

## Trust....and the Financial Crisis

This is a 20 pound note. It is an amazingly intricate thing. It has watermarks, fluorescence and silver foil on it, and far more detailed than I had ever realised when handing one over for my round in a bar. But I am sure that the note costs a lot less than 20 pounds to manufacture. The reason we accept it as being worth 20 pounds is because of a little line of text on the front which reads: "I promise to pay the bearer on demand the sum of twenty pounds". Because we believe this promise, we have a currency. It is our trust that enables us to go about our lives without having to swap goats, pigs or lumps of gold every time we go to the supermarket.

Bank notes have existed in society for thousands of years, and their promise (as well as the banks that provide them) have been essential for the working of civilisation. But bank notes work because we believe that they hold value....the entire system is based on trust. When we accept money we trust it has value. When we put money in a bank, we trust we will get it back. And when we, the bank, lend money, we are also trusting that we will get it back. Even the word "credit" comes from the Latin verb "credere"...to believe or "entrust".

So what is trust? Trust is rooted in the virtue of faith. Trust is a faith, or belief in something or someone. It is a 'shared value' in that it is hard to have trust all by yourself. Like love, trust has to be both given and received to exist. When trust exists, it enables cooperation, and makes possible things that otherwise would not be so. For example, it is the fact that human beings trust each other than enabled them to form tribes and prevail over predators who individually were far more powerful. Trust today enables us to coexist in often crowded situations. Without trust none of us would ever get in a taxi, cross on a zebra crossing, or accept anything other than gold in payment.

I would argue that there are three main factors that build Trust. First, consistency of promise and action. If someone says they will call you back, and they do it builds trust. If someone keeps their commitments, it builds trust. I personally believe that it is exactly the same for organisations and businesses. If a company says that treating customers fairly is important, and they do so, it builds trust. Second, dialogue. It is a basic survival instinct to be slightly suspicious at first, and dialogue between different people can help us to understand each others' difference and again build trust. Third, time. To varying degrees it takes a period of time for us to understand each other as human beings, and to build up a sustained track record of consistency of action.

Over many years, the banking sector had built up an enormous level of trust. But trust by itself can be blinding to reality, and needs balancing by prudence on the part of banks, and self discipline on the part of borrowers. It is prudence that prevents

banks from "over lending" and self discipline that prevents customers from "over borrowing". Trust, appropriately balanced is an essential prerequisite to the functioning of the financial system.

Trust can be destroyed far more easily than it is created. It can obviously be destroyed by actions that are inconsistent with a promise. If a dog looks all cute and cuddly, but then suddenly bites you, you are unlikely to trust it again. But because trust is based on faith, it does not need facts to be undermined. Trust can be undermined by rumour, speculation, allegation and even just association with suspicion. Trust that has been built up over years, even hundreds of years can be quickly eroded if enough people raise doubt over an individual, company or business.

The financial crisis is characterised by a significant breakdown of trust. Trust between customers, investors, banks, Government, Regulators and media has eroded considerably over the last eighteen months. As such, the financial crisis is not a crisis of funding, liquidity and capital, but rather a crisis of character and ethics. It is true that some banks lent money that they didn't have to lend, many customers spent money that they didn't have to spend, and (referring to short selling) many investors sold shares that they didn't own to sell. Despite all this, there is still enough money to go round, it's just that it is not going around.

So what do we need to do now? Simply speaking, together we need to start doing things that build trust and stop doing things that erode trust.

First, and starting with one we should stop, the aggressive finger pointing. Money lenders have never been popular in society, but I read this Sunday morning on the BBC that according to a Minister, I and those like me in the industry are (quote) "...people who have no sense of the broader society around them". I asked my wife (who knows me well) whether this was an accurate description of me. While she was quick to point out some other failings of mine, she did not think this was a fair description. Even if the Minister's statement had been true, what is the objective of the comment? The demonisation of the banking sector will only further erode trust, and work directly against the good of the society it exists to serve.

Second, rumour, cynicism, suspicion and speculation all erode trust. In these fragile times, we all have a responsibility to do what we can to shore up confidence. Rumours wipe billions of pounds off the value of companies. These companies make up a large part of the pensions of most of the people in this country. Human nature will always like the "negative excitement" of a juicy rumour, but it is categorically true that careless talk costs pensions. I personally believe that the media have a responsibility in this respect that goes beyond other targets.

Third, the key stakeholders (Government, Regulator, Industry) need to stop and think. While I welcome the tactical interventions designed to help, it is the fundamentals that need attention. Throwing more cash, rules and regulations at the problem will not - in itself - help. We do not need "tougher" regulation, we need "better" regulation. Regulation targeted at the ethical behaviour of

all those involved. To quote Tacitus: "Good people do not need laws to tell them how to behave responsibly, and bad people will always find a way around them".

Finally, we need to build a dialogue between those involved - and this event provides an opportunity to do so. When trust is damaged, it can be slowly repaired through a process of forgiveness and reconciliation. If each of us in our roles as customers, bankers, regulators, commentators and human beings takes responsibility for the part that we can do to start rebuilding trust, then we have a chance to cease the downward spiral of negativity, and start to rebuild trust and confidence.

When asked how long this crisis and recession will last, it is obvious to me that it will last precisely as long as people believe it will. If we can start to rebuild our faith in each other, we will start to invest once more in each other. If that means that we all need to bury our pride, reach for our humility and stretch out our hands to each other, then the sooner we get on with it the better. In the words of Henry Stinson, "the only way to make a man trustworthy, is to trust him".

**Joe Garner – January 2009**