WEALTHCARE

microfinance
to
multi-currency derivatives

Dr Catherine P Smith

DOICA

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microfinance to multi-currency derivatives

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Foreword

This digital version of my booklet 'Wealthcare' has been created in response to continuing interest in its contents.

The booklet was initially put together in 2005 in response to the question "is there a standpoint from which to view objectively the entire global finance industry?" I have long believed that there is, and many years ago, I named it Wealthcare. The word has many copyists, but few use it with the meaning with which I first invested it.

My imperative for writing the book at that time was that, since 1992 I had been warning the global banking industry, in keynote speeches at conferences, in print through my strategy newsletters and publications, and privately to my clients, that unregulated expansion of the derivatives market would inevitably lead to a Credit Crunch. From 1993 - 1996, in salaried positions, I warning my employer to avoid large exposure to sub-prime lending and to mortgage credit based derivatives, and identified a major global risk crunch timescale, with 2007-2009 as likely impact. Thereafter, again acting as private consultant, I continued to warn the Finance Industry, Regulators, Politicians and Academics that inadequate Regulation and ill-considered expansion of the credit derivative markets presented significant danger to the global economy within that time horizon. I was a lone voice at the outset, and had still been one of only a few as the disaster finally struck. This booklet, circulated globally to over 250 senior and relevant persons, including academic economists, took a different tack in my hopeless attempts to have this message accepted.

The approach of the booklet was to place Finance in human context, deliberately in an easy-to-carry format, so that there could be no excuse for these influencers not to have it in the briefcase on their many flights, and thus, in a bored moment, actually read it. In the event, this too failed.

Since the diagrams in this book are actual Powerpoint slides created mainly in the early to mid 1990s, some of the jargon is old fashioned – such as 'bancassurance'. However, I have chosen not to reconstruct these diagrams, as they are in a context which is perennial.

Never intended to be exhaustive, nor to have the precision and focus of a good management report, but to be light reading though carrying an important message, this booklet draws on my personal experience of using this viewpoint for improving the performance of organisations. Thus I hoped to get my main message through – that without due care, the Finance Industry faced significant disaster. The book includes a number of concepts and diagrams that I had previously developed in order to communicate what I understood. I set out how I came to this standpoint and some of the ways in which it enabled me to take a different, and creative, view of financial services.

My success in those assignments I completed in the Finance Industry and amongst their suppliers, and with others, has demonstrated that this way of looking at the global finance industry has value that can even be transformed into bottom line results. Archimedes said "Give me a place to stand and I will move the earth". I hoped this little booklet would have moved the Finance Industry prior to the Credit Crunch. It did not. But even today, it gives the global finance industry a little nudge in a general right future direction.

In the Beginning

Half a century ago, the finance industry seemed of little relevance to ordinary people. Today, except in the most primitive economies, this is far from being the case. Everyone is being inexorably drawn into the money network of a global economy. The most common interaction of the ordinary person with finance is everyday payments. Where people used to use cash, it is now electronic payments through banks that are today's most common manifestation of everyday money. It is through payments that banking has reached the mass-market. Through everyday payments banking as we have known it might meet its demise. Equally, though, that demise may be through events at the other end of the transaction spectrum – the vast array of complex derivatives that now are inexorably integral with our global economy.

This little booklet, a rapid journey through finance, is based on a few of my personal experiences and ideas created out of my own many observations of finance around the world. I put it together following a 2004 conversation in which Steve Timewell, then Editor in Chief of The Banker, the Financial Times monthly journal for the global banking market, expressed his challenge in structuring his publication to the apparently disparate claims to attention of his disparate audience and ensure its value to them all. He expressed to me his concern that some key practitioners and even some regulators seemed not to think of the finance industry as one integrated whole. This surely must make it extremely difficult to design coherent transportable service or regulatory structure – both increasingly necessary in the emerging one-world economy.

I assured him that I, for one, saw all finance as inter-related, though I agreed that my way of looking at things, being my own way, might be very different from how others thought. If people do all think in different ways it invariably at the least causes communication problems. In helping organisations reposition themselves, an initial challenge is always to persuade people all to look at things in a common way – getting them to sing from the same hymn sheet, as I have heard some consultants express it.

In finance, I start with getting people to consider what they daily handle – money.

Money has been at the heart of the finance industry since its inception. But for centuries, by using cash alone, the vast majority of people made their money payments without using financial institutions. Today, even the humblest peasant in a developing country might find herself at the receiving end of an international financial transfer, as her son or daughter in a distant land sends home that invaluable hard-currency contribution to the family's wealth.

Only since the early 1970s have masses of ordinary people used banks for payments. This move into the mass market has been enabled by technology. The first change was in the advanced economies with the development in the 1960s of automation of salary deposits direct to employees' accounts. Then, cash dispensing and cheque and credit handling were automated. Cards began to be used by banks to identify customers, and shortly after, by 1970, the credit card was invented. Electronic credit to accounts, and electronic debits through automated clearing houses, came during the 1980s.

As technology advanced, economies of scale triggered the advance by banks into the mass market, to attract greater payments throughput during the 1990s. Over the last fifty years, the mix of bank activity has shifted massively, because of exponential growth of payments through bank systems, without corresponding growth in bank deposits or loans. In the retail market in particular, different kinds of bank formerly addressed very different parts of the market, but have become increasingly indistinguishable. Fig 1 illustrates how, over the last 25 years in particular, computerisation has enabled former counter activities in every different style of retail banks to be decimated, opening up a gap in the role of branch offices. At the same time, as the graph of *Who Banks Whom* shows (Fig 2) differently-styled retail banks have come to be less distinguishable from each other in their target markets.

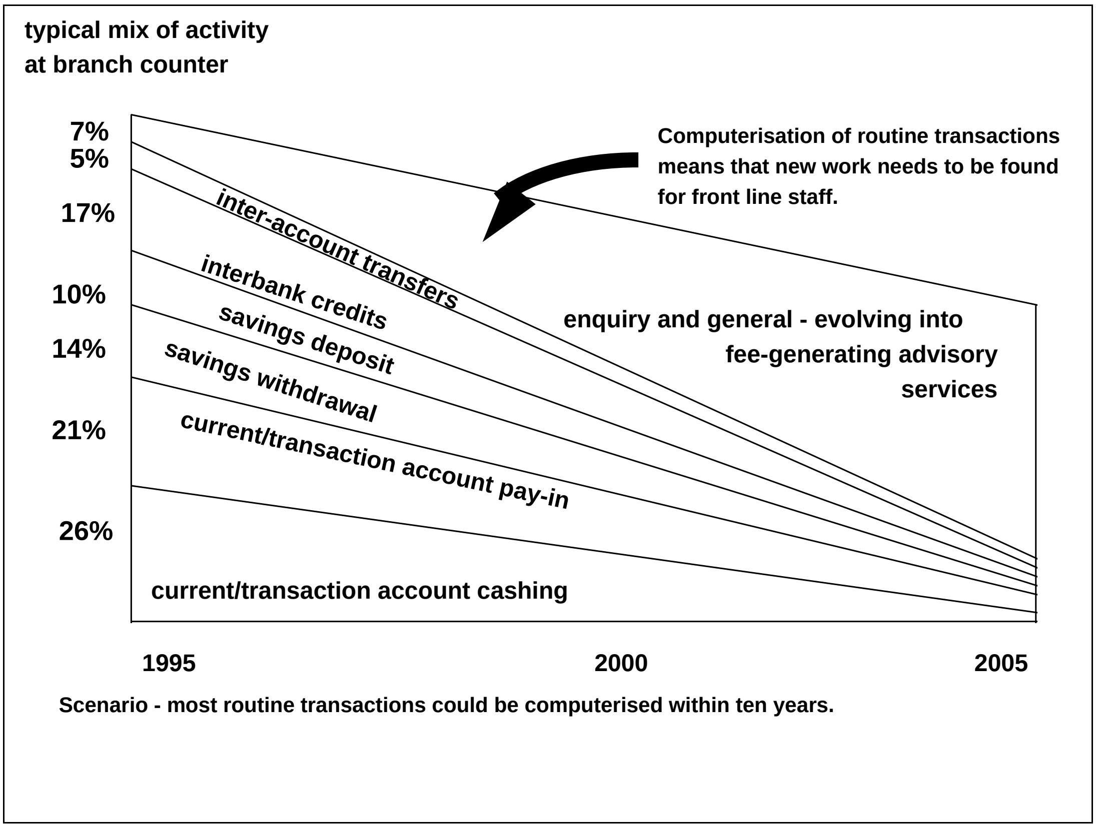


Fig 1: Impact of Computerisation on Banking Staff

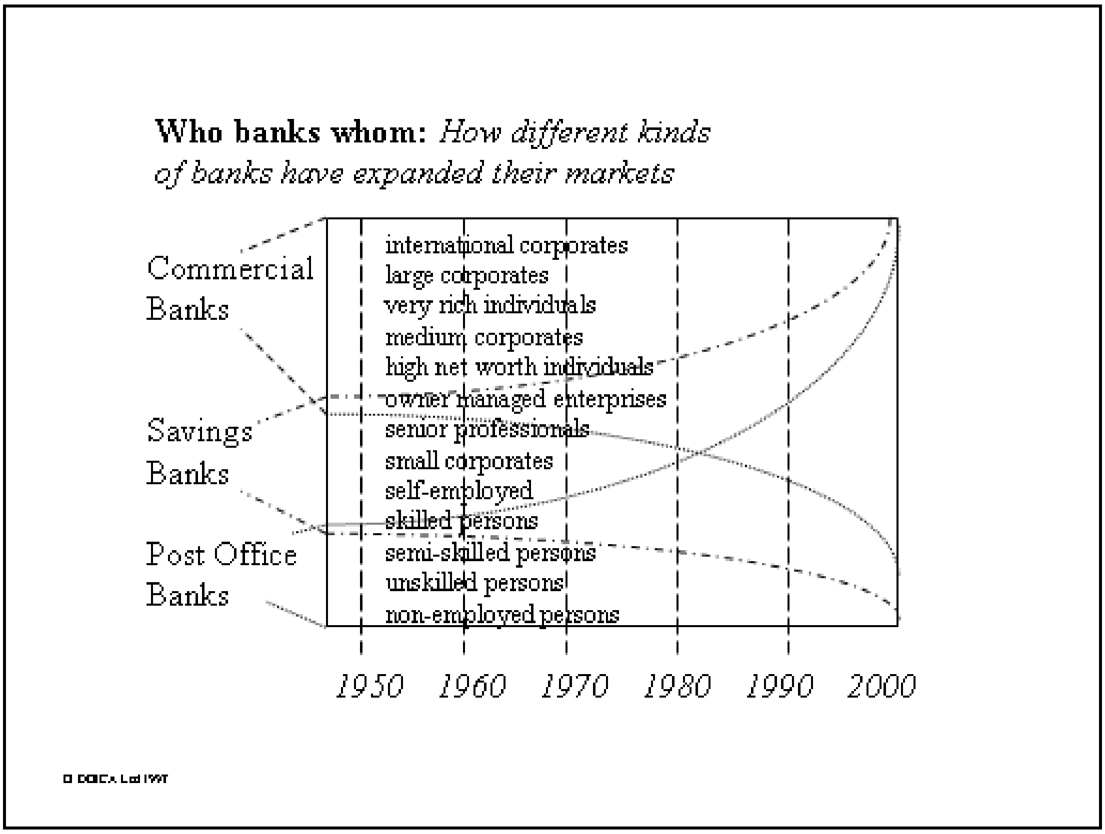


Fig 2: Who Banks Whom

Though the full history is complex, in short this change has been encouraged by deregulation, which itself has in part been a consequence of changing levels of consumer financial disposable wealth and developments in technology.

I will make it clear at this stage that ‘wealth’ is a far more complex thing than merely what can be expressed in money. But this booklet is about the finance industry, so I focus on certain aspects of money-measured wealth.

Around the world, for the previous two centuries, during industrialisation, banking business - both in deposit taking and lending - had grown in line with the increasing sophistication of business capital structures. The perceived strength of a financial institution, and the desirability of using that one in preference to others - today known as its brand value, from marketing jargon - was based entirely on its ability to provide the right risk-managed balance between the safety of its deposits and the performance of its lending. The brand value was an assessment based on market knowledge of the institution’s performance in deposit taking, lending and risk management. That brand value was based on the quality of management and the professionalism of staff in core financial business - the management of money risk and growth.

Payments activity had little effect on the brand value in former times, since performance was the result of professionalism in the core activities of money management and risk. The market which made the assessment of each institution was in those days a relatively elite group - those members of professions and of richer business who used financial institutions.

In the last fifty years, the nature of brand value has altered. Now, the mass market is the judge; moreover, it judges performance in payments and interest rates on savings and loans. Its judgement is not based on professionalism in risk management - the vast majority of the mass market has no interest in risk because most ordinary people believe their savings are protected by government-backed safety nets or industry lifeboats. Bluntly, the mass market does not value professionalism in the old sense of managing money risk and growth.

This mass market places no value on brands that stand for professionalism in money risk and growth. Instead, they are looking in the main only for organisations that make payments, don’t fail them in those payments, give them loans when they want them, and do everything for the lowest possible price. Their increasingly global behaviour causes them to look for a brand that stands for effective payments everywhere at home and abroad. If a local bank is the only route to that service, but gives them access to a well recognised international payment brand that is as much as many are looking for from their bank. They may well prefer to go direct to the main brand. Increasingly they look beyond traditional suppliers.

This globalisation in consumers’ desire for the simplest financial services is paralleled by a global search by complex businesses with sophisticated financial needs for lowest cost provider of financial services and of capital, while exercising agility in seeking to place any excess capital of their own in what they perceive as the most profitable environment, hedging any perceived risk with complex derivative instruments, while all the while displaying curious blindness to any potential for this communal behaviour itself creating a systemic risk, that is unhedged and is impossible to hedge.

Such is a little parody of the modern world of international finance, each seeking only his own gain, ignoring the old adage that “no man is an island, entire to himself”, but all inextricably interconnected, standing or falling with the instability of the house of cards that is humankind’s trust in the global financial system and the curious but very valuable myth of money.

The change from finance and banking being a service for the privileged to its being a mass market commodity has caused a fundamental shift in the structure of finance industry profitability. The good old days are long gone when a bank handled relatively low volumes of payments and could make profits on float. This is expressed in the schematics in Figs 3 and 4, which give a very simplified model of how profits are made up.

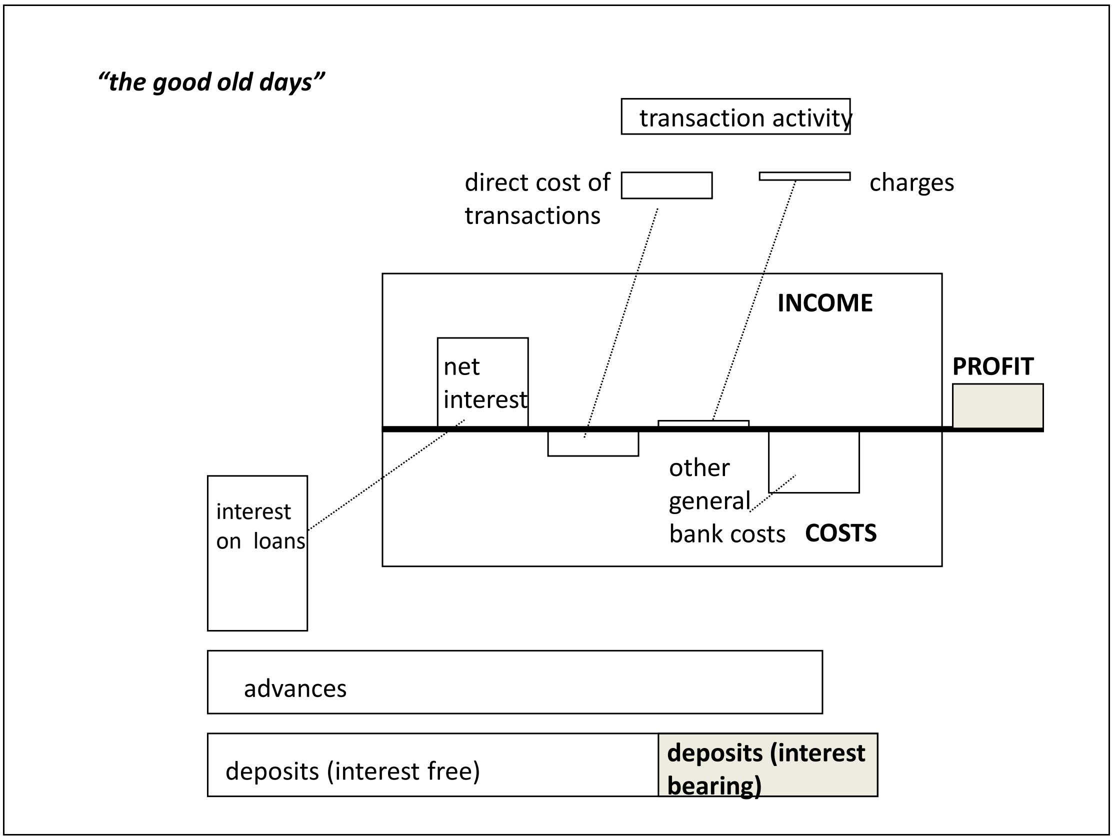


Fig 3: "traditional" structure of costs and revenues of core banking

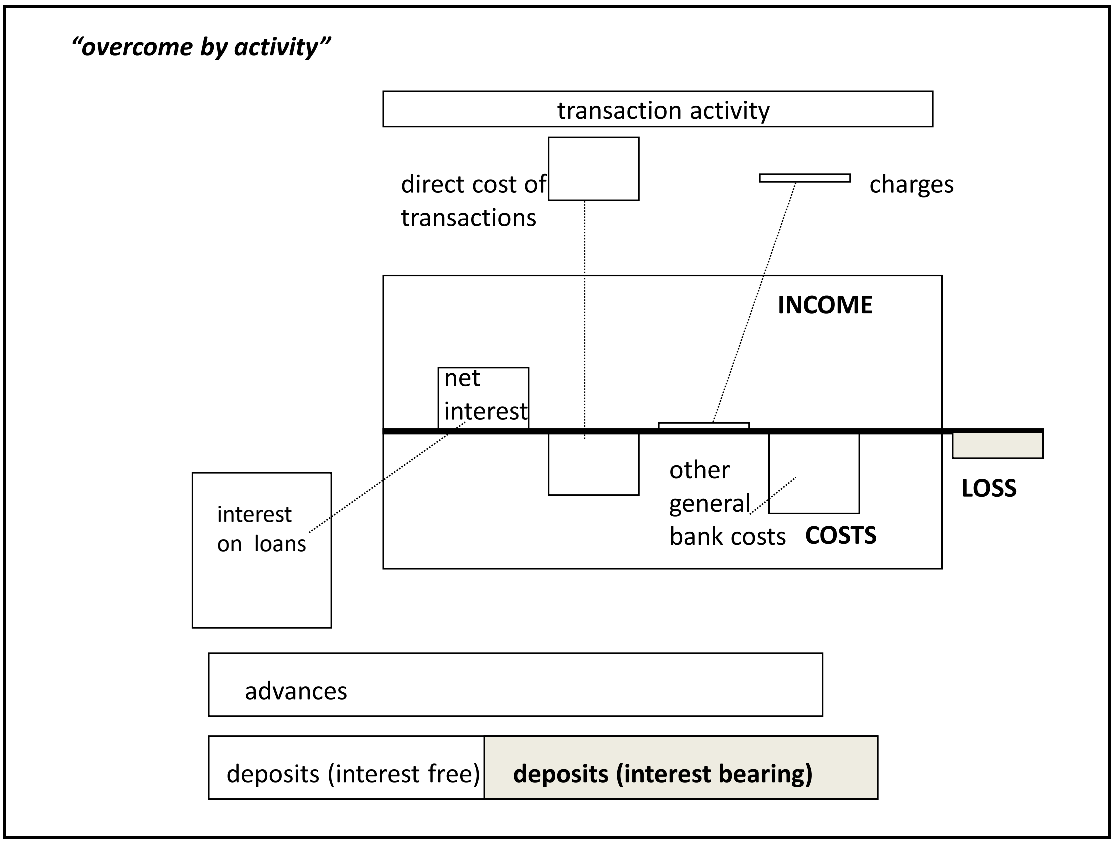


Fig 4: changed structure by 2005 of banking costs and revenues of core banking; since then change has continued

On bank balance sheets today, revenues from assets are small and thin in comparison with historic levels. Since the end of the 1970s inflation years, I have watched margins being repeatedly squeezed, while cost-generating activity has increased. After the Credit Crunch of 2008, interest rates have slumped to unprecedented lows – in some cases depositors being charged to place money in banks. For many decades, most financial organisations have sought to augment performance by off-balance sheet income – mainly fees raised for advice or commissions for arranging services from other suppliers, and money market operations using own funds. Those now too are thin as a result of price wars. Regulators limit the lending activities of banks to a defined multiple of the bank's capital, but with fee income decreasing, banks turned their attention full circle back to their balance sheets. They began to bundle together their assets – the loans owed to them – and they sold these bundles as securities which could be traded by wholesale finance houses. Once again with money to lend, they offered even more loans to the retail marketplace, multiplying the debt able to be securitised and traded.

The ingenuity of the finance industry seems to know no bounds in finding ways to enable the increase of profitability through the generation of new financial instruments, all of them nesting on the foundation, however thin, of the everyday economic activity of the people within the communities served by the front-line bankers, consumer and commercial. This fragile edifice is indeed all one, but because all of us are inexorably involved in it even if only in using bank payment systems, it is indeed difficult for any to stand apart and see it as a coherent functioning whole.

As one who was forced to earn my living from diverse parts of finance, as senior executive, as educator, as practitioner and as an advisor to the finance industry and to technology and other suppliers, I have perforce formed my own holistic view of the industry. My personal experience must therefore be of some value as a contribution to the thinking of all those who need to gather under one umbrella very diverse activities ranging from microfinance to multi-currency and complex derivatives.

So this little book sets out some of the thinking that I have had to develop, and some of the ideas that I have come up with, that I have used in designing global approaches, whether in the promotion of appropriate technology to underpin development, or in communicating new ways of working to both leaders and front-line staff, or in creating new product lines to take to market. That they can work was by 2005 demonstrated over two decades by sustained step uplift in performance following my involvement with client organisations (such as IBM, BT, UNYSIS, VISA and HSBC at one end of the spectrum, as well as mid-sized and tiny organisations, and in many different economies) into which I had actively introduced my ways of thinking and helped them be applied.

Steve and I first met in September 1992 in Stockholm. We were both there at the invitation of Digital Corporation - he in the capacity of his new role as editor of The Banker, I as an independent thinker to present the keynote address. They had centred the theme of the conference on my concept, Wealthcare, using the title '*Turning customers into clients'*. As a part of my presentation, I outlined changes that were taking place in the behaviour of people around the world, contrasting expected future with present life-stage needs of customers. (See Fig 5 for my schematic diagram of the traditional model of life-stage asset strength. Real 'curves' have never actually been balanced and smooth, being heavily dependent on demographics and economic fluctuations. They have been further substantially changed by the changing structures and mores of societies that I predicted in the early 1990s, and which are set out in my 1993 book '*Tomorrow's Success'*.)

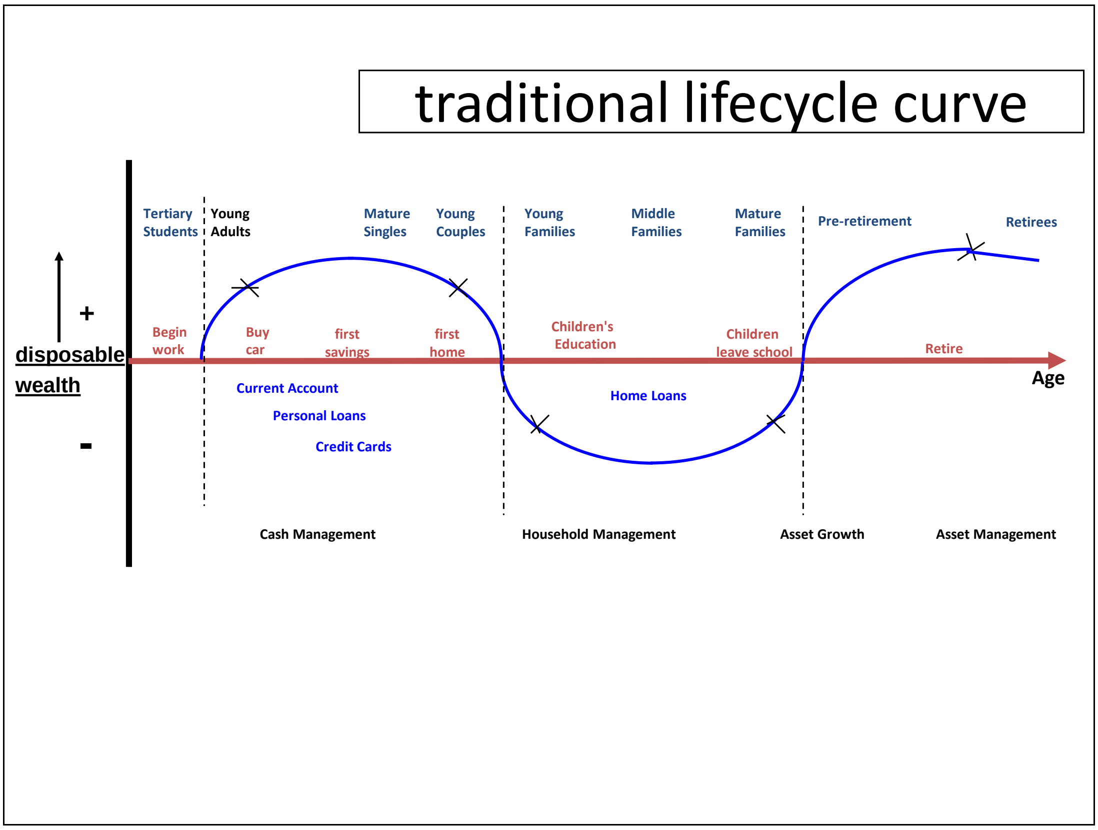


Fig 5: traditional personal life-stage finance cycle (much simplified!)

As I have illustrated in the diagram in Fig 6 below, I warned that customers could become confused if financial services suppliers did not think carefully about the manner in which they offered their services. Yet, as Fig 7 illustrates, those basic needs of customers remain surprisingly simple, however many flavours of product institutions might offer.

But a great longer-term concern now coming home to roost, but one I expressed to my global audience that afternoon in 1992, was that trade imbalances, increasingly being created by the industrialisation of the developing world, the off-shoring of services enabled by communications technology, and the failure of post-industrial nations to create new value from their own increasingly under-employed populations leading to the rise of Welfare System dependency and domestic poverty, would undermine mutual global trust and cause serious backlash from all those who, justified or not, felt disadvantaged. The vast divergences of financial wealth and starving destitution even then visible on every television screen were, though, far from many minds that evening, as we danced and dined in the inspiring surroundings of Stockholm Town Hall, where they distribute the Nobel prizes.

Steve and I met again in 1996 in more down-to-earth surroundings in London, when he was chairing a debate on the Single European Currency on which I had strong views. Long a supporter of the concept of the world eventually having one appropriate regulated currency, I had by 1989 become concerned by the political manner of the emergence of a single currency in the European Union. By 1996, central bankers were only beginning to grapple with the difficulty of ensuring that no member of the new single currency would, through its ability unilaterally to issue sovereign debt, cause unmanageable inflation, and as yet the importance of the issue was appreciated neither by politicians nor currency markets.

The Euro would be unique in history: at no time had there existed any single currency operated by a large federation of mixed economies of a large range of sizes in which the independent State governments had such full control over the creation of government debt. The absence of any historical model for a single currency such as the Euro became, left an academic and practical gap in the management and regulation of the Euro. In due course, the Stability and Growth Pact was designed to address this matter. But I soon formed the view that it did not. This matter is still not adequately addressed, as the difficulties is finding common approach to EU-wide economic response to COVID-19 economic costs and aftermath impacts have already demonstrated, quite apart from the terrible human impact of the earlier Greek financial traumas.

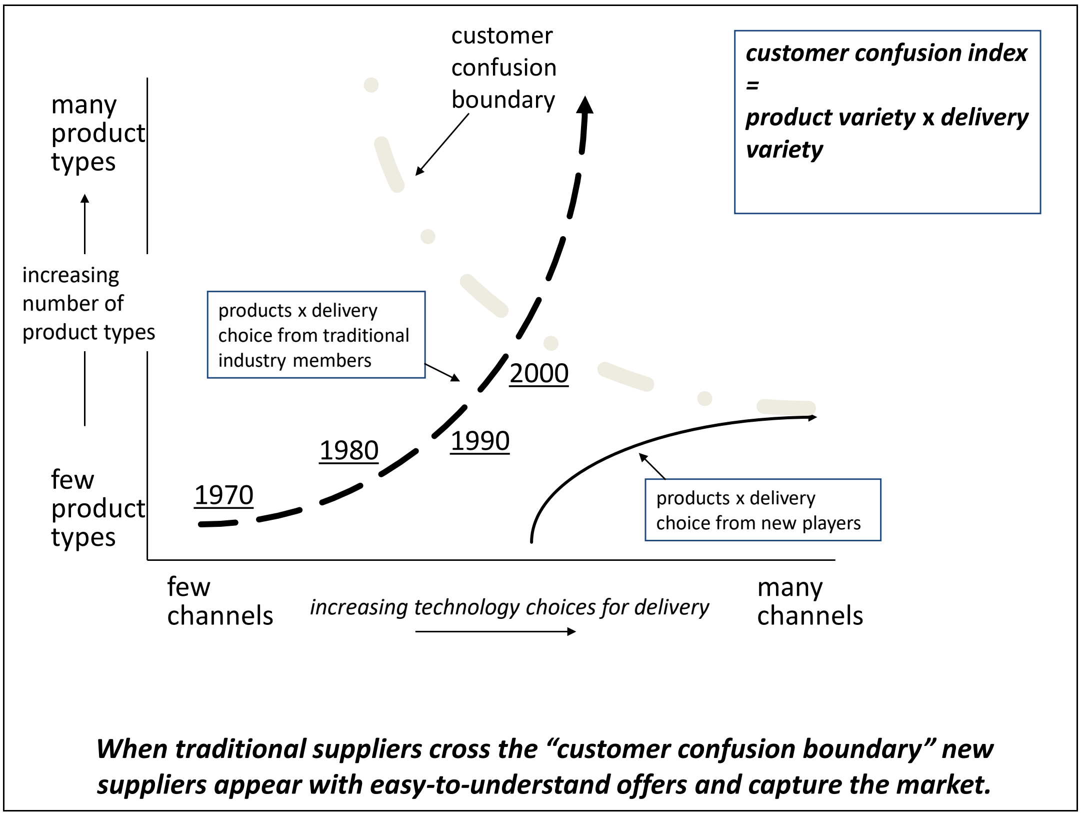


Fig 6: the risk of confusing customers!

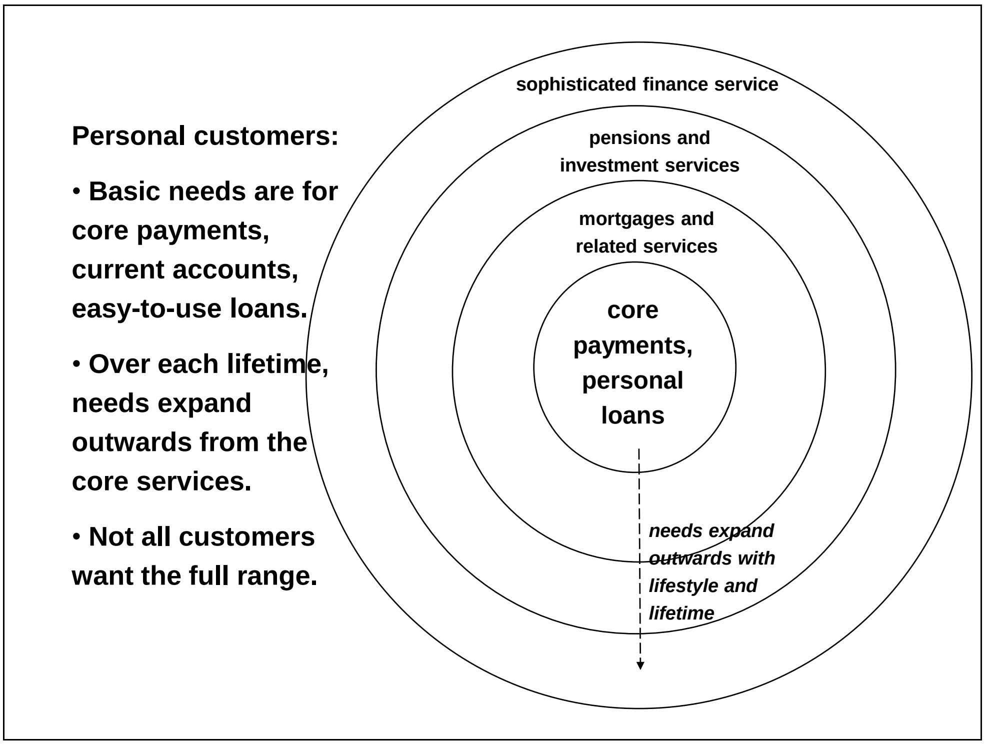


Fig 7: financial needs of personal customers

The Stability and Growth Pact placed the ensuring of the stability of the Euro beyond the powers delegated to the European Central Bank by the governments of the members of the Union. The risk it opened up was little different from the risks created by the money-printing powers granted to joint-stock banks in the late 18th century, that by the 1830s destroyed the credibility of the banking system, shattering economies through widespread bankruptcies. In the early 1840s, following the lead of the United Kingdom, jurisdictions around the world enacted Banking Acts, creating Central Banks of Issue, responsible to Government, and withdrawing from private enterprises the ability to print money, and irresponsibly create unbridled inflation and economic collapse. People seem to have forgotten that bit of history.

The Stability and Growth Pact was founded on paradox. It required that in the event of major economic catastrophe hitting one part of the Union, the independent government of that part of the Union must put the Stability of the total Union ahead of the needs of its own people. Yet the independent governments of each part of the Union were elected to put the needs of their own people first. Thus, in the event of a major asymmetric economic shock, the State government affected would be faced with a conflict of interest. It seemed clear to me that any rational State government must ignore the Stability and Growth Pact and address the needs of its own people. To aid their distressed citizens, the only mechanism they would still have once they had joined a single currency was to "print money" in the form of government debt. As has been shown, that would increase instability across the Union.

When Steve and I met again in 1996 I was taking every opportunity to bang my drum as loud as I could to warn of a potentially dangerous gap in the proposed regulation of the European single currency. I had already been for nearly seven years a lone voice. It was years yet before politicians acknowledged that discomfort in Britain and Denmark with the Euro was not necessarily isolationism, but might instead be well-founded concern for economic health.

Fifteen months before our reunion, I had accepted the offer from Sir Willie Purves, then Chairman of HSBC, that in a two-year salaried role I lead strategic change in the massive commercial bank, Midland Bank, acquired by HSBC in 1992, with systems and cultural integration proving more challenging than anticipated for what had hitherto been an international trade bank. After I moved on from that role, Steve persuaded me to write occasional contributions to *The Banker*. Our business relationship developed into family friendship.

Today, the word 'Wealthcare' gives many hits in a google search. Someone even registered a company name including the word within a few years of my inventing it and first using it publicly in my frequent industry presentations around the world. I had first deployed the word during my doctoral research between 1978 and 1981, as a way to help me think about finance, about which, then, after years of being a mere housewife, I felt soberly ignorant. I did not use the word in my PhD thesis because I had enough other matter that was then radical of which my examiners needed convincing. I used it purely to help myself think holistically and inter-disciplinarily – neither of which are even yet really fashionable. It had by then become fashionable to describe the role of medical staff not merely as healing the sick, but as promoting health. The word 'Healthcare' had been coined, and it occurred to me that 'Wealthcare' was a good word in my own context.

In 1983 a summary was published of my global research on how technology would change finance over the years to the end of the 20th century. The full research was published in1984. My forecasts seemed, to many at the time, far too radical – but they were accurate.

In the mid-80s I found it appropriate to use the word in lectures and seminars for students in the radical MBA course I launched for practicing bankers from around the world. With their diverse backgrounds, this was the first practical environment in which I was forced to set microfinance – a name not then coined, but already real experience – in the same framework as the most sophisticated financial instruments. I was already carrying out global research on how to develop effective strategy (published as '*Retail Banking Rethink'* in 1990) as my earlier work had made me concerned that there was no consistent, coherent approach practiced in the finance industry.

Yes, I am frequently using that word, radical. But there are many who think it well describes how I think about things anew and my approaches to improve the doing of things. As well as finding better ways to do things, a part of the challenge of the roles I take on has always been to show those who need to do the things in new ways that it makes real sense for them to do so, making life better for them too.

In carrying out strategy review, I took a similar approach in every organisation – but I never came in with a 'one size fits all off the peg' solution. Every client was to me different, one of a kind, and to be treated as unique, if having common features with others. I studied their own annual reports and other publications to discover what they said about themselves, and searched out what others said about them, meanwhile carrying out detailed cross-examination not just of top people, but of others around the organisation. Then, I looked in much greater and precise detail at the workings of the organisation's management, examining the general approach of every division, and assessing those responsible for their workings, both management and those in the line. At the same time, I tried to find out as much as I could about what customers they served and whom they sought, and who were the competitors who served or intended to serve that same market, with what, and how successfully. I also looked in detail at the general environments in which the organisation operated and intended to operate in the future. Then I spend dedicated thinking time, quietly analysing deeply everything I had learned about this particular matter, and formed opinions, based on all that I gathered and what I already knew and had experienced. Much more thinking was done subconsciously, when my body was resting in sleep, waking with insight. So, when a client hired me, it was as a whole professional person – not someone who came in and measured hours. I took the same approach, consciously and subconsciously, to all development and implementation roles too – professionalism to me is not the letter of a contract alone, but the spirit of it.

I have done strategic review for organisations small and large, and from time to time for the whole of the banking industry too, in so far as one person's mind can meaningfully do so.

I first carried out a fundamental review of the banking industry in the late seventies when my doctoral thesis addressed the question whether technology in banking had been worthwhile. I studied in depth ten years of data that I unearthed on three banks, attempting to see the general in the specific. During my research I was given thorough education on banking systems and operations by some of the best bankers and bank technologists in the world, within those banks and amongst their technology suppliers, a number of whom were already global companies. My thesis concluded that as a straight cost-cutting exercise, technology had been worthwhile in banking – it had enabled banks to take on the expanding retail business of the buoyant seventies.

My most radical departure in my doctoral thesis from the expectations of the banks, the technology suppliers, my PhD supervisor and indeed my external examiner, was my conclusion that technology and the expansion of business had together undermined the relationship between banks and their customers. As a consequence I warned that banking was about to lose its way. This view was severely criticised – but in the end I was awarded my doctorate. Only in the light of subsequent developments have many come to agree with me.

One niggling unexpected result of my subsequent global study of the implications of technology was the conflicting answer from banks and from technology suppliers to the question: would banking continue to be technology-led? Banks unanimously said, "yes, banking had always been technology-led and always will be". Technology suppliers unanimously said "no, banking never has been technology-led - creative bankers tell us what they want and we deliver". This meant no-one was leading.

When no-one leads, all get lost.

International finance

In late 1987 UNYSIS Europe-Africa Division, previously impressed by my study '*Retail Banking in the 1990s'*, expressed keen interest in my newly published academic text '*Retail Banking Technology'*. This explained existing and emergent information management and use in systems supporting financial service. Aware too that I was in the midst of my global study of approaches to strategy, they asked me to design a new way for them to promote their products and services to customers. They thus implemented a thorough revamp of their approach to designing and installing appropriate systems across the extremely wide range of marketplaces that existed then within advanced Western Europe, emerging East European economies, and the massive variety that existed across the African continent, from highly sophisticated and technologically advanced to primitive and disadvantaged in every sense of the word. They based this on a technology promotion philosophy I had earlier specified that focused on being relevant to potential customers, and used as study material mainly my publications and research.

To make my approaches work, I had had to think radically about finance. To make it work for UNYSIS, I had to enhance case studies I had already created for use with my postgraduate students. I had called this set '*Finance in Atlantis'*. I had from the start designed these to be transportable, and they were now applied to every conceivable environment in which UNYSIS services for finance might be applicable. An interesting by-product of this whole exercise was the realisation that I brought to the USA headquarters of this technology supplier that its fundamental systems architecture and product range needed a complete revamp if the organisation were to continue profitable in a world of internet and distributed and mobile processing.

Meanwhile, I persuaded them that the best way to achieve sales success was to prove themselves extremely helpful to their potential customers. This meant, first, understanding those customers, what they looked like, what they did, and what they really ought to be doing.

This thick slice of the globe which our work addressed reaches from the Arctic to close to the Antarctic. It exhibits an immense range of forms of financial services. Yet all these different manifestations of financial service could, surprisingly, be categorised quite readily under a few general types. I later found, in one extensive task I carried out for RACAL, and another I directed for NCR, that this held not just for this slice of the world, but for the whole globe.

A key reason for global consistency is the historic development of only a few varieties of legal structure across the world, consequent to a far greater degree on ancient international trade relationships than on any imperialism of East or West. Indeed, much of modern trading conventions are modern manifestations of the practices of the trading cultures of the early very advanced civilisations of Africa. Those vanished consequent on their own lethal inter-tribal wars of the 15^{th} – 18^{th} centuries, before any substantial European settlement on that continent. Thus, many core approaches of different types of organisation are commonplace, with their names describing commonly agreed core functionality. As with most standard human foods, it is the embellishments that give local flavour to service, not basics. It turns out that standard names are equally relevant in different environments, irrespective of the level of economic development of the market in which they operate.

In consequence of this, standard technological approaches could be adapted to the local variant of standard products, whether this be core processing and face-to-face services (as with UNYSIS) or automation and self-service (as for NCR) or physical and electronic security and surveillance (as for RACAL), or for networking and communications infrastructure (as for my later client, British Telecom).

Thus, a corporate bank is commonly a deposit taking, lending and transaction handling institution supplying working and fixed capital in fairly standard forms to businesses and government, and offering other services too, such as insurances, safe custody, discounting and appropriate securities trading. Savings banks and savings co-operatives have a widespread existence, as do Post Office Banks, the two former generally having arisen as a result of the 19th century movements to encourage personal thrift amongst the poor, and the latter being a later development sponsored by government, often to draw funds from general individuals to finance government spending. Building societies and mortgage banks are more typically of a middle-class origin, formed by groups coming together to pool funds to build homes, or by philanthropic employers encouraging home ownership amongst staff.

PAYMENTS:PROFILE OF INSTITUTION-CUSTOMER INTERACTION

	Risk entity	Investment entity	Trade bank	Corporate bank	Retail bank	Trade co-operative	Property loan bank	Consumer savings bank	Savings co-operative	Post Office Bank	Micro credit union	FX retail
Cash handing	-	-	L	L	H	L	L	M	M	H	M	H
Active book	-	-	-	-	L	-	L	M	M	M	M	-
Inactive book	-	-	-	-	L	M	M	M	M	M	L	-
cheques/giros - Personal	-	-	L	-	H	-	L	L	L	M	L	L
- Business	-	-	L	M	H	M	L	-	-	L	L	L
- Counter	-	L	L	M	L	L	M	L	L	L	L	-
Electronic in	H	H	M	M	H	M	H	M	L	L	-	H
Electronic out	M	M	M	M	H	M	L	H	M	L	-	H
Bearer bonds	L	M	M	L	L	-	-	-	-	-	-	-

END-USER BORROWS: INSTITUTION'S INTERACTION WITH ITS BORROWER

	Risk industry	Investment bank	Trade bank	Corporate bank	Retail bank	Trade co-operative	Property loan bank	Consumer savings bank	Savings co-operative	Post Office Bank	Micro credit union	FX wholesale
Prospecting	-	L	H	H	H	L	M	L	-	-	M	M
Assessing risk	H	M	H	H	H	L	L	L	L	-	M	M
Loan decision	-	L	H	H	H	M	L	L	L	-	L	M
Funding loan	-	H	M	H	H	M	H	L	H	-	H	L
Monitoring	H	M	H	H	H	M	L	L	M	-	L	L
Receiving repayments	-	M	M	H	H	M	H	L	H	M	H	L
Hold equity	H	M	L	L	-	-	-	-	-	-	-	-
Carrying risk	H	L	M	M	M	M	M	L	L	-	M	H
Recovery	-	M	M	H	H	M	H	H	M	-	H	L
Create risk instruments	H	M	L	L	L	-	-	-	-	-	-	H

END-USER DEPOSITS TO SAVE: INSTITUTION'S FUNDS SERVICE

	Risk industry	Investment bank	Trade bank	Corporate bank	Retail bank	Trade co-operative	Property loan bank	Consumer savings bank	Savings co-operative	Post Office Bank	Micro credit union	FX wholesale
Prospecting	L	L	L	M	H	H	H	H	H	H	H	M
Safe-keeping	-	-	L	L	L	L	L	M	M	M	L	L
Fixed rate	-	-	M	M	H	M	M	H	H	H	H	L
Profit share	M	M	L	L	L	-	-	-	-	-	-	-
Stock market	H	H	-	L	L	-	-	-	-	-	-	-
Bonds etc	H	H	L	M	L	-	M	-	-	M	-	H
Insuring	H	M	M	L	-	-	-	-	-	-	-	H
Creating instruments	H	H	M	L	L	L	L	L	L	L	-	H

INVOLVEMENT OF DIFFERENT KINDS OF BANK-RELATED INSTITUTION IN FINANCIAL SERVICES

H – high, M – medium, L – low, volumes, not values, and in relation to other activities WITHIN each organisation only, not across organisations.   In other words, electronic transfers form the highest proportion of payments transaction activity by numbers both in and out for risk managing institutions, but the numbers of such payments (as opposed to value) is significantly less than the electronic payments activity for retail banks.

Note 1: book = customer's bankbook or passbook
Note 2: the customers of the risk and investment entities can be other institutions.)
Note 3: an institution's customer may be an intermediary, not the end-user

Once ordinary people have savings, they become concerned about loss of property, and also about ensuring dignity in old age and after death. This gives rise to a universal demand for ways to set money aside, not just for the acquisition of future goods, but to be deployed in times of adversity. The uncertainty of incidence of adversity creates the desire to share the burdens of grief and loss. Thus emerged insurance and life assurance, offering a way for the mass market to manage its risks. Methods used by these new risk houses for the mass market were readily modelled on practices that had previously evolved over millennia for the insurance and reinsurance of trade and commercial ventures – themselves the outcome of merchants coming together to pool risk.

One major consequence of this fundamental structure is that, despite apparent massive differences in form and size, all organisations in the finance industry worldwide have the same core, and do many of the same kinds of things, as my table '*Involvement of different kinds of bank-related institution in financial services'* illustrates. This table is, of course, a simplification, and a single organisation commonly embraces several of the finance types that I have listed. However, organisation structure and management usually reflects my general types, except in those e-world giants now taking leading roles in retail payments.

Each of these different branches of finance has evolved its own professionalism and a great body of knowledge and experience, and created its own mystique. Over the last thirty years, with computerisation advancing, those who had hidden behind mystique alone, without fully understanding the nature of the professionalism that underpinned their branch of finance, have found their position challenged and indeed in certain cases seriously undermined.

Even actuaries, most mysterious of commercial mathematicians, have found their roles under siege. Too many organisations in the insurance sector became too reliant on investment performance rather than risk management. Costs were increasingly challenged by the combined forces of automation and deregulation. But equity markets were rising fast. Organisations, encouraged by their advisors or suppliers, were seduced by that El Dorado, but thus developed serious mismatches between fund asset and liability maturities. The crunch came with the post-millennium market crash and the disclosures of corporate deceit in Enron and too many others.

As I predicted in the 1990s, today not all actuaries are able to base their personal careers on their profession's original role of risk management, for risk management itself has developed a new breed of professionals, many of whom operate in the modern financial derivatives markets.

At University, my mathematical bent was focused and trained, and thereafter in early career I became trained and experienced in the use of statistics and certain actuarial tools. I know from personal observation, however, that even the finance director on a bank's assets and liabilities committee might well feel daunted by unusual compound interest uses (which is part of Banking training) never mind feel comfortable with complex derivatives. Thus, the sharp brains who create derivatives instruments generate awe by the mystery of their alchemy. I have not myself come across any text that unravels the mystery, although many a text exists giving examples of how to calculate the value of the simplest derivative forms.

Thus I give basic explanation here.

Fundamentally, any derivative is exactly that – it is derived. It comes out of something else, in the same way that hydrogen and oxygen can be made to come out of water, or hydrocarbons come out of combining hydrogen, carbon and the occasional other ingredient, or electricity power is created by causing a difference in the charges at two sites.

Derivatives have existed for centuries, even if they were never given that name. The oldest ones are so common that no-one calls them derivatives. The derivative form that is easiest to visualise is coupon cutting.

A set of coupons is a right to a stream of value. Before computerisation, every shareholder was issued with a strip of vouchers, each detailing his shareholding and a specific date on which he could collect a dividend granted to those shares. He presented one of these vouchers at every dividend date in return for his dividend payment. These strips looked not very different from the printed series of vouchers, each with date and value, handed out by newspaper publishers to encourage potential new readers to try their publication.

We might give an individual newspaper voucher to a friend, saving him a few pence on a paper. Equally, the owner of a strip of dividend vouchers could – and many did – cut up the strip and sell each one for what it was deemed to be worth. Each individual voucher had a value and could be sold individually for a price determined by the expected dividend on the payment date reduced by the discount rate until the payment date, less a consideration for the buyer taking on the risk that the dividend might be less than expected. Once certain numbers and probabilities are known – the expected dividend payment, the time of payment, the appropriate discount rate, and the risk factor – the calculation of price is quite straightforward. It is getting the numbers and probabilities that is the skill in buying and selling these very simple derivatives.

Though I have never read so in any text, I have come to the view that all financial derivatives are made out of three basic types of element:

1. Component of streams of certain and/or uncertain values
2. Combinations of streams of certain and/or uncertain values
3. Differences between streams of certain and/or uncertain values

The true value of each of these basic elements is subject to a margin of uncertainty. Indeed, there might not be an indisputable value, and the judgement of an experienced professional might have to come into play in assessing what it might be. This arises from the uncertainty in future streams of value and the uncertainty of future discount rates, particularly so in volatile markets. An uncertain value may be dependent on uncertain events, and in complex derivative instruments, usually is. Taking account of all these uncertainties requires information, knowledge, skill with probabilities and statistics calculations, alongside the appropriate use of compound or other relevant discount calculations, a good "feel" for the way the market is moving and experience.

All types of element of derivatives incur cost – the cost of the intellectual effort and information gathering to create the instrument and the cost of the management of the financial movements incurred in transacting the instrument. The experienced derivatives creator (like the life assurance actuary calculating the cost of a complex annuity or the mediaeval alchemist producing effective herbal and mineral based medicine) knows from practice and experience the right combinations of kinds of element to address the needs of his client. The experienced derivatives trader, on the other hand, is more like the pharmacist, applying the right formula to ready-prepared mixtures. All these taken together make up the professionalism of those in derivatives business.

Both creator and trader might make very serious errors in their calculations that go undetected until too late. This is the cause of many an unexpected loss in financial services trading. It is cause for reflection that chief executives of organisations heavily involved in derivatives trading by no means all understand how they work, let alone how to design them, and that boards of such organisations are often also thin on such skills.

Most derivatives are created because people want to off-load the full negative impact of some risk to which they are exposed, which might be life, health, business, trading, or currency risk. Risk handed off never disappears; it only moves. Moving the impact of risk leaves the impact of that risk in the system unchanged, and only sometimes moves the actual risk. For example, taking fire insurance on a home does not change the risk of fire; it only changes the financial impact of a fire to the insured person. However, because handing-off the financial impact of risk makes people think less about the risk itself, people tend to behave more recklessly once they have covered their financial downside risk.

Each type of element of derivatives itself adds some risk to the total risk in the system, since their valuation is based on assessments of inherently uncertain discount rates if not of uncertain future values and the potential incidence of uncertain events. The last of the three elements – differences between streams of certain and/or uncertain values – contributes the most unpredictable extra risk to the total risk in the system, because it is subject to the margin of error from both basic streams of value whose difference has been assessed.

The most complex derivatives are created out of differences of streams of the uncertain future values of existing derivatives, and so compound the overall unpredictability of extra risk added. When a whole marketplace buys into the same mix of derivatives to hand-off the financial impact of potential risk, the total risk within the system is significantly escalated. I first wrote about this inherent risk aggravation in my book '*Tomorrow's Success*' published at the end of 1992, having observed the massive failure of Lloyds underwriting in the late 1980s, due to risk being passed round in oft-repeated circles and multiplying as it moved. So I was personally not very surprised – though disappointed – when the crunch came in the strategy failure of Long Term Capital Management in 1998. That fall was the result of such excessive build-up of new risk actually coming home to roost in a manner that shook the finance industry to its foundations. The early 21st century split-capital investment experience in the United Kingdom made me lack confidence that the finance industry had then taken on board, if it has yet learned, the lessons of the easy capacity of risk to multiply with disastrous effect.

Pillars of Society

All in business know that if an organisation loses its way, failure is virtually inevitable. If an industry loses its way, it is wide open to new competition for its core marketplace. Many organisations in the banking industry, several decades since, went in directions that many leaders now agree caused the run of bad debts and the unbalanced cost/income structures that led to the Credit Crunch. Banks lost their way. New competition has come in fast and furious, first like birds picking cherries, increasingly like vultures picking over a carcass.

In the mid-eighties, I set out to find "is there a way, and what is it?" This transcends culture. Christianity and Zen both seek the Way. Philosophers agree that to find the Way, you must first understand yourself and what you are. Even management consultants find it useful to take a similar view. Steven Covey in '*The Seven Habits of Highly Effective People'*, suggests that management is getting people to climb a ladder; leadership is positioning the ladder for the right Way. He asserts that those who know how to do things will always find employment - but those who understand *why* will always lead – but I suggest this only holds provided that people are prepared to follow.

I was well through my research on whether banks were losing their way (ultimately published in 1990) when I first spoke publicly of Wealthcare as a useful concept in strategy. I was addressing an industry forum in Dublin in January 1988, as the culmination of my keynote speech on industry strategy in the UNISYS Financial Services Conference, '*The Winds of Change'*. I spoke of the way in which medical services had reinvented their profession, and pointed out that they thought of themselves as Healthcare specialists. Similarly, those in the finance industry were focused on the care of the wealth of their customers.

To know the right Way for success in business, the first thing is to determine "what does the business aspire to be?" In other words, understand "what *is* the business?" Then you can answer questions about what to *do* to achieve what the business wants to be, and how to do these things. For banking success, we first need to answer the question "what is a bank?"

This answer is not easy to find. Every regulator in the world defines "banks" not by what they are, but by things they do. So, by choosing not to do certain things, from the customer perspective you can seem to be a bank, without being regulated as a bank. This has not gone unnoticed by new competition. But "seeming" is not "being". Those who "seem" can displace those of us who should be the real thing. But when customers find out, we are gone.

Since regulation gave unclear definition, in my research around the world, over six years, I asked over 160 banks and finance suppliers, and many hundreds of people, if they could tell me "What is a bank?"   I went back in history, and found some very old financial services institutions.

- *The Treasury of the Athenians at Delphi.* The Athenians deposited their wealth in the Treasury; the priests accounted for the wealth, and the Athenians could use the wealth to underwrite trade. Deposit taking, accounting, commercial financing - Athens became rich through the relationship with its bank.
- *The Rialto Bridge in Venice.* The merchants placed treasures in the piers of the bridge. They accounted for all the treasures, they underwrote trade, and they insured vessels in transit. Deposit taking, accounting, commercial financing and risk management – Venice became rich through its relationship with this bank.

However, this was not telling enough - it still focused on functions - deposit taking, accounting and value transference, financing and risk management. But still only functions - things banks <u>*do*</u>. I had to continue asking to reach a deeper answer to what a bank <u>*is*</u>.

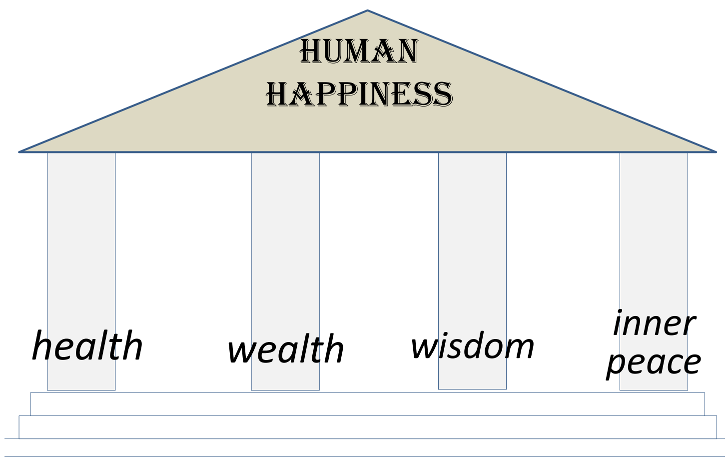
It came from a humble woman, Nancy Taylor, in my home village in Scotland. To my question, "what is a bank?" she replied, "I don't know what a bank is, but I can tell you what a banker is". Nancy paused with confidence. "A banker is an important person" she explained.

Nancy explained further. She said "in the old days, there were four important people in the village - the doctor, the banker, the teacher and the priest. These looked after all the affairs of the community. They guided, and if necessary they corrected, the actions of the community. They were the pillars of the community."

The Pillars of the Community:
the doctor, the banker, the teacher and the priest.

Reflecting on this, I came to a realisation that her four Pillars of the Community represented something much more perennial, much deeper and more far-reaching, that spanned time, place and philosophy. The four Pillars of the Community relate directly to

The Four Pillars of Human Happiness:
Health, Wealth, Wisdom and Inner Peace.



The Pillars of Human Happiness

Fig 8

Anyone whose role is to support one of the four pillars of human happiness and who succeeds in fulfilling that role is indeed a very important person. (That is quite different from becoming a financially rich person! But one reaction of society can be to increase the successful person's financial reward, and not just grant honour. On the other hand, it is not uncommon amongst those who feel they have fulfilled their role to *demand* more financial reward.) Any industry that succeeds in fulfilling its true role deserves reward from society in appropriate form and value. The single word Wealthcare embodies the role of the Finance Industry. It gives a different way to manage finance.

This is not just a high minded philosophy. It came from an ordinary woman who is very down to earth and it has very down-to-earth practical implications for the everyday management of financial institutions. It focuses attention on what bankers knew all along, but never understood - that banking is a people business. People business means emotions. That means understanding, caring and trust. Recognition that emotion is at the core of banking is the key. It turns things on their head. It causes you to inter-relate the roles of all staff from the Chairman right down to the junior clerk in a branch. It affects how you design bank systems. It shows how the total range of banking products fit together - from simple transactions for retail customers, life and general insurance, right through to structured finance, risk management, money markets and derivatives and securities business.

It makes possible too what accountants in the early 1990s came to call Yield Management - getting the best returns by applying resources in the most responsive ways. It shows how to master this art. Yield Management (see Figs 9 to 12) requires understanding how parts of the business create revenues and costs, allowing leaders to make clearer decisions about where they need to cut costs in order to make profits out of a greater proportion of the different parts of their marketplace, and to demonstrate why it is sometimes a serious mistake to withdraw from a market that has become loss making when served in traditional ways.

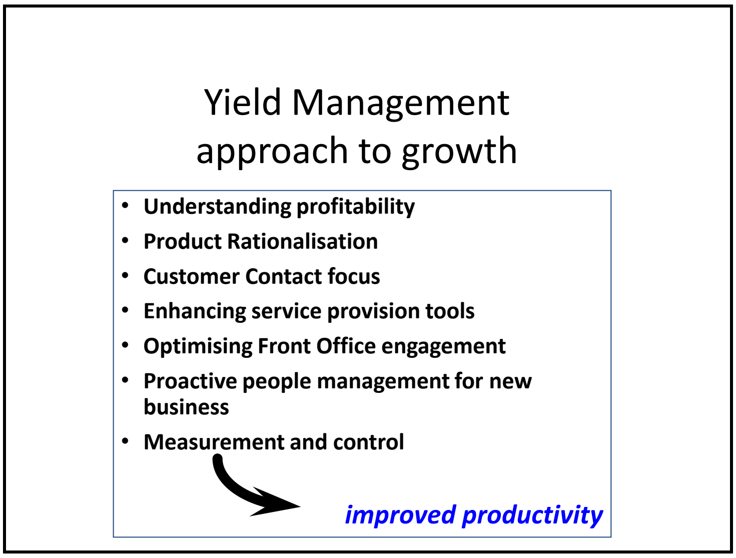


Fig 9: the inputs for Yield management

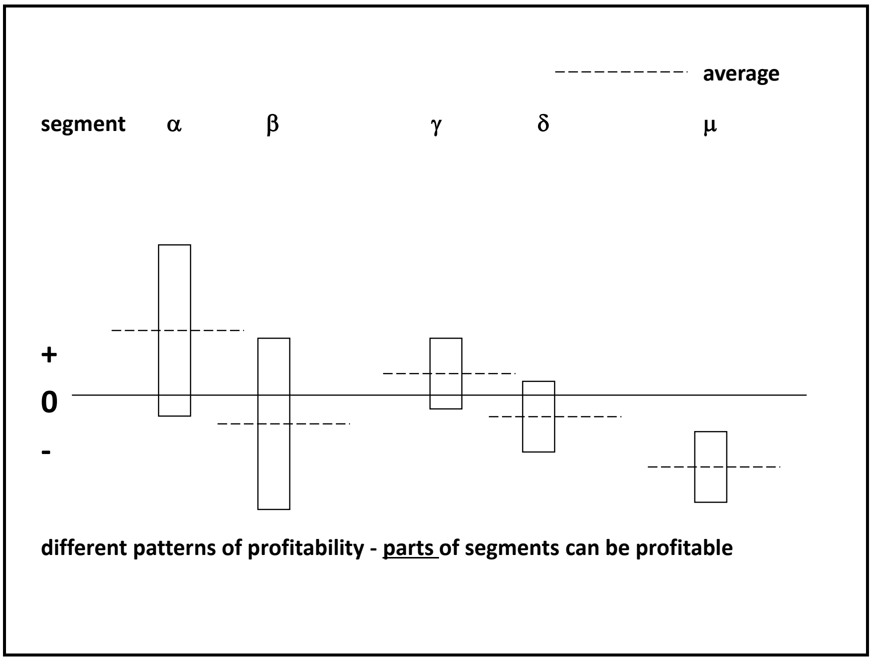


Fig 10: possible starter profitability range pattern of different market segments

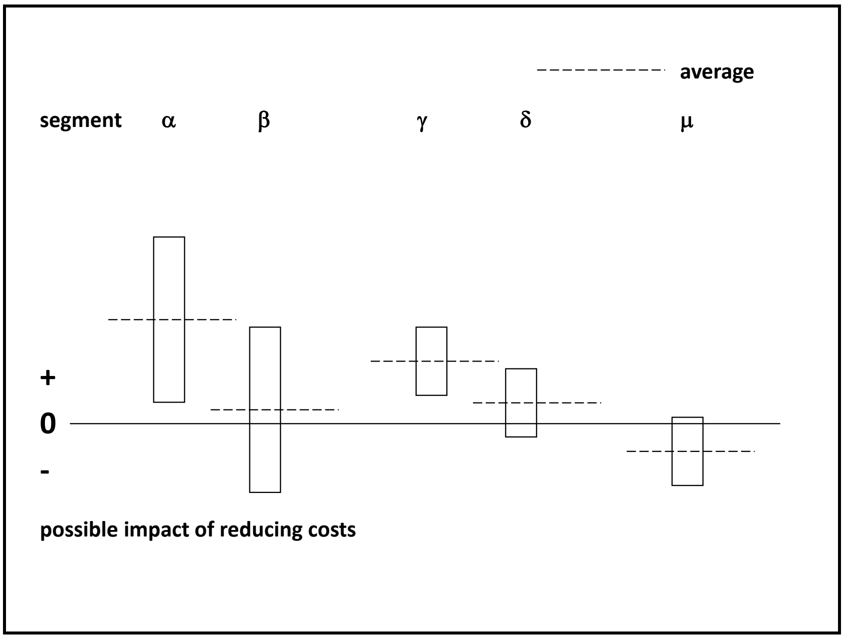


Fig 11: Reduce costs and potentially a greater range of every segment becomes profitable

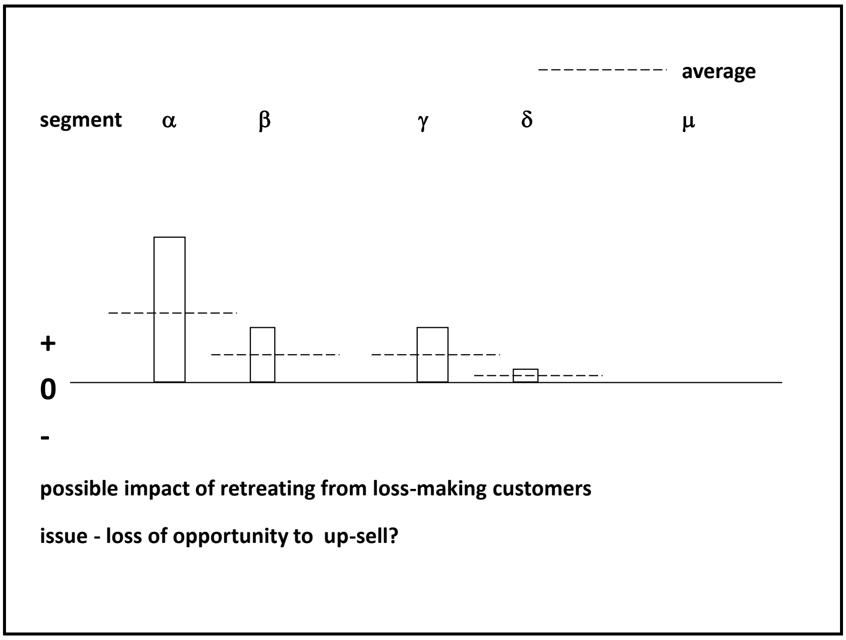


Fig 12: Retreating from loss-making parts of segments can achieve initial benefit, but there can be market reaction which causes good customers to leave, or it can also change the cost structure for retained customers, by removing what revenue contribution there had been from the loss-makers. The 1960s Beeching Effect, in the curtailing of branch lines in the old British railway system, is a relevant example – branch lines had brought marginal business that had made the difference to much of the whole system's operational viability.

The whole range of activities and relationships in finance makes up an immense pile of jigsaw pieces. In the old way of looking at banking, many of these jigsaw pieces looked as if they came from different pictures. Understanding the implications of Wealthcare changes the way the bank looks at the pile of jigsaw pieces, and one single picture forms with a clarity that informs the overall strategy of the organisation. After developing the Wealthcare concept, I demonstrated in 1989 that it does produce sustainable bank performance through a focused consistent strategy of businesslike economic and community involvement.

In the Bank of Scotland between 1990 and 1992, with a Wealthcare approach, we improved service while at the same time cutting costs and making staff happier. I proposed for that bank a new way of serving the small and medium business marketplace. Instead of driving branches to sell loans, we helped our bankers understand in down-to-earth hands-on terms, the businesses they banked. Growth followed. For half a dozen or so years afterwards, until they were taken over to form part of HBOS, they continued with this approach. Public trust in Bank of Scotland, and the Bank's profit performance, were consistently excellent. But as history shows, even the best can lose the way.

Lending to small business had been time consuming and suffered more bad debts than the bank wished to accept. Yet the bank was criticised as being unwilling to support new enterprise. My analysis showed that across the network there was a great range both of credit experience and of knowledge of business. Even within any person there was very uneven knowledge of different kinds of business. My proposed solution was to create a standard "knowledge base" covering nearly a hundred different kinds of business, through which each banker could relate to his customer's business needs – as well as being able to reach a more experienced internal colleague for timely advice. The outcome was a significant reduction in the amount of time branch managers took to reach decisions about lending. At the same time, they made better decisions, resulting in lower bad debt ratios. None of this was computerised! By showing business that they understood their needs and cared about their challenges, they improved the number of ancillary services taken up by business customers. Customers saw an improvement in the bank's willingness to support enterprise.

The impact on the bottom line was made up of

<u>cost savings, by</u>

- releasing branch manager time previously used for assessing business loans,
- reductions in bad debts and recovery costs

<u>revenue increases from</u>

- additional product sales to businesses
- new business through improved customer satisfaction leading to referrals.

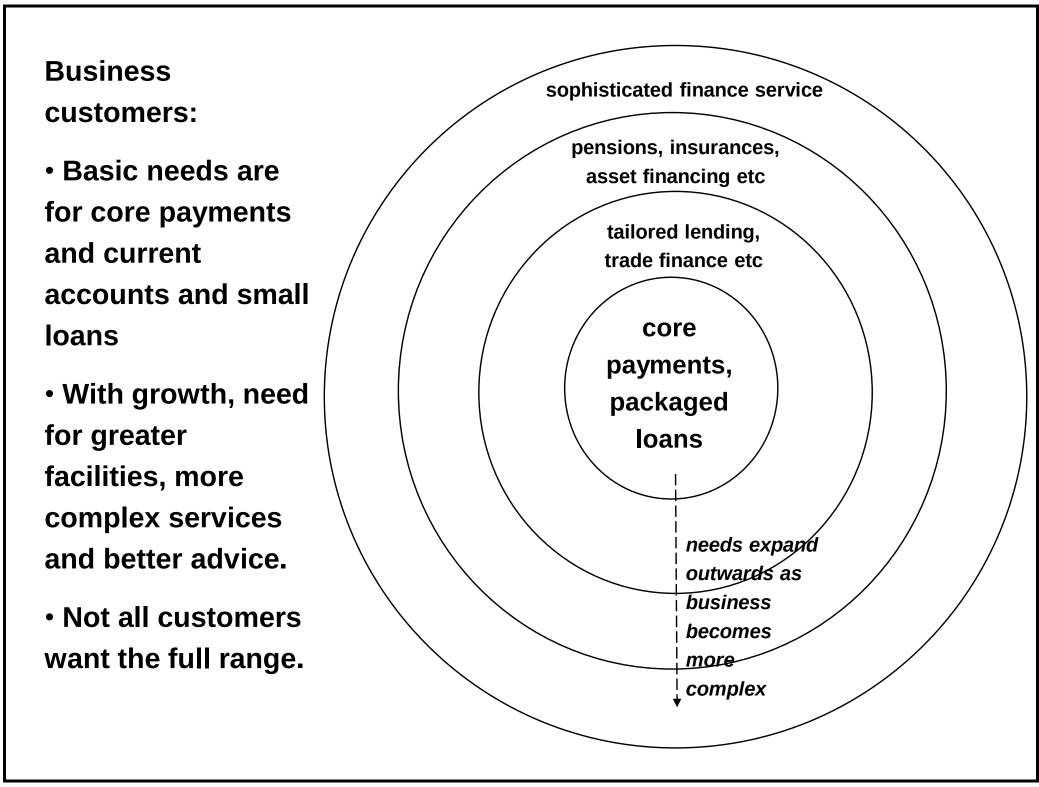


Fig 13: needs of business customers

Out of this experience I developed a very different way of looking at the financial needs of businesses, which I presented at an industry conference in Paris in 1991, where I was the first to draw attention also to the special form of business which I called 'owner-managed enterprise', now generally referred to as OME. I present this in the diagram in Fig 13, along with an alternative way of segmenting the marketplace (Fig 14). I applied this thinking along with my alternative way of looking at consumer needs to HSBC's Midland Bank where I redesigned the total marketing approach to integrate a large number of apparently disparate marketing departments across different divisions. Much of my approach was, after my time there, exported to the rest of HSBC.

Throughout the early 1990s, in private seminars with my clients, I teased the word Wealthcare out of each audience, so that some persons came to believe that they themselves discovered it. What those clients did do was follow my suggestions and leads to make the concept practical and useful in their own everyday work.

I thought this way whether I was leading strategy in one of the world's greatest financial institutions or advising global technology or services suppliers, or designing and implementing appropriate financial service provision in a developing country or emerging market. The uplift in performance and customer satisfaction of my clients in those years demonstrates that my approach is a productive way of thinking that adds tangible value to whatever organisation invites my input.

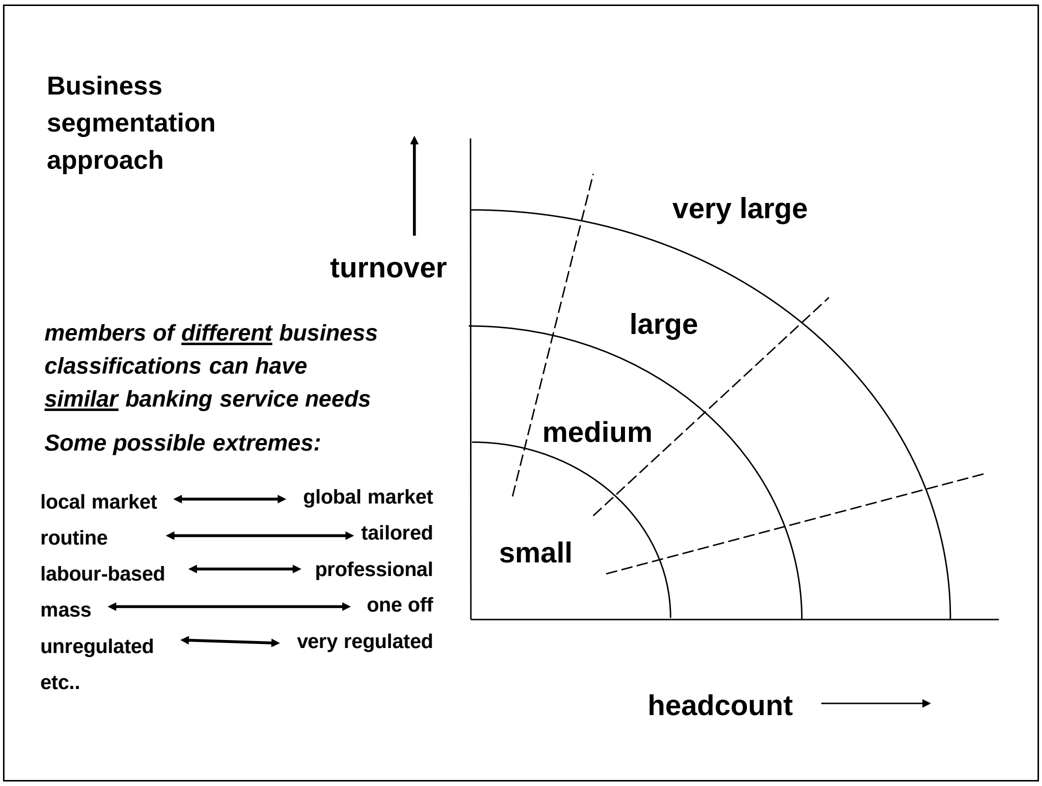


Fig 14: a new way of segmenting the business market

In 1993, having been invited by the chief executive of National Australia Group's Clydesdale Bank, the late Charles Love, to join his Executive Committee I found that the bank he had inherited was making nearly thirty products, many of which competed with each other. With Wealthcare, Charles Love and I focused staff on understanding customers, and through this they became much more effective.

In HSBC's Midland Bank from 1995 onwards, we improved technology support, installed sales management and fully restructured the marketing function. Alongside this, based on Wealthcare thinking, we gave new meaning to the HSBC focus on 'Community Banking', a term in that organisation meaning to contribute to the well-being of the community in which the organisation finds its business.

While I was developing Wealthcare, it had become standard for chief executives to regard their businesses as a conglomeration of associated de-humanised profit centres, with operations goaded constantly to produce maximum and increasing short-term profits. So it was certainly unusual for any organisation to recognise the inter-relationship of each part of its business in a *living* whole of human beings, with a symbiotic relationship, through a deep emotional tie, with the economies in which it operated. Professionally managed, this way of thinking also produces profits, but the flow is different; it starts a bit later; but the aggregated money value, on the basis of real evidence, is significantly greater over the long term, and the human success is immeasurable.

Organisations have a strategic choice between a Wealthcare focus and short-term mechanistic thinking. To stand against market demands for hard-driven short-term results requires strength of character, dedication and leadership. The President of the organisation must himself be Sponsor. It needs more than words - leadership must be by action and involvement; the aim must be tangibly embraced by the organisation.

It is far easier in the short-term to bring in the hatchet men and slash organisation costs than it is to build an organisation based on Wealthcare thinking. There are a lot of advantages in doing so. Cost cutting can make a very quick impression on the bottom line – it can appear by the next annual report, and earns share options sooner.

There are standard approaches used by those consulting houses which specialise in downsizing. When process changes are introduced, old procedures, designed to ensure integrity under the old process, tend to linger after they are needed. These can be identified and cut out, saving back-office time. In banks, lending decisions can be speeded up and any deterioration of lending quality probably won't show for a number of years. Older staff can be persuaded to retire, and cheaper staff can take their place. One manager can control two or more local offices, and thus numbers in management reduced. All thin out experience.

In many organisations, the status of a senior manager is demonstrated by the number of staff reporting to him and the budget he manages. This is entrenched in job evaluation approaches. Reduce the size of a man's office, and he fears that people will respect him less. Managers have a natural reluctance to remove half of their own staff or to reduce their own budget, not through concern about humanity (which can play a part) but through fear that their status is being undermined. Instinct dictates opposition.

In some organisations, some of the indications of status are themselves very costly - as witnessed by the furore over the EBRD building under the leadership of Jacques Attali. Large office, lunches in the private dining rooms, car and chauffeur, two secretaries, personal assistant, all add up to serious chunks of budget - and it can be difficult to show how they bring in increased revenues. Some executives can ritually spend time transforming reports of excellent support staff into their own words. In excess, this creates a bottleneck, as the work of several subordinates is reprocessed before the matter is raised higher to a level prepared to make decisions. This kind of abuse enables downsizing specialists to slice out whole middle layers of management. With them go personal assistants, secretaries and expensive privileges. This opportunity for fast cost cutting is most visible in large organisations. But those who commission such cutting can later regret if their knife cuts flesh as well as fat.

Much fast cost cutting is based simply on the reality that human beings are by nature not one hundred per cent efficient and so there is always room for some speeding up of operations, not all of which can be sustained. Go too far and stress sets in. A cost cutting plan without a plan for revenues that delivers merely keeps the organisation alive to endure another cost cutting exercise in the next cycle.

Service quality takes a nose-dive during downsizing. The primary cause is a drop in morale from fear of redundancy. A secondary cause is that genuine skill gaps are created and existing skill gaps magnified. If demoralised remaining staff are not actively prepared to face disruption caused by unusually large temporary skill gaps, service quality reduction is seriously amplified.

There are many forces pulling management and staff away from clear focus on making a fair living through serving customers' needs. These need to be balanced and managed. The organisation that best integrates the needs for profit with the emotions and feeling of the staff who are responsible for meeting customers' needs, has the greatest likelihood of earning staff loyalty, and thus surviving through stress and difficult times earning long-term success. In contrast to such management models as the Service Profit Chain and the Balanced Scorecard, I expressed this in my Virtuous Circle of staff-organisation mutual interest.

On the revenue side, even fast improvement will not appear on the bottom line until the second annual report after the process of change starts (though with proper management information the right trends can be tracked internally from very early on). Most "change programmes" that I have been shown on first talking with an organisation did not include a coherent action plan for developing revenues. Of course the strategic plan has statements about "*increase sales of this and that*" but on inspection I've found too many such "strategies" are not backed up by any means to achieve them.

Finding profitable sustainable new revenue streams is difficult, particularly in a saturated market where all those who can be served profitably by traditional approaches already have virtually all that they need. Too high a proportion of "revenue action plans" can be restated "*cut price*". While price cutting can seldom be avoided, it is never a winning long-term strategy for any organisation which starts with large market share without squeezing its suppliers or staff and risking their desertion. Price undercutting as a strategy works only for small organisations which can grow by eating into the markets of larger competitors.

Only an organisation that gives customers true lasting value profitably can survive for the long term.

I invented Wealthcare to address my own objective of linking up the widely disparate forms in which financial services are offered around the world, with a massive range of transaction value and the immense differences in economic environment. I found it has much more down to earth usefulness as its global presence in google searches demonstrates.

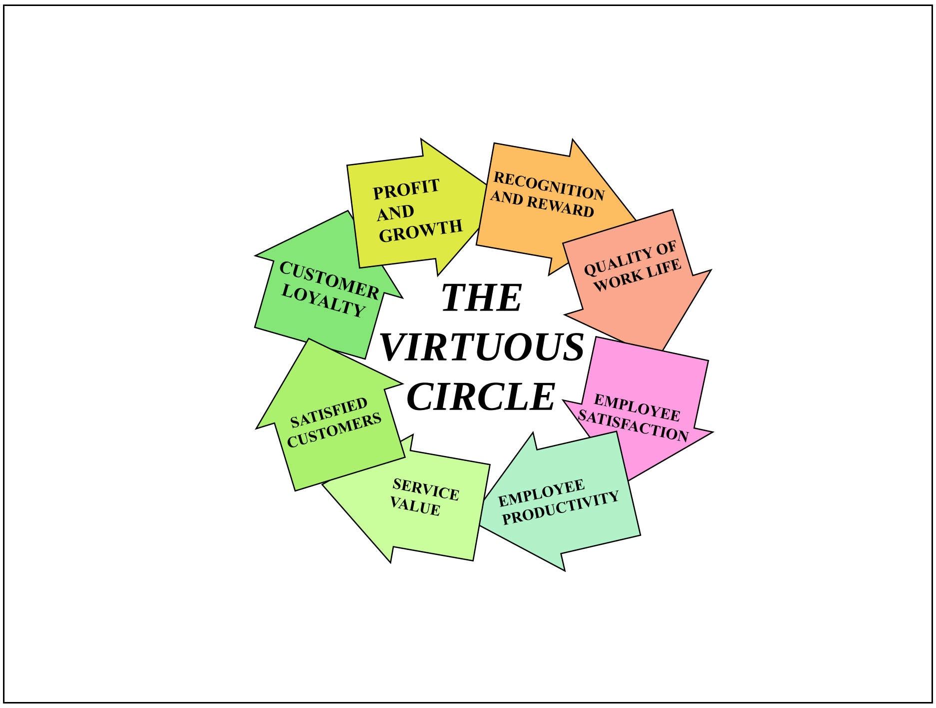


Fig 15: The virtuous circle

Wealthcare

Financial service users are human beings - individuals or groups. They are NOT accounts. They are NOT loans. They are NOT investment portfolios. They are NOT risks. They are NOT profits. They can generate these. But these are not what they ARE.

Relationships with users are NOT a set of products used. They are NOT a series of transactions. Nor are they the interactions at meetings. Financial services relationships are between the financial institution and human beings. The financial institution, in this relationship, is an organism - a living entity, composed of its people, what it does and how it does it. The relationship is a human relationship.

The best human relationships only happen when there is trust. Trust comes from understanding, genuine interest, and caring. The best relationships between financial institutions and their users are based on these same human values and experiences. When this human trust is established, the user becomes a loyal core customer.

For everyone, there are multitudes with whom we have no relationship. There are many with whom we have a relationship - but it is superficial. Only with certain people do we have a closer relationship, in which there is personal concern. The same holds for our human financial institutions. We may have many users - only some of them will be loyal customers.

Excellent long term performance comes only if we have loyal users of our services. Loyalty comes only from core customers. So we must turn users into loyal core customers. We can do this if the services we offer, and the manner in which they are offered, show that we genuinely care about the goals and concerns of the user.

Our users are concerned about their wealth. They choose individual services to meet particular concerns. If a person, or a company, takes a service from us, he is our user. If we wish that user to be a loyal core customer, we must show, through the way we provide our particular service, that we are playing our part in caring for his wealth.

The user - whether an individual, family, company or nation - is concerned how wealth is used now, how it will grow, how it can be used effectively, and how it can be protected and developed in the longer term. Meeting each of these needs has been the role of the best financial services providers since the dawn of civilisation. That role is WEALTHCARE.

Earning and Spending

In the few years before the writing of this booklet in 2005, the twin tragedies of the World Trade Centre on September 11th 2001 and the Asian Tsunami on 26th December 2004 demonstrated in extremely different yet interconnected manner the fragility of the modern one-world economy. The tragedy of the deaths of many in New York is well known. Much less in the public eye is that the attack on the World Trade Centre was an attack on the pumping heart of international financial dealing, that put the whole global economy into intensive care for the space of several days. That default on trades interrupted by the attack was minimal, and that trust in the mechanisms of international trading did not falter, is testament to the professionalism, skill and ingenuity of the world's leading regulators and financiers of the day. Trans-national financial co-operation rolled into action in a spontaneous and unprecedented form to avert an even greater human economic disaster than that already experienced in New York.

The tragedy of the deaths and the devastation in the Asian Tsunami are also well recognised, as attested by the response of nations and individuals in funds to enable help. But the nature of how that help can actually cause the rebuilding of the ordinary social and business life of villages, towns and cities, once the initial crises of food and medical care begin to be addressed, is still beyond common understanding. The United Nations compared the tragedy with the aftermath of war.

I put together this book at a time of heightened one-world awareness, when people's minds were unusually open to thinking in new ways, in the hope that it help to improve the one world in which we all live. We are again in such a time of heightened awareness, but the world more seems at risk of tearing itself apart in anger, each seeking retribution from the other, none knowing clearly where truly lies 'blame', but too many believing they know.

I know from my own background, born in poverty in 1951 in the midst of the bombsite that was still, a decade on, the devastated town of Clydebank in the west of Scotland, that there are some individuals whose trauma never heals, even after many generations have passed. But it is too easy to seek someone to blame, and demand redress for past pain. But there is much about the past of others whom those who feel their own ancestors' pain have never learned. Clydebank itself has never healed. Eighty years on it is at the centre of that part of Scotland that today registers, on a European scale, highest in disadvantage, unemployment and substance abuse. Such locations form the underbelly of that UK white population that is called privileged by those who don't understand because they never knew. Few people have heard of the Clydebank Blitz during World War II. Indeed, there is a common myth that the Luftwaffe could not reach the Scottish west coast. That myth was put about by Churchill's necessary propaganda, to maintain the fight against Nazi evil. Consequent on the myth, there was no rebuilding of Clydebank – only further destruction – and no economic aid, only criticism for industry failure because of so-called local unproductive labour. No Marshall Plan assisted Britain – but instead contribution was exacted to reparative rebuilding for war damage elsewhere.

The destruction of Clydebank happened mainly in two nights, 13th and 14th March, 1941. Clydebank was the greatest shipbuilding centre in the world. Though the shipyards were brought back into production of sorts after the bombing, that town of 50,000 people was virtually obliterated. The San Francisco earthquake of 1906 had not been a greater disaster. German Luftwaffe records show that on this town incendiary and high explosive bombs fell more densely than on any part of Britain. All London, throughout that terrible war, received only about four times as many bombs as fell on those two nights. The official death toll was a mere few hundred – but, unlike New York, that toll did not count those whose bodies were completely obliterated.

The danger continued for decades, into my own childhood. There were over a hundred unexploded bombs north of the Clyde after the Blitz. They took years to clear. I remember one particularly terrifying day, when I was about six. We were all evacuated from St

Stephen's school which I attended. A particularly unstable bomb had been found on the railway line immediately next to my classroom. Bombs are still found today. Moreover, we as children grew up amongst a constant polluted dust including such as asbestos. The West of Scotland now experiences a high level of cancer.

Far from seeking revenge, or claiming reparation for war damages, Red Clydeside became the epicentre for Ban the Bomb marches during the Cold War. My uncle John McCann, sometime soldier, a riveter retrained as a welder, an active Shop Steward in the yards in which he worked, was one of those marchers. The Campaign for Nuclear Disarmament formed in 1946 as the dust settled from the bombs of Hiroshima and Nagasaki, and grew as the first chill of the Cold War was felt in the terrible freezing winters of the next few years. Fifteen miles west of Clydebank, on the shores of the Gareloch was founded the Faslane Peace Camp - dismissed as hippies when the nuclear submarines first came to the Clyde. Today, their camp is still there, permanently beside the road, castigated by the Tourist Board for distracting from the beauty of the mountains. I am of a generation aware of being born under a Sword of Damocles.

On more than one occasion I watched my uncle, who had pinned a tin CND badge on my lapel, tie up his boots, shoulder his backpack, and head off to hitch the south-bound road, to join many thousands of others, for the Aldermaston March. Even as I watched him I was ambivalent; my mother had schooled me in admiration for Marie Curie. I knew that the very power that threatened us so much was also the power that gave us health-supporting X-rays and could quell rebellious cancer cells.

In my early teens, this uncle insisted on providing me every week with the colour supplement of The Sunday Times when it first came out and its content challenging. He was keen that I should study and improve myself. A private man, I really knew him only as someone who did lovely drawings, wrote political verses, marched, aggressively rode a motorbike, raced greyhounds and never married. In 1985 I was astounded when busloads of workers came to his funeral.

It was only then that my mother – and so myself – discovered that he had played another, much more immediate role, in the affairs of the ordinary people of Clydeside. Those busloads came to his funeral out of admiration of a man who had quietly inspired them, but also a man who had, unobtrusively, and non-demandingly, acted as interest-free lender of last resort for hundreds of co-workers, reliable whenever any one of them could find nowhere else that little help to get through some family crisis. He kept no written records. But the borrowers kept the record in their heads, and the accumulated capital of this little microfinance activity was gathered together on his sudden death, and presented humbly to my mother. As the most senior of the workers approached with a bundle of money clearly visible in his hand, I watched my mother retreat, horrified to be offered what seemed to be a collection towards funeral costs. But the man insisted, no, this was no collection. This was the repayment of hundreds of little debts, owed by many a grateful colleague.

Such was the self-help co-operative underpinning of the moral and economic rebuilding of the people and families of Clydebank after the Blitz of 1941. It was in that environment, observing family and community help as all that was available to any of us who aspired to self improvement, that I became aware of the importance of the dividends of the co-operative society, and the potential worth of a local credit union.

For Clydebank attracted no sympathy like Coventry, no mourners like the sad solitudes of Flanders, no monumental art like Guernika, no rebuilding like Dresden. Propaganda censorship saw to that. Churchill ordered a total news blackout, in case the shock should completely demoralise the British and cause us to lose the war against Hitler. So no help came. No psychologists treated the shell-shocked populace. The great wonder is that any spirit lived on. My mother was a schoolteacher, who had been the sole earner of her working class family during the Great Depression. She lost everything in the Clydebank Blitz except her brothers, sisters and parents. She received no compensation, and no outside help. She married, after the end of the war, her husband an invalid. She taught me to see beauty in the willow-herb and the sparrows' nests on bombsites of devastated homes even if there was no beauty in the works of Man. It is eighty years on, and Clydebank is beginning to forget. Yet social workers still find here high levels of destitution and drug abuse amongst grandchildren of children of those who lived through those nights of conflagration. But yet there are also others who rose above that destitution and that horrific past.

In attempting to learn from these incidents and the many observations and experiences of history and of our modern world, there is a strong temptation – to which many a writer succumbs – to blandish to regulators and organisation leaders accusations of "you've got it all wrong, folks", and proffer a new way, which within a decade is itself proven to be inadequate or even wrong. When I myself began my postgraduate research, nearly five decades ago, I was fortunate to read Thomas Alva Edison's response when asked what results he had. "Results?" he said, "I have gotten lots of results! I know hundreds of things that don't work!"

Because of this sober warning, I have always begun every new role not by condemning existing approaches but by seeking to identify what is right about them, and isolate those aspects that undermine their effectiveness. That is not to say that I am unable to take a radical approach. Far from it. Indeed, there are those who accuse me of being too radical – though I attribute this usually to their resistance to change and comfort with their present environment. But my basic rule is to focus on what is not changing, and use that as the pivot for introducing and managing change.

Thus, in financial services, from the outset of my career in actuarial studies in 1971 in Glasgow, when my role included helping to find new ways to give value to pension scheme clients, I sought to identify what the fundamentals were in the services they needed, and what ways were available to offer those services effectively for the client and for ourselves as service providers.

Money seemed to be the core of the services clients wanted. Yet, it turned out that money was not what the individual prospective and existing pensioners valued. Money, in the early 1970s, had come under threat. In the United Kingdom, inflation roared throughout that decade, and house prices for the first time began to race far ahead of earnings growth. I soon discovered that what pension scheme members wanted was not money - it was a reliable standard of living in their old age. Money was a means, only, to that end. Inflation showed that it was not a reliable means.

This made me think deeply about the nature of money. I had thought a lot about money when I was in my early teens, because my frail father, also a teacher but the son of a Durham miner, adhered to a minority political party founded in the early part of the 20th century by a Major Douglas, who had influenced John Maynard Keynes. In Major Douglas's scheme of Social Credit, bankers were considered parasitical on the hard-working members of society. Money was a mechanism they had invented to defraud the innocent of the fruits of their labours. I felt instinctively that something was wrong with the Social Credit model as my father described it, and so had come to think about what money actually was for. My father's error was that he failed to value real but invisible professional understanding and judgement.

Money at its most basic is simply a medium of exchange. It takes a wide variety of forms. It can be gold, silver, unusual stones (such as jade), and other rare natural objects (such as curiously marked cowrie shells). It can also be paper. Equally, it can simply be numbers in a book, or electronic messages in the circuitry of a computer network. In every case, it is a medium of exchange, and holds no meaning if there is nothing to exchange. It takes its value from the trust that users place in it. In extreme circumstances, those needing to exchange abandon money and simply barter, or use something that is itself of small value but in high demand – such as cigarettes in Europe during the Second World War

Money, though, does something very special: it allows the separation of consumption and production, be this of food, goods or services. Not only can production and consumption be separated in space, they can also be separated in time. Where people trust a form of money, it can be used in payment now for something that has not yet been produced. This encourages development investment that produces value only in the future.

Because of its wonderful capabilities, money itself thus has its own value, and is worth protecting. Thus emerged the need for safe depository – the role of the first banks. Equally, there developed the fundamental importance of trusting currency. Indeed, if as form of payment and value store a digicoin were fully trustworthy it might turn it into a true currency.

People came to use money in three ways. The original use was to accept it in exchange for what they had just produced, immediately then exchanging it again for something they wanted. This can be described as earn now, spend now. The second use was in exchange for things that had been produced, store it safely to use in exchange for those things desired in the future. This can be described as earn now, spend later. In its third use, those with money set aside can allow another person to use it to get something now, provided the money is properly paid back when it is needed by the owner. This can be described as spend now, earn later. These three uses of money have been codified by banking systems into current payments, deposit taking and lending.

In more sophisticated uses, money can help ameliorate the effects of risk in every aspect of life, business and commerce. Clearly, any all-embracing model needs to reflect the reality of risk. My experience in pensions management and life assurance made me keenly aware that money can never replace everything lost. Human life is irreplaceable. All money can do is make up for loss of earnings and income that the human life might have provided for dependents. Death brought the risk of a household losing income that it had expected to have. But on the other hand, fire, flood and theft caused the loss of things the household already had. This reflection led me to divide risk into two kinds – the loss of income expected, and the loss of things already owned.

In my practical approach to implement Wealthcare I think of all bank-style activities not just as payments, deposit taking, lending and risk management, but as made up of components of three kinds:

level 1 (transactions)		Earn now, spend now
level 2 (banking)	AND	Earn now, spend later Spend now, earn later
level 3 (insurances)	AND	Cover risk of losing financial value of existing things Cover the risk of losing a financial value of what you hope to have in the future

Earn now, spend now includes all types of payment of all values and timings. Earn now, spend later, includes all types of savings and investments. Spend now, earn later, includes all types of borrowing and capitalisation. Covering risk of losing financial value of what you have includes all kinds of replacement insurances, whereas covering the risk of losing a future financial value includes life assurance and health protection.

Onto these three aspects of human money use and those two kinds of risk, every financial instrument can be mapped. These five elements are the unchanging core of financial services. They are perennial, and the basis of all organisations in finance, whether tiny or huge, and whatever they offer customers. This scheme underlies core strategies I have developed for HSBC and others.

With as variables

Size AND Timing

these three categories and five activities, either singly or combined, make up of themselves or are components of EVERY financial activity of ANY financial institution. Providing the support intellect to achieve each of these five elements embraces EVERY activity of ANY support organisation in the wider financial community.

True Wealthcare is providing reliable professional financial services, based on understanding and trust. It makes profits, through understanding, caring and trust. Any real microfinance success builds on the same belief in a people business, and the role of the financier as a Pillar of Society.

There are many copyists as far as the word itself is concerned. Most are just financial advisers of one sort or another, selling services to the rich. Even "Wealth Management" has come into use as a phrase, but true Wealthcare philosophy means a deep people-oriented culture, and not simply a set of products or a management structure.

So what?

The one-world structure of finance, and the interconnectedness of finance with ordinary people, has implications for recruitment, for training, for delivery systems, for technology, for processes, for products, for security, and for supervision. Anything that can be done with money in any specific kind of institution can, in some way or another, be done in every other type of financial institution. There may be reasons for a particular activity not being attractive to certain types of organisation in a particular time or place, but it is only external factors that make it unattractive – such as regulation, or market size, or technology, or cost, or customer desires, or available skills, or geography, or politics. As these change, so do opportunities for the finance organisation, perhaps expanding, perhaps contracting. Any form of the five core activities will, in the right circumstances, be appropriate to any economy.

Even the Islamic Sharia outlawing of usury does not cause this model to fail. In the mid 1980s, one of my MBA students carried out a pioneering study of Islamic banking, and its potential for offering service in economies with other legal codes. He showed me that Islam does not outlaw rent and the fair sharing of fair profits when an owner of capital allows another to use that capital for trade. The so-called Islamic home loan already then offered by Al Baraka Bank in London was based on equity sharing.

We realised that the paying of interest is a convention for rewarding someone for the use of what they have set aside for later use, not a fundamental matter in financial services. Indeed, for two centuries, mutual life assurance companies in the Western world gave members share of profits on their funds, and not interest. That kind of profit distribution had originally been highly labour intensive and only appropriate for the massive funds gathered for individuals within those companies, with profits distributed only tri-annually and even less frequently. Modern technology enables banks to use the approach of the with-profits actuary to give even the smallest depositor a fair share of fair profits for the use of their funds on a daily basis.

This capability is very new. Indeed, in my first post after graduating in 1971, I was tasked with minding the administration and investment of some small pension schemes, albeit with funds massive in comparison with any money I had previously encountered. Some of my funds were invested in unit trusts. I soon became upset to observe that the investment vehicles available to my employer as scheme trustee caused some cross-subsidy between scheme members and even potentially across schemes.

Unit trust valuations, in those days, were done, conventionally, on a monthly basis, with new monies applied using a smoothing factor based on stock market indices. This wasn't good enough, I insisted, since the range of shares within any of the trusts in which I was investing was small enough for daily valuation, given the capability even then of calculating equipment. I challenged one local investment house, Murray Johnstone, to give me daily valuation of their unit trusts. The senior partner in the firm, Raymond Johnstone, at first rejected my demands. But he realised that the value of the funds I controlled was non-trivial, and was not long in bringing to market a unit trust that was valued daily. The great advance in computing power since 1971 makes such products look archaic today, but they were a first step in a sea-change in the way in which individual and group funds could be managed.

It was in those days of the early 1970s that I learned that stock markets can go down as well as up! In one of the schemes for which I was administrator I noted that certain retirements were in the offing for which large spot annuities would be bought. Normally, units were sold to buy such annuities. But the London equity market was, I noted, falling sharply. I drew this to the attention of my supervisor, and began placing the monthly pension scheme contributions on best deposit rate at our holding bank. Such initiative in a junior member of staff was, of course, neither expected nor authorised, and I found myself being cross-examined by internal audit. My employers reviewed guidelines for holding short-term funds, having realised that existing standard practice reflected badly on their behaviour as trustees with investment responsibility. With hindsight I realise I was fortunate not to be disciplined, but that they were open to my naïve but honest and appropriate creativity.

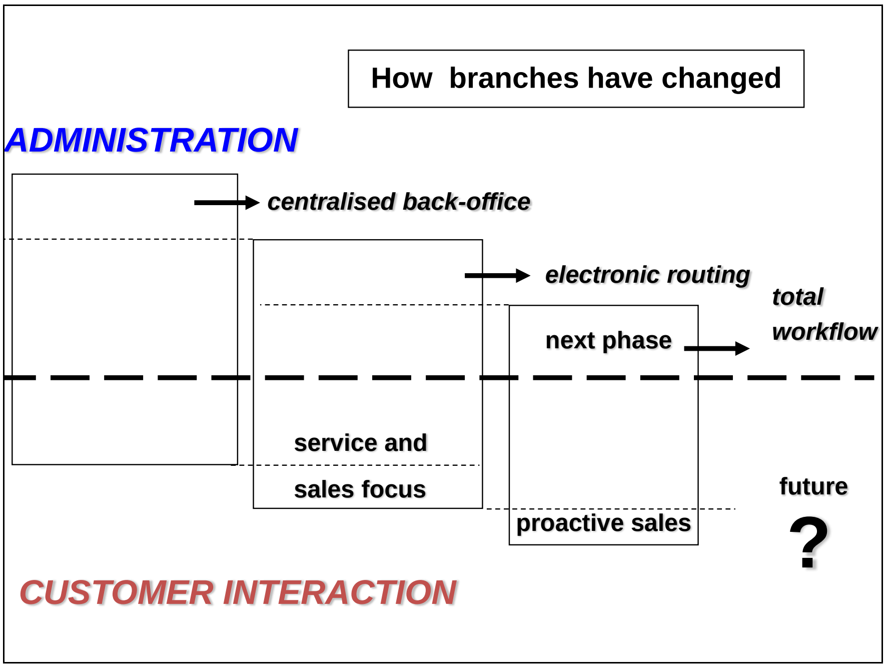


Fig 15: How bank branches had changed by 2005

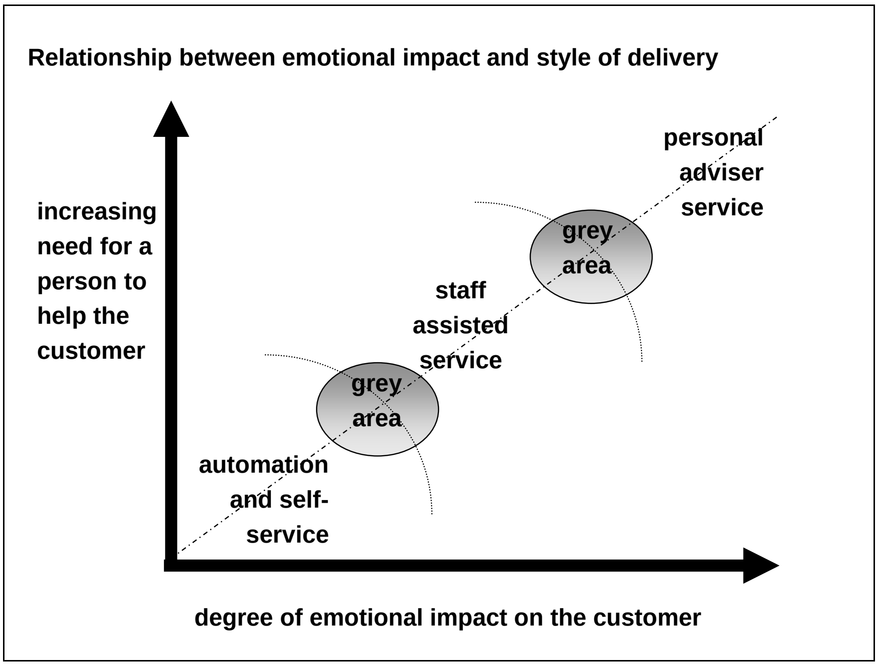


Fig 16: Emotional impact and style of delivery; the vertical access is the degree to which the customer feels a need for help with the service; the horizontal access is the degree to which the service matters to the customer

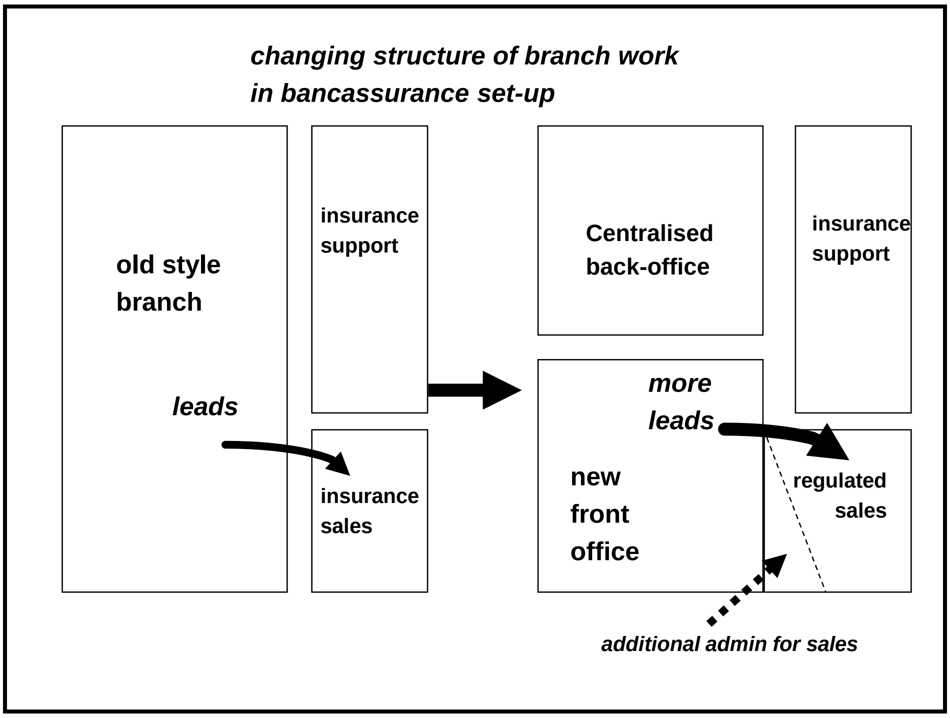


Fig 17: changing structure in banking service mix delivery

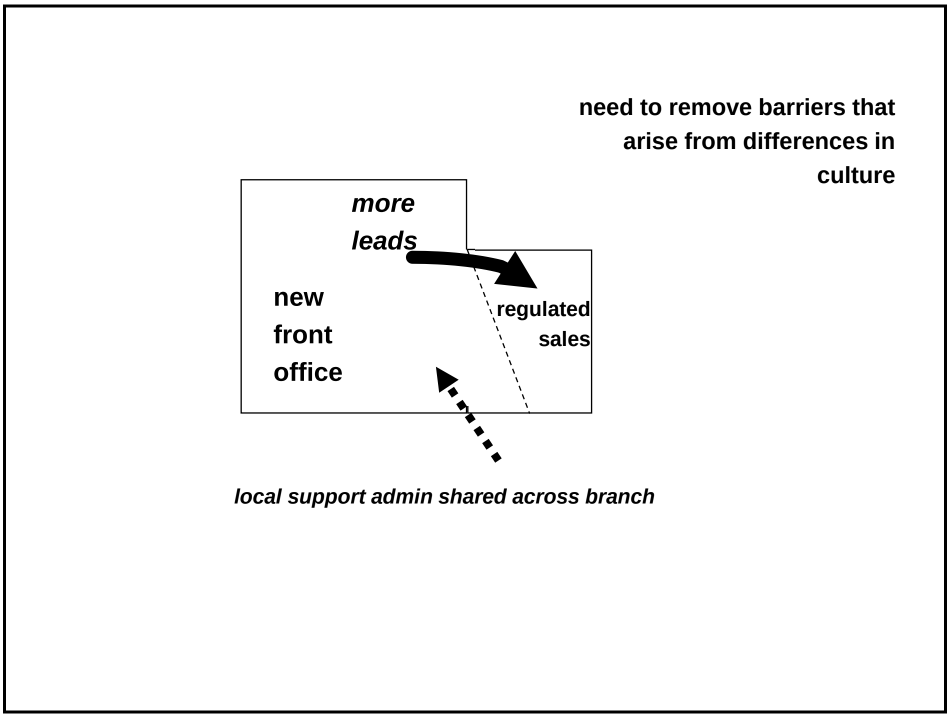


Fig 18: changing regulated vs unregulated finance service mix

There can be strong emotional barriers to change. The simplest barrier is the refusal by top people to recognise expertise in their teams, because it threatens their concept of themselves. Excellent ideas from junior staff, young enough not to be hidebound by tradition, are often ignored, because acknowledging them would undermine the self-opinion of a manager. When my remit on joining an organisation is to cause change, I like to go round and ask people in the line and support areas what they have previously put forward for consideration and had had rejected - because often within those proposals lie the seeds of constructive change.

There are considerable barriers to change caused by its impact on local communities, perhaps through the restructuring of offices, or their outright closure. People are uncomfortable with change and become stressed with even slight differences from established norms. (See Figs 15-18.) Emotions are a large part of the human psyche, whether as customers, or as staff having their lives unravelled. Even what seems in retrospect simply to be cosmetic, at the time of change always involves emotional upset, and even cultural conflict as providers of different kinds of service find themselves working together for the first time. Such was the case when retail banks first formed what they called bancassurance offices, in which traditional banking services and products rewarded by commission were to be sold side by side.

Change can have serious effects on community wellbeing, through loss of amenity, however short-term this is, and through loss of earnings, even when new kinds of occupation are offered. Change is painful. But equally, it is inevitable. I learned from Dee Hock, President of VISA Corporation in its formative years, when I met him at a conference in London in 1983. He quoted Lucretius:

No single thing abides,
But all things flow.
Fragment to fragment clings.
These things thus grow
Until we know and name them.
Then by degrees they fade
And are no more the things we named.

Hock believed computer memory is the vault of the future and expressed concern that traditional financiers would not see how their world was inexorably changing around them as a result of the capabilities of information technology. He was considered too much of a dreamer to be taken seriously by the majority of the audience. He reinforced for me the teaching I had from bankers during my doctoral research – that technology enabled function to take on new forms. I began to realise that while function is what customers pay for, form is likely to determine how much they are prepared to pay. I have applied this rule ever since, and found it worthwhile.

One sophisticated emotional barrier faced by new owners after a hostile takeover is the entrenched management network of “old boys” who have together come up through the ranks. Such a group has an established way of communicating and has deep knowledge of the organisation. Creativity and openness to new thinking engender fear in those who are comfortable. If “old boys” want to stop change, they have means. If they wish, they can confound new owners by snowing them with excesses of irrelevant data and so-called information. They can exclude, and they can include, at their choice. In one organisation, I discovered that I had been deliberately cut out of discussions on future delivery strategy. Yet the convener knew I had been brought in to help in that area, that I was available, and had advised more banks on such strategy than his preferred “outside experts” had ever visited. Any successful takeover requires fast penetration of such a net, if such exists, and if it threatens to be dangerous the key members must be brought on side or removed. When a small organisation takes over a larger one, some key emotional barriers to cost-cutting are predictable, but may be greater than the new owners expected, as was the case when HSBC took over Midland Bank in 1992.

Not all obstruction to change is for the sake of it. When an organisation is taken over, some emotional barriers to change are based on genuine fear that what is being done is bad for the organisation. In National Australia Group my team transformed the UK mortgage market against opposition within the subsidiaries. In 1993 Clydesdale Bank had a presence in the mortgage market, as did sister bank, Northern Bank. Its other sister, Yorkshire Bank, had very little mortgage business. National Australia Group wanted to make big inroads into the market. At that time, the big criticism UK customers made of mortgages was that they could not vary their payments with changed circumstances, and they were not able to pay off mortgages early. In Australia, the same criticisms had appeared some years earlier, and had been tackled by National Australia Group with its flexible repayment mortgage.

The so-called endowment mortgage was then the standard product sold in the United Kingdom. The lender sold a loan with only interest payable over the period of the mortgage along with an endowment savings policy with a life assurance company to pay off the principal at maturity. The lender got a double benefit - the margin on the loan and the commission on the policy. In theory the borrower also got a double benefit – lower repayments throughout the life of the loan and surplus funds available at the maturing of the savings policy because of equity market capital growth. Endowment mortgages were not common in Australia. The flexible repayment mortgage was incompatible with the endowment repayment approach. However, by 1993, the last of a number of tax advantages of endowment mortgages had been removed. Though still heavily promoted by lenders, this had for some years been on the basis of aggressive projections of the ability of the savings policy to pay off the loan at the end of the mortgage period. In due course, these over-optimistic projections could come home to roost (and ultimately did) but in those days the question was considered merely academic by most lenders.

In launching the flexible repayment mortgage in the United Kingdom, my challenge was not simply to make it work technically, but also to persuade my colleagues to give up the short-term benefits of commission from sale of insurance policies for the long-term benefit of increased market share in a mortgage market in which outstanding loans were not fixed but decreasing over their lifetime. I drove through the technology development against strong local demands for a different use of these scarce resources. Group head office interpreted the concerted opposition as obstruction by local management. I had good reason to believe that the endowment mortgage was no longer best for customers. But it was no small selling task demonstrating this to my colleagues on the executive committee and so persuading them to take the short-term hit on bank profits by giving up selling endowment mortgages and instead promote the flexible repayment mortgages.

All such barriers to change challenge the underlying Values within an organisation, although in many cases a review is well worth while. Fig 19 is my diagram of the measurable and qualitative aspects of organisation culture, which I illustrate as an iceberg, because so much is deeply hidden. The implications of deep cultural feelings can be difficult to understand, let alone gauge. People and organisations can have many different views of what is appropriate in each different factor in overall cultural makeup.

I believe that the present Values of a number of organisations in the financial world may prevent them embracing new ways of thinking of themselves, particularly one that involves a more humane relationship with client economies. In my experience of the industry world-wide, I feel I have too often come across self-importance and discourtesy, rather than the humility of recognition that finance and community inevitably share a symbiotic relationship. Indeed, finance and the community are mirror images of each other, in a way – finance forms a kind of looking glass world, as the greatest liability a person can be to a financial institution is if she entrusts it with all she owns.

Banking is a people business. Getting the people issues right is fundamental to success. Customers are people, and it takes people to create the financial services they use. While at one end of the spectrum, extensive aspects of the service can be computerised, technology only ever carries out the transactions.

People Issues include:

- understanding the customers
- making sure front line and service staff do the right things and do them right
- ensuring that ongoing services are reliable, and appropriate
- creating reliable organisations that provide professional service
- developing a financial framework that enables long term economic stability.

But above all, at every level, the fundamental people issue in financial services is trust.

Payment systems affect people at all levels from the mundane to the esoteric, and rely heavily on trust to function.

Trust can be considered at three levels:

- trust in the everyday operations of payment systems
- trust in the changes that are taking place in financial services organisations
- trust in the overall changing international finance system.

Operational trust at the mundane level can only be as good as the systemic trustworthiness of the whole system at the esoteric level. There is a whole chain of trust in the financial systems of the world that underpins the trust in the total financial services industry. Systemic trust must be established and maintained.

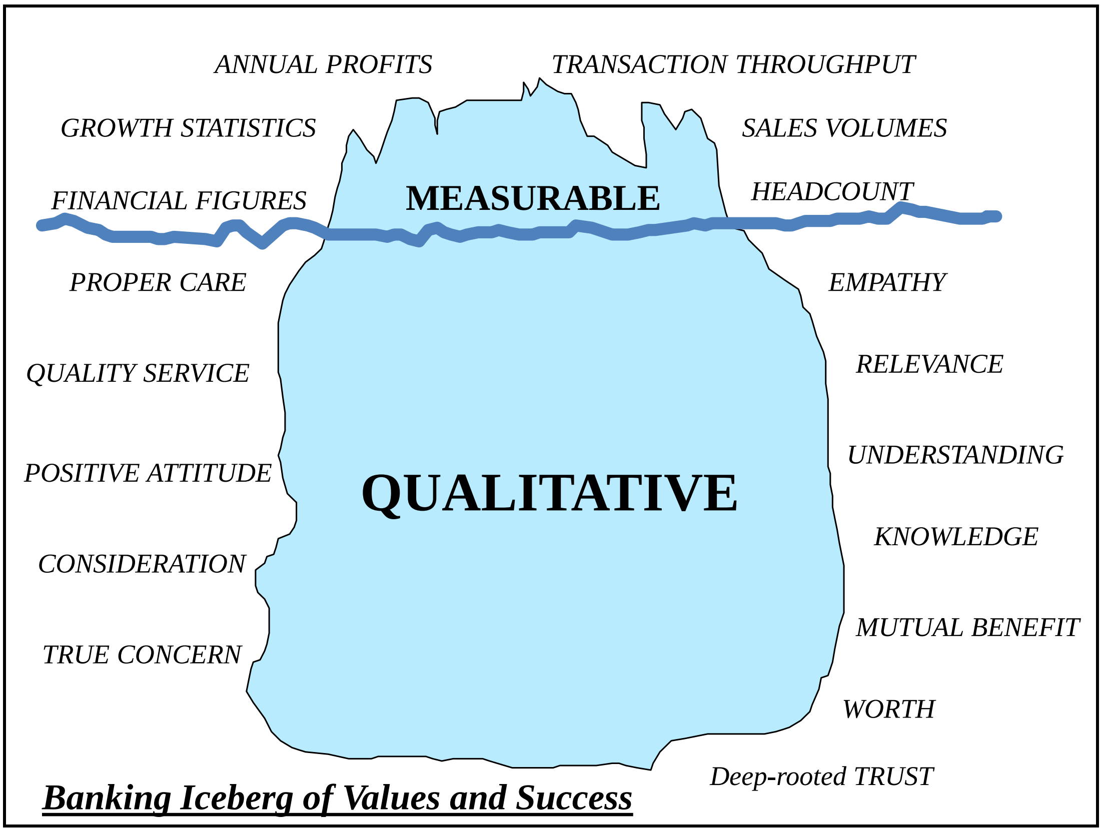


Fig 19: The iceberg of trust – susceptible to speedy melting away when misplaced hype causes global warming in financial markets

As long as users trust that promises will indeed be paid, the System works. But the System is also based on confidence that the value of money is not evaporating – or worse, being filtered off. One aspect of control is the issuance and withdrawal activity of Central Banks. Another aspect, often forgotten, is restriction on the creation of credit. Such lack of this control, globally, was one major contributor to the 2008 Credit Crunch. Another major factor was that certain Governments pressured Banks to issue unsustainable home-mortgage debt at below-market rates to sectors of their populations deemed unreasonably excluded from bank lending. Another was the opening up of cross-border markets to cherry-picking lenders, who seriously undermined the market base of domestic institutions – incidentally demonstrating that unbridled competition is not, in the finance industry, always a 'Good Thing'.

The creation of credit markets hinges on the "multiplier effect" - bank lending creates liquidity in the economy. Any individual bank can never lend more than its deposits. But a loan from one bank can be deposited in another, giving that second bank the ability to lend again. In traditional terms, the multiplier depends on the proportion of its deposits that each bank is allowed to lend. To the extent that depositing and lending is done with "bank money" the System multiplies the liquidity.

Capital adequacy rules and regulation of all credit-issuing bodies, along with central control of the money supply, in the past established trust in the financial system which in turn underpinned economic stability. That trust was as good as the responsible behaviour of the financial institutions in creating credit, the capability of their regulators and the ability of governments or central banks to control the money supply.

Money is evolving. Bank notes were innovative 200 years ago. The modern innovative equivalents of the "promissory notes" of the nineteenth century are the undertakings for future payments that are an inherent part of the trading in modern sophisticated instruments. With modern instruments, the amount of temporary "promises to pay" can exceed substantially the underlying capitalisation of the financial system. These systems have an inherent "multiplier effect" far greater than that of the promissory notes of the past. Traditional forms of control of money supply do not yet address these modern forms of money.

The multiplier effect depends on the capability of any institution in the System to create credit. This is greatly increased, in modern times, compared with the historic situation because "printing money" is now possible in many more forms than in the past, due to the advance of electronic payments technology on the one hand, and the creativity within derivatives and securities trading on the other. Such "printing money" is not by any means necessarily irresponsible, but too often, it is.

The combination of these two - technology and creativity - also means that central banks now have much less ability to control the money supply compared to what they had in the past. As more forms of derivative instrument are created, more ways emerge for money supply to be altered beyond the immediate control of the money issuing authorities.

While money becomes more and more esoteric in the thin heady stratosphere of the dealing rooms, the new arena for profitability for international banks came to be seen as microfinance, with average loan less than US$100. It initially proved surprisingly profitable – more so than traditional financial activities. Yet microfinance is an arena into which organisations first moved reluctantly. The international organisations had entered emerging economies hoping to develop wholesale business. Moral suasion of local regulators and governments has made them invest also in the poor, many of their microfinance borrowers being young mothers. But increasingly research into practice on the ground, and the personal experiences of borrowers, show that all is not pretty in the garden.

One risk these microfinance borrowers may face is the degree of commitment of the financiers. Financiers are mostly traditionalists, and even in modern enlightened days there are still those who, like Professor Higgins, believe that a woman is “so easy to forget, rather like a habit one can always break”. And yet, it is causing many financiers surprise that default rate amongst such women micro-borrowers is extremely low. As a mother it gives me no surprise. Children are hostages to fortune, as the old adage says. A truly loving mother, as the judgement of Solomon decreed, will sacrifice her own happiness for the sake of her child. Many a mother will strive for the best for her children, even in the face of jealousy, incompetence, obstruction, and even worse - an overbearing unsympathetic selfish man. Partnered with one who is supportive, competent and willing to pull his own full weight (a blessing that no one can take for granted!) such a woman can achieve the seeming impossible.

Even in adversity, mothers are motivated to protect their children’s world and wealth. When a caring mother borrows, she exposes her children only to necessary risk. Though in advanced economies fathers declaim equal commitment, history suggests not all do. There is, in too many situations, limited respect for or trust between human beings. Sharks infesting the violent waters of money’s wide ocean may think pennies of the multitude mere irrelevant plankton. But microfinance is the bottom of the money food chain.

Much higher up in the food chain are those termed High Net Worth Individuals. Their total net worth was slashed in the global recession that took hold in 2001, further decimated in the Credit Crunch, and seriously undermined in the era of low interest rates and non-paying dividend shares that have followed. Through a combination of earnings and capital growth, it took nearly four years for their nominal disposable wealth to regain the heights it had reached in the first year of the new millennium – and that has tumbled far, in the economic tsunami consequent on the Covid-19 pandemic.

By the summer of 2004 these individuals were regaining confidence, and moving their funds out of cash holdings, and back into more speculative securities, no longer so defensive, but looking for ways, once more, to grow their assets through investment. But there was a subtle change in their behaviour. The richest individuals were now taking a dynastic view of their money, and seeking ways to protect themselves from taxation, so that they could ensure that their children's children would benefit from their funds. Scandals of individuals hiding earnings off-shore, and of global-reach organisations evading taxation where they earn profits, have raised general anger. It has also stiffened attitudes of some who still feel ancestral pain, and fuels global unrest.

A general failure at every level by all, of thinking creatively to invent new roles that bring benefit to the world and that people will pay for, means insufficient opportunity for good investment in new economic activity, leading to long term lack of gainful work available to offer to those unable to invent their own gainful work. For Governments can never create wealth – the can only reduce barriers to investment, and encourage through education the creativity of their populations. It is this lack of creativity applied to thinking of what would be worth paying people to do that is truly devastating for those who *are* genuinely disadvantaged.

From the finance industry, those who still have wealth demand client support requiring skills much broader than those traditionally needed by portfolio managers. And those who feel uneasy about looking after their own financial affairs seek ongoing dynamic support – but they have no desire to pay large fees for the support.

This is a symptom of two things – that traditional skills of the finance industry are no longer appropriate, and that people increasingly want to be treated not as owners of funds, but as people. Customers are not accounts, nor loans, nor deposits, nor portfolios, nor even businesses. They are human beings, and demand to be recognised as such.

Financiers might not see present value in the people bias of Wealthcare. It appears, on the surface, to offer no profit. But those who ignore human emotions towards finance, risk being swept aside by new competitors who exploit the market gap opened by incomplete trust between financiers and the human beings who form the one global economy.

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About the author:

Dr Catherine P Smith FCBI FRSA is a Chartered Banker and Liveryman of the Worshipful Company of International Bankers. Her initial career as trainee actuary was curtailed by motherhood. As post-graduate, she performed seminal research on the financial and strategic implications of technology in banking. As self-employed consultant, she gained international repute as a creative strategist with a deep understanding of technology, becoming an instigator, innovator and implementer at highest level. Her clients have been financial institutions and technology companies worldwide, including various household names. In 1983 she created the strategy and products of a new retail bank. In 1993 she became the first woman appointed to the executive committee of any British commercial bank. She has frequently been a keynote speaker at international business conferences and has often been invited to comment on finance related issues for the BBC national and world services.