

## DEBATE

### From the floor

I would like to ask a question on trust vis-a-vis a major actor in the financial system – in this case, the political regime of the United States. In our working group on international finance this morning, Jacques Mistral made the point that President Obama and the Opposition will not come to a compromise and that America will jump over the cliff. However, he then argued that on 2nd January there will be negotiations and, in the end, it will work out. After the meeting, I said to Jacques that he had left out the reaction of the market, because the anticipation of the market is that that is not the way it will happen and that Mr Boehner will have great difficulty in getting his Republicans to agree on a compromise. As a consequence, the markets will react, and they will react rather negatively. We discussed this and, in the end, both of us agreed that, as Churchill said so rightly, after the Americans have tried everything, in the end they will do the right thing. My question to you is, therefore, will they do the right thing in the end?

### Thierry de Montbrial, President and founder of the WPC

The answer is yes.

### Josef Ackermann, Chairman of the Board, Zurich Insurance Group Ltd; Former CEO, Deutsche Bank

If the chairman has already given the answer, I cannot say anything more. However, I think that this is not only a US phenomenon, but it is also a German phenomenon that solutions are often found at the last moment. Jean-Claude Trichet will remember an episode when we had to rescue a EUR400 billion bank which, by the way, had 50% of its assets in Ireland. We had no solution to this until about 10 to one in the morning when Chancellor Merkel called me on my mobile phone and we compromised on something which neither she nor I had the authority to compromise on. That is often the case in this crisis situation and I have no doubt that markets are right in betting on a solution to the fiscal cliff.

### Richard Cooper, Professor of International Economics at Harvard University

The title of this session was trust and we heard a lot about uncertainty and confidence and, at least in English, those are different concepts from trust and I did not hear much about trust as such. I will put this very bluntly, as some Americans tend to do. A lot of the public on both sides of the Atlantic and perhaps elsewhere in the world have come to the conclusion that many bankers are crooks, which is to say that they routinely, in self-interest, violate the law. Whether it is insider trading or fudging on the London InterBank Offered Rate (LIBOR), we have seen a whole series of incidents coming forward in the last four years in which businessmen in general, but particularly in the financial community – although we had our Enrons 10 years ago – violated an implicit trust that the public held in the financial community. I think that this is a really serious problem in terms of how you rebuild that trust. If I may so, creating employment is very desirable but it is not going to rebuild the trust that has been lost.

I suppose, therefore, that my question to Mr Ackermann as a former or possibly current Chief Executive Officer (CEO) is how do the CEOs of firms convey to their senior and mid-level employees that it is extremely important for the firm to maintain a reputation of integrity – a word that we have not heard nearly enough about in the last five years? What we have lost is integrity in the financial community, so how can we rebuild that?

### Josef Ackermann, Chairman of the Board, Zurich Insurance Group Ltd; Former CEO, Deutsche Bank

I think that every bank in the world has been saying for years that there is zero tolerance on violating rules, standards and norms. It is also fair to say that standards have changed and one standard that has changed dramatically is the documentary standard. All the legal risks that most banks are confronted with today have very little to do with real acts of criminality. Most are about documentation that cannot prove how far you went in the different direction to prove what



you decided to do and what you are doing. In that sense, I think that we have understood the complexity there a little better.

The second point is that there are some people who have done bad things and the LIBOR activity that you mentioned is inexcusable. Nevertheless, this is perhaps 1% of a global bank, or perhaps not even that. I always find it a little difficult to understand that we are accusing bankers, while 99% of staff has not been involved at all in these activities and I think that it is also fair to defend those who have been outside of it all which is probably more than 99%.

Thirdly, it is also a fact, especially in the United States, that financial claims are not always justified. I have said it many times and I do not want to play it down with a joke as I take your question very seriously, but I was in the banking industry for 40 years – and I have now moved out into insurance – and no-one has ever called me to say 'Mr Ackermann, I made a lot of money. The product was badly explained to me and I really did not understand it so I think that it will be fair to hand the money back to the bank.' However, I can tell you that if someone lost money where they did not understand the product well enough and it was not explained to them properly, in my view, this is also a question of fairness. If you take risks and are aware of the risks and you lose money, please accept that. If you make money, you should accept that too. In that sense, therefore, the moral issue and ethical standard have changed to a situation and direction that, as a former banker, I cannot accept either.

Having said that, we have to admit that there were excesses and wrongdoings and some people did not understand what they really had to do to serve society and some of the incentive and regulatory schemes were wrong and led to wrong behaviour. However, it is not true to say that everyone in banking is a crook. 99% are very good people and have absolutely no understanding of what a few of their colleagues did. As I said earlier, we should name them and blame them and we should not defend it. That is the right approach. We should not say that the people who did these bad things should be defended by us. We should say that it is something that we do not accept. In the bank where I used to work I said seven or eight years ago at the Annual General Meeting (AGM) that no transaction is worth suffering a reputation risk and even if you lose some money, you should not do it.

I can give you two examples here. When we heard that we were financing companies that produced cluster ammunition we stopped financing them and when I was asked to get out of Iran and Syria we were the first to go, even being criticised by politicians. When we were questioned about commodities, that is a big issue and I say that there is not an easy answer there. I know that some Non-Governmental Organisations (NGOs) are saying that trading and investing in commodities is bad; others, such as academics, prove the contrary. My answer to this a year ago was to get out of this business until there are more and better results. However, just to say that you will get out of a business whenever someone says something critical about it is non-courageous behaviour and it is not a behaviour that the elite in our society should demonstrate. I therefore think that we need to have our arguments and the argument should be listened to. If people come up with a better solution, we have to draw conclusions from that.

However, as I said earlier, things are a bit more complex. I am really not a friend of accepting answers that are too easy as being the whole truth, because in the end, society will pay the price for it.

### **From the floor**

The subject of the last intervention was mainly about restoring confidence and trust and Mr Trichet mentioned the problems with evaluating risk and the probabilities, and many speakers in the morning session talked about the growing complexity. Someone – I forget who – said that it was hard to live in a world that we do not understand, and that is difficult. However, one thing that is very important that Governments, [inaudible] and businesses could work is restoring us to values, as that is fundamental – restoring trust. One of the issues that I am sure often comes up – and it came up this morning – is who will pay for this? We know about the concept of privatising profits and socialising losses, and there has to be a fair answer to this question, which goes along the lines of the previous question we had. How will you respond to that? I am sure that you are often asked it.

### **Thierry de Montbrial, President and founder of the WPC**

We will take two questions together, so I now give the floor to India.



### **From the floor**

The speaker said that the session was on trust. I alluded to a certain country in Central Europe, high in the mountains which was a preferred destination for a lot of money from both emerging countries and developing countries. People used to deposit a lot of money there in trust and whose money and where it came from would not be disclosed. Do you think that that was good trust and would you include the bankers who allowed this money to be deposited without asking where it came from to be included in that 99.9%?

### **Thierry de Montbrial, President and founder of the WPC**

I think that it is time for Mr Ackermann to leave.

### **Josef Ackermann, Chairman of the Board, Zurich Insurance Group Ltd; Former CEO, Deutsche Bank**

Are you talking about Austria? Let me say two things here. First of all, there is no anonymous money in Switzerland. People have to declare very clearly where the money comes from and identify themselves. There were two issues. In the 1990s, Swiss banks took money from presidents of countries, even if there was reputational risk, with the excuse that as long as there were diplomatic relations with a country banks would not take the money only to give it back. In that sense, things changed in the 1990s and people said that whatever the reputational risk was, even if there were diplomatic relations with a country or regime, they would stay away from taking money.

The next thing was a legal difference, which is very difficult to explain outside of Switzerland. However, we differentiate between tax evasion and tax fraud. Tax fraud has never been protected. With tax evasion, there was an attitude about 10 or 15 years ago that if someone wanted to protect their wealth, Switzerland was willing to help. This has changed and already by the 1990s, as I said in many speeches when I was the CEO of a Swiss bank, the position was that we should not rely on banking secrecy but on performance. Today, no-one would say that we should protect that and have money that is not taxed in its home country. That is why there are no agreements with a lot of countries on the withholding tax system, which I think is a good solution. To date, Germany has decided not to accept this even though billions of euros would have gone back to Germany.

Let us see what the next step will be. However, the fact that we cannot fully police everything is also understood. Nevertheless, no-one has ever taken money without requesting the identity of those who deposit it.

As regards the first question on who should pay for this, I always start with the people. If you ask yourself how many people have lost their jobs, it is already quite a dramatic cost that people have had to pay. When we had the European Banking Conference, where we normally have 40 or 45 people, in the middle of the crisis we had about 20 people who came and the others were no longer in office. In that sense, a lot of people paid a very high personal price. That is the first thing.

Secondly, those who have had vested shares and compensation have paid a price as well, including all the shareholders of banks, of course. Deutsche Bank's share price used to be 118; it is now hovering around 35, and that is symptomatic of all the financial institutions. A lot of people have paid for this, therefore. Additionally, we are now paying a special charge in a lot of countries in order to build up banking reserves, which in some instances has a 10% net income impact, and shareholders have to accept that.

I then have to say that a lot of banks never needed any taxpayers' money, such as my bank. You can say that they needed it indirectly and of course without the ECB's support in the early stages of the crisis the whole systems would have probably melted down. That is why everybody was an indirect beneficiary. However, individuals and corporate customers were beneficiaries of it as well. Nevertheless, there was no direct taxpayer involvement and the same is true for many major banks across the world. There is therefore also this hurt thinking that a few banks had to be bailed out and made huge mistakes and, as I said this morning, one thing was the badly timed, over-priced acquisition policy and in other cases there was a mismatch in borrowing short and lending long. There was also the building up of investment portfolios, which should never have been done and was not a good strategy. However, there were banks that helped there, and my own bank has taken over several banks in order to help ensure that taxpayers are not involved. That is a statement that could sometimes come from the political circle itself.



**Thierry de Montbrial, President and founder of the WPC**

I would like to thank Mr Ackermann very much. Depuis des années, j'ai beaucoup d'admiration et d'amitié pour Jo Ackermann et que sa réussite, comme banquier est tellement grande que j'ai envie de dire que c'est un peu aussi une réponse à l'ambassadeur de Pologne auprès de l'OCDE : « He is too big to fail. »