EXAMPLE: Bank audits and the financial crisis

Bank auditors faced questions after the global financial crisis.To address this, the ICAEW Financial Services Faculty issued the report *Audit of banks: lessons from the crisis* in June 2010, which included a number of recommendations to improve the engagement between auditors and users of bank financial statements. Following on from this, ICAEW:

- Worked with the Bank of England, Financial Services Authority and audit firms to agree a code of practice for dialogue between auditors and supervisors.
- Established an Auditor–Investor Forum to promote discussion on emerging issues.
- Issued the report *Enhancing dialogue between bank auditors and audit committees*.
- Issued guidance for skilled persons commissioned to undertake specialist reviews for the regulator, working with the Financial Services Authority.

None of these market-based solutions required any regulatory changes. See icaew.com/fsf for more details.

3. FAILURES ARE INEVITABLE

Financial services will always involve some risk to end users and the public. This is due to the inherent nature of the sector, and of the services it provides. The value they bring to society is in allowing people to manage their individual risks, including the fact that cash needs vary over time. However, overall risk to the system cannot be eliminated so no matter how the system is designed, there will always be the chance of failure or loss, whether through circumstances or design. Risk in the financial system largely reflects risks in the economy as a whole and a very low-risk system is likely to suffer from economic stagnation.

Failures and losses can happen in financial services as a result of a number of factors. There is little that the sector can do about some of these, such as natural disasters, political mood-swings and human behaviour. Others may be caused by human error, individual misbehaviour, an imbalance of financial knowledge between the sector and its customers, or the limitations in our collective knowledge of economics and risk.

Public opinion can understand and forgive honest mistakes. It can also recognise that isolated incidents of misbehaviour can and do happen. The way in which the sector addresses such problems is critical. If handled well, these can inspire confidence in the sector. The public will also be more forgiving if market participants are renowned for good service. If problems are handled defensively or the industry appears to be trying to avoid responsibility, they create mistrust.

The most damaging problems are those that are allowed to grow, or that look like they have been caused by institutions ignoring risk warnings or allowing profits and bonuses to outweigh the provision of economically useful services. The sheer scale of the financial sector in modern economies exacerbates these problems.

A way forward

The financial services sector should place more emphasis on preventing avoidable failures. Boards should look more closely at why their businesses make profits, so they can better identify when excessive risks are being built up or services may not be meeting customer needs.

The sector should also improve the way that it reacts to problems, trying to resolve them swiftly and fairly, rather than being seen as a reluctant conscript for fear of suffering regulatory or legal liabilities.

EXAMPLE: The San Francisco Earthquake of 1906

San Francisco suffered a massive earthquake in 1906, causing major damage. Lloyd’s of London was trying to establish itself in the US market, and had significant exposure to losses. One of Lloyd’s leading earthquake underwriters at the time, Cuthbert Heath, faced an enormous bill, but famously instructed his San Franciscan agent to ‘pay all of our policyholders in full, irrespective of the terms of their policies.’

This action, though expensive in the short term, established a reputation in the USA for paying claims and led to a boom in business.

4. PROFESSIONALISM IS NEEDED

The financial services sector is not trusted enough and no business can be sustainable if it is not seen to be aligned to its customers, let alone one so dependent upon trust and long-term relationships. While the credit crunch of 2007 and subsequent global financial crisis have provided additional focus to the loss of trust, the problems go much deeper and are much more long standing after too many financial scandals and crises.

If the financial sector is to restore trust, there needs to be more than a public relations exercise. It needs to establish a culture to support this, with the twin strands of integrity and competence forming its DNA, as they form the core of all professions.

Banks, insurers and investment managers are commercial businesses that provide economically essential services. It is in everyone's interests that they should be able to operate profitably and competitively so that they can properly serve the economy. However, in doing so, neither integrity nor competence should be seen as sources of competitive advantage. They should be the minimum entry requirement expected from all participants.

Financial services businesses have become more aggressively commercial, with remuneration and sales targets combining with cost control to drive profits growth. While competition can be an important driver of efficiency and lower prices for consumers, it can undermine the quality of services provided, particularly when it is hard for those customers to differentiate between different products. One of the features of financial services is that, while headline prices may be apparent, underlying features such as risk are much more difficult to estimate. Often problems with products only become apparent after several years.

The difficulty in comparing quality is not unique to financial services. There are many other sectors where providers of services also have a degree of expertise which customers, clients and users could not match and so find difficult to assess service quality objectively. Professions such as medicine, law and accountancy are examples. Each has addressed this through a combination of self-regulation through professional bodies and public regulation.

Financial services must embrace and lead in developing a professional approach, because these are matters based upon behaviour, and behaviour needs to be controlled from within the sector. Professional bodies can play an important role in promoting integrity and competence in ways that neither individual institutions nor external regulation can achieve. Membership of external bodies can be important in setting norms of expected behaviour that go beyond the sometimes short-term interests of the organisation.

A way forward

The financial services sector should develop new (or strengthen the existing) professional communities required to act in the public interest. Both organisations and individuals should be expected to join these professional bodies.

Professional communities should lead in setting expected standards of behaviour that go beyond the requirements of public regulation and should be given effective powers of sanction against firms as well as individuals.

EXAMPLE: Livery companies

Livery companies were established in medieval London to address lack of trust in trades and professions when it was difficult to differentiate between rogues and respectable providers. These livery companies were set up by respected leaders of their trades who banded together to form groups committed to raising standards and who agreed to be subject to inspections. The livery company badges became known as signs of quality that helped customers to identify whom they could trust. The livery companies continue to this day, and raise significant amounts for charity.

5. BUSINESS MODELS SHOULD PROMOTE INTEGRITY

The financial services industry must develop a reputation for integrity. To achieve this, the sector must first act, and be seen to act, with integrity. While the industry does seek to promote this image and industry leaders universally agree with the need to act with integrity, too frequently scandals have shown that conflicts of interest are not sufficiently well addressed.

The public image of financial services has become once more focused on profit rather than ethics. This has to be addressed, and there needs to be a greater focus on providing suitable services, rather than the most profitable one in the short term.

While some institutions set out alternative business models, focused upon the core attributes of integrity and competence, they have yet to establish a large market share and demonstrate that they can fully compete with the large established institutions. Some established institutions have signalled their intention to do things differently and better, and this is welcome.

However, it is difficult to change public perceptions of an individual institution when the whole sector is not trusted. At best, tainting will mean that attempts to identify an individual institution as having integrity will be more expensive and less effective than a cross-industry approach. At worst, such attempts may make matters worse, as they can reinforce negative perceptions of the whole sector.

Integrity should therefore not become a competitive differentiator, as it should be expected of all financial services businesses and professionals. There is an analogy to political campaigning based upon attacking your rivals – it can win votes but ultimately leads to loss of trust and engagement with politicians generally. The whole sector needs to work together to rebuild trust.

A way forward

The financial services sector needs to invest in developing and promoting an ethical framework that works across institutions, recognises that ethical conflicts are almost inevitable and suggests ways of tackling those conflicts, providing safeguards against perceived threats to integrity.

Individual institutions need to look at how their organisational structures support ethical decision making, including how well their incentive structures are aligned to this objective. Individuals need to have the importance of integrity ingrained into them throughout their careers. There also need to be mechanisms in place for individuals to raise ethical concerns as part of the normal course of business practice, and without adverse consequences for the individual that often happen when, for example, whistle-blowing arrangements are used.

EXAMPLE: ICAEW's integrity work

ICAEW's report *Real Integrity* explores in more detail how organisations can promote integrity and provides practical solutions for business leaders seeking to instil integrity throughout their organisation. This report builds upon ICAEW's ground-breaking work on integrity in its reports *Reporting with integrity* and *Instilling integrity in organisations.*

This work could provide a basis for developing a model of integrity that addresses the specific challenges of the financial services industry. See icaew.com/integrity for more details.

6. FINANCIAL SERVICES MUST BE UNDERSTANDABLE

The basic features of financial services, as set out in section **1 Financial services are essential**, may provide an alternative model for developing and marketing services and managing risk. Decision making in financial services involves amounts of money so large that they are difficult to comprehend. This is not just a feature of wholesale markets but also retail financial services, with much of the decision making based on centralised processes and models. This can make financial sector decisions seem to be about no more than abstract numbers, and can obscure the real economic effects of those decisions.

Ultimately, despite product complexity and opacity, financial products are based upon cash flows and need to be valued based upon how they will ultimately be transformed into cash. Mathematics cannot change this basic fact. Too much reliance can be placed upon complex financial models without digging down into the fundamentals of cash flows or how well the sector is providing essential services to the economy.

The financial sector has also become highly specialised. Individuals can be experts in narrow areas, but lack understanding of wider aspects. This deep specialism can make it difficult for non-specialists to challenge the experts. Some features of the problems that arose with collateralised debt obligations (CDOs) that precipitated the global financial crisis were that:

- demand to buy CDOs exceeded the sensible supply of mortgages that were bundled into them; and
- too little attention was paid to the ability of people to service their mortgage payments in the mistaken belief that asset values alone would be sufficient to back loans.

Both of these features betray a lack of understanding of the basic features of the services being provided, and insufficient attention being paid to finance fundamentals such as cash flows.

Specialism can also result in mis-selling problems as products may be marketed to people for whom they were not designed or for whom the product does not meet their needs. Many past problems are due not to bad products, but good ideas being taken too far. While some of this may arise from unscrupulous people, more often it is because people simply do not understand sufficiently well the products or services they are supplying and the risks associated with them.

A way forward

The financial services sector should articulate better how its services satisfy the basic features of finance. These features may provide a better model for managing risk, designing products to meet economic needs and marketing products.

Institutions need to understand better how they make money. Opaque financial models need to be challenged and not simply accepted. Any products that are highly profitable should be examined just as carefully as loss-making ones as high profits may indicate that risks have been understated or products may be being sold to people for whom they are inappropriate.

Financial institutions should invest more in training their staff, who should be required to obtain broad professional qualifications, to equip them to understand not only their own areas of specialism but wider concepts, including finance theory and risk.

EXAMPLE: The UK Retail Distribution Review

The UK market for personal financial products had suffered from a number of mis-selling scandals. The Financial Services Authority's Retail Distribution Review, which becomes effective in January 2013, seeks to tackle this by raising qualification standards, increasing requirements for continuing professional development, placing a greater emphasis on professional ethics and banning product commissions from being paid to financial advisers.

The qualification standards introduced require a broad knowledge of finance and financial products, rather than being limited to the particular services they may specialise in.

7. CONSUMERS HAVE RESPONSIBILITIES TOO

A well-functioning, market-based financial system requires consumers, as well as providers, to act responsibly. This includes both individuals with simple financial needs and businesses engaged in more complex financial services.

Consumers must also be prepared to face some harsh messages. Increasing life expectancy and limited government finances mean that people need to save more and longer to meet their retirement needs. Consumers must accept that it is in their interests for financial services businesses to be profitable as they are more likely to be secure and able to provide the services they need. Financial services are important, but there is a cost attached to providing them. Consumers should not expect this to come for free, as this will result in cross-subsidies or hidden charges that may increase the likelihood of mis-selling.

Consumers should also be expected to be reasonably prudent. Access to finance has significantly increased over the past few decades and consumers have come to expect credit to be available when they wish it, whether through credit cards or finance deals linked to consumer goods. Consumers should be expected to take responsibility for how much credit they accept. Credit providers and consumer product retailers should also pay more attention to the ability of people to repay finance, and not offer deals with attractive introductory rates but punitive subsequent payments.

Poor financial literacy is a problem. However, financial literacy programmes can only be successful if people are prepared to engage in them and to take sufficient interest in their own financial position.

Providers of financial services need to think about how they engage with their customers, focusing upon financial needs rather than product sales. Asking customers to state their risk appetite is unlikely to achieve much, but discussing the basic features set out in section 1 may be more useful.

Increasing regulation may have cultivated an increased expectation that consumers will be compensated for any losses arising from financial products. However, consumers should be prepared to take reasonable responsibility for their own mistakes, and accept that they will always face some risk.

There is a trade-off between risk and return. Many of the scandals in recent decades have arisen in part because of a mistaken belief that it is possible to find higher returns without taking on additional risk. While the financial services sector needs to describe this better, consumers should be able to understand the basic principle that you can't get something for nothing.

A way forward

The financial services sector should better describe the services it provides in ways that customers can understand, making clear how they make money. Consumers should take an interest in their financial decisions and not simply rely on consumer protection regulation. The financial services sector and consumer advocates should agree on the extent to which it is reasonable for consumers to take responsibility for their decisions.

Financial education should be part of the school syllabus, and the financial services sector should help to promote financial literacy.

EXAMPLE: Boosting financial capability

In the UK's most deprived areas, people are trapped in poverty by disengagement from education and a low level of financial literacy. ICAEW supports a number of projects to boost financial capability, including in schools and deprived areas, using a volunteer network of ICAEW members. Our work in schools, in conjunction with the charity pfeg, involves volunteers working with teachers to help structure lessons. ICAEW has related projects working with Poplar Housing and Regeneration Community Association and with the Ministry of Defence to improve financial literacy in particular targeted groups. See icaew.com/volunteering for more details.

ISSUES FOR FURTHER CONSIDERATION

This paper is intended to provoke further debate and analysis. Issues for particular consideration are set out below.

Can responsible finance pay?

This paper has argued that the financial sector should become more responsible in various ways. However, that raises the question of how far the changes suggested would be commercially viable. Some points relevant to that issue are:

- Responsible finance is arguably the only kind that will be commercially viable over the longer term. Irresponsibility would lead to ever increasing public, political and regulatory pressures, which would probably undermine business models based on such an approach (as well as further weakening confidence in the industry as a whole).
- In principle there is no reason why responsible finance cannot pay. Because finance plays a fundamental role in the economy, there is a 'real' ongoing demand for financial services. However, the cost of financial intermediation may be substantially higher and the sustainable size of the industry significantly smaller, than now. Profits in future should reflect excellence in serving customers, not exploitation of market imperfections.
- There is a risk that responsible providers are undercut by less responsible firms, perhaps from less regulated parts of the financial system. This could be mitigated by industry-led initiatives to define what responsibility and high-quality financial services look like, and to develop schemes which provide clear quality assurance signals to consumers.
- Much more stringent capital and liquidity requirements than in the recent past are another factor. However, where financial institutions come to operate on a sustainable basis with the prospect of steady earnings, they should enjoy a lower cost of capital.
- Tackling financial exclusion is not easy as providing financial services to some parts of society may not be commercially profitable.

Have we forgotten the fundamentals of finance?

Many debates about finance are framed in a way which suggests that they relate primarily to what happens in the major financial centres around the world. Yet this obscures the pervasive and fundamental role which finance plays in modern economies. Making this more transparent would highlight the following issues:

- The rapid growth of scale and complexity in financial services obscured a number of core fundamentals.
- Complexity may have grown beyond that necessary for financial services' fundamental economic functions. Highly complex instruments can actually impair performance of these functions, because of the difficulty of understanding and managing them.
- There will, however, be an on-going demand for sophisticated financial services to support the world's more complex businesses and some high net worth individuals. But it is currently unclear how much capacity will be needed to deliver this.
- The development of a consensus on the fundamentals of finance would act as a powerful reminder of its core role in modern economies. It would also focus the industry on meeting genuine economic needs at a level of sophistication appropriate to the customer, and would help users in considering different product offerings.
- Finance depends on public and market confidence, and a reasonable degree of social acceptance more generally.

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Corporate membership of the Financial Services Faculty is available for financial institutions, professional firms, regulatory authorities, industry bodies and associated service providers wishing to demonstrate a commitment to promoting long-term confidence in financial services. In addition to allowing your organisation to support and engage with our thought leadership activities, corporate membership provides access on a group basis to the Financial Services Faculty's services.

If your organisation supports the objectives of this initiative and is interested in becoming a corporate member of the Faculty, contact our client relationship manager Thomas Gannage-Stewart on +44 (0)20 7920 8659 or thomas.gannage-stewart@icaew.com.