

Two Minute Introduction:

Thank you for inviting to speak today at this forum. I am both a priest with responsibilities at a City church and also I am a managing partner of a private equity firm within the City – so, I hope, I have some useful things to say about how I believe that commerce and faith can be married successfully despite the temptation of faith communities to say that they are in the world yet not of the world.

The affirmation of the place of faith, whether Church or Mosque, in the public square is my theological starting point. I believe that we have something to say and we have the right to say it; that there is no separation between the world created by God to ultimately serve God and to reflect his glory, a world which is ultimately good, and the world in which nations, governments, parliaments, large corporate, banks, and all the other levers of power, are exercised. However, this affirmation means that we must deal with reality. We cannot pretend the world **is** or works in any other way that the way it evidently does and will continue to do. Idealism is fine for inspirational theology; prophetic theology may have its part (but we know that it is often destructive), but we must be careful and realistic if we want to be taken seriously.

Within this context, I have been asked to say a few preliminary comments about my topic for today which is the subject of “just or moral banking” I intend to set the topic in the belief that to be just or moral it must be set within an understanding of covenantal theology. “Covenant” is an old fashioned word and its meaning is fluid, pre-figured by God’s first covenant with Abraham, and followed much later by the Church’s understanding that a “new covenant” came into being in the person of Christ. It is my contention that the development of what covenant meant changed over that sweep of history from Abraham to Jesus, from terms set primarily according to material goods to terms which are primarily concerned with relationships. I will link this

to a recognition that the Body of Christ is made of many members and none of them are the same.

Five Minutes

Just or moral banking. In the current climate, many may well have concluded that the terms are antithetical.

I would have to say that the first thing that I want to do is change the word “moral” for “ethical”. The words are very similar and may mean almost the same thing; in that they both relate to “right” and “wrong”. I am swapping them because to my mind “ethical” has a greater association with relationships and, perhaps uniquely, banking, from both what is known as utility banking all the way over to the trade desks of investment banking, is involved with the careful harvesting and balancing of numerous relationships and at the heart of those relationships is trust.

Perhaps it is better to speak of stakeholders. They include the shareholders, without whose risk capital – the providers of regulatory or ring-fenced capital - there would be no banks. There are the depositors who, while they may not expect much return on their money, at least expect the funds being deposited will be available to be withdrawn at the time of their choosing. There are the borrowers who build their businesses on borrowed money for working capital or long-term development, in the expectation that banks will act rationally. There are the managers and employees whose expertise is vital – and only comes from long experience, and to be honest trial and error - if the right decisions concerning risk and the application of capital are made. And then there is the greater community, indirect stakeholders, who at the micro-level may work for the borrowers and rely on their employers’ ability to drawdown on their banking facility, or who are creditors to the borrowers anticipating in due course to receive the payment of their invoice. The interests of the greater community stretches further on the macro-level. All of us rely on a general sense of well-being that comes from a well-functioning banking

system. In other words, confidence and trust are essential. Banks are at the heart of our communities.

In an increasingly complex and interconnected world, in which we have unfathomable computer power to analyse and compute risk and reward, the banking system has – until recently – provided extraordinary service to our world. The world increase in trade is a direct result of improved banking and a corollary of which has been, on the whole, an unprecedented period of peace. Trade and finance go hand in hand.

Managing multi-faceted relationships however are never easy to manage. And indeed to expect it other than to be imperfect is to deny that we live in a finite, physical and limited world in which actions taken for the best of reasons and with the best of intentions has inevitably bad consequences.

Unlike most commentators I don't believe that we find ourselves in a deep recession as the result of immoral or unethical banking. It is true that the rewards for some are hard to justify; but there is a place for incentivising the taking of risk. Without risk, we would not advance as a society. It was this City that financed ships to seek out new worlds at enormous possible loss – and enormous possible gain. The same assessments – or bets if you like – are made by those financing the pharmaceutical industry. Money – the appropriate use of financial incentives – gets people to do things that are risky rather than opt always for safety. It may not be a reflection of the tempo of the times, but a banking system full of Capt Mainwarings would be a disaster for our – or any - economy.

What then is ethical banking? Well, it goes back to being very clear about those relationships and accepting that each party enters into a contract, implicit or explicit, a covenant if you like, and there is a hierarchy of interests as the Body is made up of many members and there is no one size that fits all.

The first necessity is that shareholders must stand behind the depositors. Depositors receive little return or yield because their money should be safe – guarded against loss by the funds put up by the shareholders. And managers and employees must be guardians not only of the depositors' money but also the shareholders' money. After all, that is what they are paid for. They are paid to make the right decisions concerning who to lend money to and what risk to take. That can vary according to the type of bank and the agreement shareholders and depositors entered into. Banking with Goldman Sachs for a fixed bond with a high yield or conversion terms (i.e. Warren Buffet) is very different from depositing money at the local building society. And borrowers. Borrowers don't have the right to take whatever the banks will offer. They too have a responsibility to the bank and must do all they can to repay the sums borrowed. Banks are not charities and all businesses must make a profit if they are to feel confident enough to operate in the marketplace. Yet a short term aggressive attempt to defend the interests of any particular group of the stakeholders may result in the loss of trust and confidence from others in this mutual circle of interdependent parties.

And it is this recognition of mutuality that is so important. The breakdown of which will ripple out to the greater community and do untold damage longer term. The Body only works if there is this recognition and that the members are not the same. Justice means, ideally, justice to all. That is difficult but becomes much less difficult if there is the greatest clarity possible to the overall covenantal terms. Trust and confidence will return once the rules and terms are clear – and risk and reward can again be properly assessed.

The problem remains the lack of clarity and the expectation by all parties that they should be first in line for a bail out. There is no skulduggery - or not as much as some would like us to believe - in the markets but there is the greatest attempt to be as rational as possible. There have been excesses but they

were not irrational. But we should be realistic. Whatever we as a society chose to be the rules will govern what growth we will be able to achieve- and that will dictate what we spend on schools, health, defence and the rest. Covenants don't just provide the parameters for a system; they tend to provide the limits as well.