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Restoring Trust in the Financial Markets: Interview with Thomas Streiff, CEO of the Sustainability Forum Zürich

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The financial crisis: what went wrong and what lessons should be learned?

In September 2009, The Sustainability Forum Zurich (TSF) held its annual flagship event, The International Sustainability Leadership Symposium, which this year was entitled “Restoring trust in the financial markets—time to think sustainably”. Prior to the event, Dr Kai-Uwe Schanz, Principal Partner at Schanz Alms & Company, authored a discussion paper aimed at stimulating debate at the symposium. Below, Dr Schanz interviews Thomas Streiff, CEO of The Sustainability Forum on recent markets turbulence and the nature of The Sustainability Forum. The interview is connected to the summary version of the discussion paper which is reflective of the views of Christine Bosse, CEO TrygVesta; Ernst Fehr, Professor, University of Zurich; Bill Emmott, former Chief Editor, The Economist; Patrick M. Liedtke, Secretary General and Managing Director of The Geneva Association; George Stansfield, Group General Counsel, AXA; Peter Voser, CEO, Shell and Klaus Wellershoff, former chief economist, UBS.

Kai-Uwe Schanz: How does the topic of this year’s Symposium fit into the TSF’s brief?

Thomas Streiff: *We believe that financial and capital markets are key enablers of economic, environmental and social sustainability. Therefore, we strive to prepare business leaders in the financial sector for the risks and opportunities produced by the dynamics of globalisation. TSF has set itself the strategic goal to promote the capacity of business leaders and companies to forecast future developments, reflect on them and take action. The Symposium on “Restoring Trust in the Financial Markets” is meant to challenge mind-sets in this way: we wish to demonstrate that, post-crisis, the financial sector is capable of regaining stakeholder trust—based on a long-term oriented and responsible business conduct. In brief, sustainability goes far beyond “ecology” or just being “green”—it is about “being fit for the future” through new ways of doing business.*

KUS: Where do you see the main reasons for the financial crisis and the resulting collapse of trust in financial markets and services providers?

TS: *Simply said, I think that the financial markets were getting too complex, not only for the old-age pensioners, the average depositors and the “lay” investors, but also for many of the professional players and intermediaries. I have the impression that the majority of the members of the board of directors of financial sector companies are neither competent nor independent enough to fulfil their duties in supervising executives’ decisions. In addition, some—if not even many—financial institutions made full use of the latitude provided by the regulatory frameworks and were able to externalise major risks and the associated costs. We would have expected that internal mechanisms should have kept major players from incurring existential risks. The tendency to “go with the trend” amplified this undesirable development because often decisions were (and will be) made out of peer pressure and were not based on robust information.*

KUS: In your view, what needs to be done to move financial markets to a more sustainable model and prevent a repeat of the most recent dislocations?

TS: *Dislocations—or better said turbulences—in the financial markets and the economy in general can hardly be prevented as they are inherent in any dynamic system. However, the magnitude of the turmoil—as we presently experience (and it is likely that we have not yet reached its peak)—could have been much lower if financial market players had carried out their assigned responsibilities. For instance, rating agencies need to be fully independent; fiduciaries should ascertain that their decisions are in the best interest of their clients; risk committees—apart from the audit committees—should be established at supervisory board level to focus specifically on enterprise risk management. In general, financial literacy should also be markedly improved at the investor level. In the case of pension funds, we include the ultimate beneficiaries, the savers, in our definition of "investors". Both on the regulatory and on the company level, we now have a unique chance to put the train onto the rails of transparency, long-term orientation and fairness. Once regulatory arrangements have been made in the direction of improved risk management, we will see the alignment of internal incentive structures with long-term business objectives, and—above all—a revitalisation of corporate values. Companies have to demonstrate that their business models are serving societal needs in order to regain and maintain stakeholders' trust.*

KUS: Talking about the insurance industry: how do you think insurers and reinsurers can contribute to promoting the notion of sustainability in financial services?

TS: *Insurance is geared towards assessing, reducing and transferring risks. Sustainability management is about identifying and coping with future economic, social and environmental challenges—risks and opportunities. Therefore, it can be seen as an extended level of risk management. This mindset can help the financial services sector to deal with many questions of our time, comprising systemic and structural risks of the financial markets, demographic change, poverty, the degradation of natural resources or climate change. Firstly, this requires better and stress-tested risk models which the insurance industry can share with its major stakeholders. Secondly, the insurers have to come up with more innovative solutions aimed at managing global challenges such as liability insurance solutions incentivizing responsible practices and behaviour, weather derivative and micro-insurance solutions for people living at the bottom of the pyramid.*

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