# Banking on building back better

How can a stakeholder economy help rebuild the UK after COVID-19?

Essays collected in partnership with the Chartered Banker Institute

Foreword
James Kirkup and Simon Thompson

Editor
Hannah Murphy

SMF Social Market Foundation

# Banking on building back better

How can a stakeholder economy help rebuild the UK after COVID-19?

Foreword
James Kirkup and Simon Thompson

Editor
Hannah Murphy

Essays collected in partnership with

Chartered Banker

## FIRST PUBLISHED BY

The Social Market Foundation, March 2021
11 Tufton Street, London SW1P 3QB


## THE SOCIAL MARKET FOUNDATION

The Foundation's main activity is to commission and publish original papers by independent academics and other experts on key topics in the economic and social fields, with a view to stimulating public discussion on the performance of markets and the social framework within which they operate. The Foundation is a registered charity (1000971) and a company limited by guarantee. It is independent of any political party or group and is funded predominantly through sponsorship of research and public policy debates. The views expressed in this publication are those of the authors, and these do not necessarily reflect the views of the Social Market Foundation.

# CONTENTS

# ABOUT THE AUTHORS

## Debbie Crosbie

Debbie Crosbie became TSB's Chief Executive Officer in May 2019. In her first year she led the development and launch of TSB's three-year growth strategy to improve TSB's digitalisation, efficiency, customer experience and brand. Debbie has over 25 years of experience in financial service leadership, including as Acting CEO of Clydesdale Bank. Debbie is a Fellow of the Chartered Banker Institute and sits on the CBI President's Committee and is a member of both the Glasgow Economic Leadership Board and the Strathclyde University Business School Advisory Board. In 2015, Debbie became the first female executive to sign Scottish banknotes.

## Mikael Sorensen

Mikael Sorensen was appointed CEO of Handelsbanken UK in September 2016. Mikael has over 34 years' experience in the banking industry, the last 26 of which at Handelsbanken. Before the UK, Mikael worked in numerous regions and roles across the Handelsbanken Group, including Branch Manager and Regional Area Manager in Denmark, General Manager in Poland, and CEO in the Netherlands from 2007 to 2016. From 2017 to 2020, Mikael was a Board Practitioner Member of the UK Banking Standards Board – a body established to promote high standards of behaviour and competence across UK banks.

## John Glen MP

John Glen is Economic Secretary to the Treasury and City Minister. He is responsible for financial services, including financial inclusion, green finance and the women in finance agenda. He has been the Conservative MP for Salisbury since 2010.

## Anneliese Dodds MP

Anneliese Dodds is the Labour and Co-operative Member of Parliament for Oxford East and the Shadow Chancellor of the Exchequer. Anneliese was elected in June 2017, and shortly after appointed Shadow Financial Secretary to the Treasury. Anneliese represented Oxford from 2014 to 2017 as our MEP. In that role, Anneliese served on the Economic and Monetary Affairs Committee, focusing especially on clamping down on tax avoidance by big companies. She was also responsible for tightening rules on financial services, to help prevent any repeat of the global financial crisis. Before becoming an MEP, Anneliese worked for many years as an academic.

## David Duffy

David Duffy has significant international banking experience gained from a career spanning almost three decades. He is currently Chief Executive of Virgin Money UK plc after its acquisition by Clydesdale and Yorkshire Bank Group (CYBG) in 2018. Prior to joining the CYBG, David was Chief Executive of Allied Irish Banks plc.

He is a former Chief Executive of Standard Bank International where he had responsibility for operations in the UK, Europe, Latin America and Asia. Additionally, David sits on the Boards of UK Finance and the Northern Powerhouse Partnership. He is also the FinTech Envoy for England.

## Charlotte Black

Charlotte Black was Director of Marketing and Public Affairs at Brewin Dolphin, (leading investment manager with £40 Bn AUM) for 27 years and Chairman of its Stewardship Committee. She is a Fellow of the Chartered Institute for Securities & Investment and The Royal Society of Arts and was appointed Non-Executive Director of Aberdeen Standard Asia Focus PLC in 2018. Charlotte is the founder of Artclear a financial technology business for the fine art industry. Previously: Non-Exec Director of Euroclear Group plc.

## Chris Leslie

Chris Leslie is the Chief Executive of the Credit Services Association and was previously a Member of Parliament. He was Shadow Chancellor of the Exchequer in 2015 and Minister for Courts & Constitutional Affairs in the last Labour government. Chris was also Minister for Local Government and Parliamentary Secretary at the Cabinet Office and sat on the Commons Public Accounts Committee and International Trade Committee. He was previously the Director of New Local Government Network think tank and a trustee at the Consumer Credit Counselling Service.

## Frances Coppola

Frances Coppola spent 17 years working for banks, where much of her work was concerned with settlement, accounting and risk management systems. She left banking in 2002 to concentrate on her singing career, but after the financial crisis returned to write about the banks that had so nearly blown up the world. She now writes on finance and economics for a wide range of media and industry publications including the Financial Times, American Express, the Independent, Open Democracy, CapX and CoinDesk. Her blog Coppola Comment is widely read in the finance & economics community.

# FOREWORD

**James Kirkup**
Director, Social Market Foundation

**Simon Thompson**
Chief Executive, Chartered Banker Institute

The concept of a stakeholder economy has a long history. In recent times, Klaus Schwab in the 1970s, R Edward Freeman in the 1980s and Will Hutton in the 1990s have all explored the notion that economic actors – and companies in particular – have responsibilities to people and groups beyond those who have direct legal ownership.

Arguably that notion is older still, and could be said to be the original conception of capitalism in modern times. Indeed, Milton Friedman's 1970 essay declaring the primacy of the shareholder over other interests was effectively a rejection of what had been a stakeholder approach to capitalism and business.

This essay collection is published as part of this long history. Far from being a recent fashion conceived for the unusual economic circumstances of our current times, the drive for businesses to do better for their employees, customers, suppliers and society has deep roots. "Building back better" and "ESG" may be relatively new terms, but they capture old ideas – and ideas whose time has come again.

This is especially so in banking. Since the Global Financial Crisis, banks have sometimes been depicted as the essence of Friedman's capitalism, narrowly interested in nothing beyond the bottom line. The essays in this collection show how false that depiction is. Here we find the CEOs of major banks setting out in detail how the stakeholder approach is not an additional part of their business but the foundation of that business.

A socially purposeful, ethically professional approach to banking is the ethos on which the Chartered Banker Institute, the oldest institute of bankers in the world, was founded too. Creating shared prosperity for customers and communities alongside shareholders is, in our view, essential for sustainable economic growth. It is also essential for continuing to rebuild the connection between banks, bankers, business, communities and society as a whole.

The importance of the stakeholder approach to the next phase of economic history cannot be understated. The dreadful pandemic that has caused such death and pain around the world has also created economic turmoil. Too much of that economic impact has been felt by people who already had less security and fewer resources than others. To prove, once again, its worth to humanity, the capitalist economic model must generate and distribute new wealth to help address that uneven economic shock. Businesses, and especially financial ones, must play their part in delivering an economy that works not as well as it did pre-COVID but better, and more fairly. In this collection, we find the people who run some of those businesses setting out how they will do so.

But the stakeholder economy is not simply something for companies to deliver. A fundamental principle here – and one that gives the Social Market Foundation its name – is partnership between the state and the private sector. A social market economy is not one where the state simply withdraws and leaves business to do as it will, trusting private enterprise to do the right thing in the end. There is a vital role for government and politics in delivering that economy.

That does not mean seeking to control or direct economic activity. Rather, political actors have a vital role to play in the wider conversation that sets the norms and standards for the treatment of those stakeholders. In that context, this collection is significant for the inclusion of essays from frontbench economic spokesman for both the Government and Opposition. Those two sides might be expected to disagree fundamentally about something as important as economics, yet we see here that the concept of the stakeholder economy is one that reaches across the partisan divide – another measure of how relevant that concept is today.

There is a vital role for individuals too, and this is where the work of professional bodies such as the Chartered Banker Institute is key. The 30,000 members of the Chartered Banker Institute, from Customer Service Officers to Chief Executive Officers, all demonstrate an ongoing commitment to sustaining high professional standards, which for us encompasses the stakeholder approach. In fact, we cannot see how banking can succeed if it is not deeply embedded within, and working hard to support, the communities in which it is rooted.

The Chartered Banker Institute and the Social Market Foundation operate in the separate but related worlds of banking and public policy, but there is much that unites our two organisations. Both are charities and both are committed to an economy where business and policymakers alike explore ideas and policies that promote the interests of all stakeholders. Together, we are proud to present this collection and contribute a little to the long and honourable history of the stakeholder economy.

# CHAPTER 1 – HOW CAN RETAIL BANKS DO WHAT MATTERS TO DRIVE THE POST-COVID RECOVERY?

**Debbie Crosbie**
**Chief Executive Officer**
**TSB Bank**

## Introduction

> Retail banks have been at the heart of the UK's economic response to the coronavirus pandemic: supporting the nation to manage its money through the terrible personal and financial costs the disease has wreaked – from payment holidays through to bounce back loans. Now, banks have a new role to play. Not only in supporting economic recovery, but in 'building back better': resetting the balance between generating investor returns and serving community interests.

But doing the 'right thing' isn't simply altruistic. It also makes business sense. Consumers and colleagues alike want to know what's behind brand names – to see action speaking more loudly than words. Ethics is now three times more important in driving trust in a company than competence. Further, most people think that CEOs should take the lead on societal problems and hold themselves accountable to the public, not just boards. So striking the right balance between the financial and non-financial aspects of a business has never been so important. Even more so for younger customers, who are sceptical of business motives: only 37 per cent of millennials believe business leaders make a positive impact on the world.

With origins that go back to the world's first savings bank, TSB is rooted in helping to create social as well as economic value. Continuing that strong legacy, we launched the 'Do What Matters' plan, our responsible business strategy, informed by ESG. For us, it's a matter of delivering on the wider purpose behind our brand. The plan does what it says on the tin: it focuses on doing what matters in those areas where TSB can make its most meaningful contribution. But how can retail banks demonstrate their impact in a way that ensures social and environmental contribution, as well as commercial viability?

## Non-financial metrics must be led from the top

The first step is to start at the top. When metrics are Board supported and Executive led, they become embedded within strategic thinking to drive business – as well as social – value. That's why we've made sure our Do What Matters plan is Executive-sponsored and included in one of our key business targets for 2021 – hardwiring its delivery into the fabric of our business. This Board-level commitment to our plan – and sponsorship by our Executive Committee – is critical to driving through real impact.

A similar approach works for cross-sector initiatives too. For example, TSB is proud to be a signatory of the CBI's Change the Race Ratio campaign. This includes both Board and Executive level commitments to taking tangible action through senior hires, transparent reporting and fostering an inclusive culture. When such an approach is echoed around boardroom tables there's an opportunity to deliver real change across sectors and throughout individual businesses.

## Aligning business growth with broader good: focusing where a business can have a meaningful impact

As we look ahead, focusing on the issues that matter to customers and colleagues where banks – and wider business – can have the most meaningful impact is essential to the financial health of our sector. For example, expectations around decarbonisation and 'levelling up' regional inequalities are escalating at pace: we need to listen and act if we're to retain customer and colleague support. Certainly, at TSB, we already see business growth and reputation gain that's driven by non-financial aspects of our operations.

Expectations around decarbonisation and 'levelling up' regional inequalities are escalating at pace: we need to listen and act if we're to retain customer and colleague support.

For example, as customers increasingly use online services, fraudsters are becoming more sophisticated. Customers rightly want and need their banks to help protect them. That's why two years ago TSB committed to refund every customer who is an innocent victim of fraud – our Fraud Refund Guarantee. Not only is this what customers want and the right thing to do, but it makes sense for the business: customers know if they choose TSB they will be protected if they are targeted by fraudsters.

It also has the benefit of building trust with our customers who are more forthcoming about the way in which they fell victim to fraud. This, in turn, means we provide more detailed information to the police – helping them to better protect all consumers and improve criminal justice outcomes. As regulators review the current voluntary code for industry – which falls well below TSB's Fraud Refund Guarantee – this issue is more pertinent than ever and the case for a cross-industry guarantee is compelling.

## Working together on the bigger issues and sharing best practice

We can learn a lot from each other. Across our sector banks strive to develop best practice – revealing areas where a standardised approach to reporting would be constructive to competition, to value and to social good.

For example, on the environment – a standardised approach to measuring decarbonisation goals and climate risk is already making headway at both national and international levels. The recent extension of the UN's Science-Based Targets initiative to financial services provides a helpful framework to measure our progress against emissions reduction targets – one which TSB is pleased to be working towards. Similarly, the recommendations of the UK's Financial Stability Board's Taskforce on Climate-related Financial Disclosures are driving towards comparable disclosures.

The challenge now is to consider what other aspects of 'building back better' could benefit from a uniform approach. For example, improving diversity through a holistic set of measures across all minority groups. HM Treasury's Women in Finance initiative has been extremely effective in helping to drive Board and Executive focus on gender equality – but there is more we can and should do through a consistent approach to reporting for all diversity groups. After all, not only is improving diversity the right thing to do, it's also in the interest of business. Time and again, more diverse businesses are proven to be more successful.

HM Treasury's Women in Finance initiative has been extremely effective in helping to drive Board and Executive focus on gender equality – but there is more we can and should do through a consistent approach to reporting for all diversity groups.

## Deeds not words

In any standardised approach though, we must make sure that well-intended pledges or reporting frameworks don't hinder true change. As Julian Richer, of Richer Sounds, recently noted – action speaks louder than words when it comes to demonstrating ethical capitalism. Our aim should always be to make ESG simpler and more compelling so that we increase participation and deliver change.

It's why TSB became the first high street bank to be accredited by the Good Business Charter: requiring us to measure our behaviour across ten straightforward and action-focused components, from employment practice and customer treatment through to tax and the environment. And, in line with the Charter, when we spotted that SME suppliers were struggling with cash flow, we accelerated processes to help budget holders sign off payments more quickly – so much so that we're now faster than the standards set by the Prompt Payment Code. This all was achieved by an action first mentality.

## Critical friends: the role of government and civil society

However, no single business or sector will solve an issue in isolation. Setting a baseline and encouraging inter-bank competition through minimum reporting standards goes some way to driving business momentum on social and environmental issues. But external partnerships and scrutiny are vital to incentivising positive business contributions. They also form a critical check on the balance between financial and non-financial drivers.

For TSB, we engaged with government, think tanks, NGOs and Third Sector organisations to develop and critique our Do What Matters Plan. After all, it takes a critical friend to point out your strengths and weaknesses. That's why we've aligned our goals with national and international standards, including as signatories of the Good Business Charter and by committing to the UN Global Compact corporate responsibility initiative and its principles on human rights, labour, the environment and anti-corruption.

## Complementary metrics through collaboration

To conclude, for retail banks to help drive the UK's post-COVID recovery in the right way requires transparency, action, partnership and accountability. If we apply this approach it's no longer a question of balance between financial and non-financial metrics. Instead we can focus simply on the purpose behind a brand. Business value is driven from social and environmental endeavours, and vice versa. Put simply, it means doing good is good for business, and business is good for society. It's a role that customers want their banks to play and which they are willing to pay for.

This doesn't duck the fact that retail banks will need to continue to make difficult decisions. Customers are changing the way they shop and bank, whilst low interest rates and the current environment are impacting banks' profitability. It's inevitable that

changes to business models need to be made to ensure economic sustainability. But by taking a socially and environmentally conscious approach, we can help make those decisions in the right way.

I truly believe that's how retail banks can help drive an economic recovery which isn't just about improving the UK's finances, but about levelling up across the country. And it's why I will continue to ensure that at TSB we're action led: listening and doing what matters most for our customers. Together, through collaboration and learning from each other, retail banks can help the UK to build back better.

# CHAPTER 2 – BULDING A BUSINESS ON TRUST, SUSTAINABILITY AND AN INSTINCTIVE STAKEHOLDER VIEW

**Mikael Sorensen**
**Chief Executive Officer**
**Handelsbanken**

> Handelsbanken is a mid-sized retail bank by European measure, with networks of local branches throughout the Nordic region, the Netherlands and the UK. Here in Britain, we provide banking and wealth management support to households and businesses in around 200 communities, from Inverness in the North East to Truro in the South West – both digitally and locally, 'in the flesh'.

Despite this footprint, we are far from being a UK household name, even in our own sector. You could put this down to the fact that we do not run any central advertising or marketing campaigns, preferring to grow locally through word of mouth. Those who *have* heard of us probably know us best as the conservative Swedish bank that came through the last financial crisis unscathed, and not for the first time. Or as the decentralised bank, which places local branches at the heart of its business approach.

Handelsbanken has been around for 150 years and has maintained essentially the same business model for the last half century. I should perhaps point out that this is not because we are oblivious to change or lacking in imagination. It is because our business model is rooted in fundamental, timeless values, enabling us to adapt naturally to change. And because this model has delivered for the bank, our customers, investors, employees and the wider communities we serve, every year since it was established.

Recently, I was flattered to be approached by the Chartered Bankers Institute and the Social Market Foundation to write about how I run a stakeholder company. Flattered, not only because in many ways our strongly decentralised organisation manages to run itself day to day. But also because this was the first time I had heard this particular label attached to our bank, yet on the face of it, it felt like a reasonable description.

I should confess that I have not spent time studying the latest literature on stakeholder capitalism or the stakeholder economy, which I am aware has proliferated in recent years. No doubt if I did, much of the language used, and the academic theory cited, would be new to me.

Instead, the idea of a 'stakeholder company' resonated because Handelsbanken has always been motivated by powerful feelings of responsibility to the customers and communities we serve, as well as to our employees, shareholders, public authorities and others who have a stake in the outcomes our bank creates through its activities. It is a central theme of our book of operating principles, *Our Way* – a book first shared with colleagues nearly half a century ago, and still in everyday use throughout the bank today, as my own rather dog-eared copy serves to show.

Throughout the numerous economic cycles, social advances and industry upheavals since *Our Way* was first printed, this sense of obligation has remained a driving force in how we steer and operate our business. It does not find its source at the level of cultural programmes, industry initiatives or contemporary business ideas championed by

academics and policymakers. It springs from a place rather deeper than that: from our foundational values of trust in the individual, and of taking a long-term, sustainable view in everything we do.

In Handelsbanken, we trust that our employees instinctively want and are able to do worthwhile work well. This humanistic instinct has led us to devolve decision making responsibility all over the bank, believing that the person closest to the particular question should decide the answer. It has also given us the confidence to decentralise our organisation, empowering each of our branches to develop their local business – within the bank's common framework of operating principles – in whichever ways create the best outcomes for local customers, and therefore the bank.

Unsurprisingly to us, we have found that people respond positively to being given real responsibility. Quite simply, they rise to the trust and respect they are given, fully owning their actions and the outcomes these produce, and thereby reaching better decisions than anyone else in our bank could.

A Handelsbanken manager aims to nurture the best conditions for this natural process to occur, conditions including a common goal and operating framework, access to relevant resources, a collaborative culture, and – above all – the mandate to decide. With this last point, a manager must be willing at times to sit on their hands, ignoring how they themselves might have set about solving a problem. It helps to recognise that, in reaching a good solution, seniority is no substitute for detailed, frontline knowledge and a burning sense of accountability.

We have found that people respond positively to being given real responsibility. Quite simply, they rise to the trust and respect they are given, fully owning their actions and the outcomes these produce.

As well as making better decisions, we have found that empowered employees also engage, vigorously and with pride, in the development of *their* business, and of their wider community – leading and participating in local initiatives, giving of their knowledge and time, unprompted.

Building on this, our other core value of long-term thinking steers us to consider our stakeholder impacts well beyond the isolated banking transaction or operational decision. Instead, we prefer to focus on forging strong and lasting relationships with our stakeholders, relationships which – returning to our first core value – rely entirely on maintaining their trust through consistently responsible behaviour, both at the individual and societal level. Within this context, we think of our stakeholders as all those groups whose endorsement we need in order to build our business on solid foundations over the very long term. Of course this includes our customers, employees and shareholders. But it includes many more groups besides – from our suppliers and professional networks, to regulators and representative groups.

In spite of our own sense of broader responsibility, financial institutions have until fairly recently been viewed simply in terms of their *economic* value to society – deploying capital to the real economy, managing risk, creating shareholder value, and contributing to the economy through jobs and taxes. Over more recent years, this narrow view of

banks' value has widened to consider social goods, such as financial inclusion, gender equality, environmental footprint, and combatting financial crime.

Over the last year in particular, banks the world over have been able to emphasise their social value by helping customers deal with the extraordinary personal and economic challenges presented by the coronavirus pandemic. In our case, this crisis has been characterised by two things: an even closer dialogue between our branches and their local customers, showing individual flexibility where it can ease an already difficult situation, and a careful focus on the mental and physical wellbeing of our employees, working together to create the right support, both large and small.

It now feels to me that we are on the cusp of the next substantial (and equally welcome) widening of this compass of value, as banks - including ours - take up the challenge of supporting their customers to recognise, mitigate and adapt to the physical risks of climate change, and to pivot their business models to prosper in a net zero economy. By fulfilling this vital role in the world's collective response to climate change, I believe that banks can demonstrate a whole new level of stakeholder value, far beyond the narrow economic focus that has characterised the sector historically.

Nevertheless, in their latest book *Humanocracy*, the renowned management thinkers Gary Hamel and Michele Zanini highlight some trade-offs still commonly seen as being impossible for banks to avoid. Trade-offs such as achieving consistently strong growth versus maintaining low risk, or delivering personal customer service versus maintaining cost control.

Hamel and Zanini go on to describe Handelsbanken as one example of a bank that has overcome "the curse of either/or thinking", creating a model that delivers value to its shareholders precisely *because* it delivers value to its customers, employees and various other stakeholders. The key, they argue, lies as much in those industry-standard features we choose not to adopt – for instance absolute goals, top down targets, or financial incentives – as in the values and operating principles I have just summarised.

All I can say is that, having worked almost my whole career in Handelsbanken, across different countries and parts of the bank, the kind of either/or thinking Humanocracy highlights is indeed anathema to us. Time and again, we find no paradox in striving for high levels of customer and employee satisfaction, controlling costs, keeping risks low, playing an active, responsible role in our communities, and achieving a healthy financial performance. Quite the contrary, these outcomes serve to reinforce each other in various quite natural ways.

To sum up, although we have long been steered by a sense of responsibility to those we can impact through our operations, I cannot say for sure whether we are, or are not, a 'stakeholder company' by any firm definition. Instead, those more expert in this field can perhaps reach their own conclusions, either based on this brief description of our model, or – far better – on first-hand experience of being a Handelsbanken stakeholder one way or another.

# CHAPTER 3 – A STEP CHANGE FOR CAPITALISM

**John Glen MP**
**Economic Secretary to the Treasury and City Minister**

> The past year's public health crisis has provoked an extraordinary economic intervention by the Government. Only the most diehard of free market advocates have decried the approach. Instead, there has been a wide recognition, right across the political spectrum, that if the economy is to weather these unprecedented circumstances, ideology must be firmly set aside.

The acceleration of the COVID-19 vaccine roll-out means that there is now a light at the end of the tunnel. However, as normal life resumes in time, so will the battle over the future shape of this country's economy.

The end of the past year's economic ceasefire – means there is a great deal at stake. These risks are compounded by the fact they coincide with a newly independent UK, striding out into the global economy in the immediate aftermath of the Brexit transition period.

It goes without saying that against such a backdrop, much is up for grabs. There is an enormous opportunity before us to continue reshaping our approach to the economy. In so doing we must avoid the siren calls of both those looking to permanently entrench the emergency statist measures necessary in a health crisis, and on the other side those seeking to exploit the crisis to implement a hyper-deregulated, dog-eat-dog capitalism.

Instead we must build a vision for responsible capitalism – recognising that we must harness the power of the market to revitalise the economy and fund world-class public services, while ensuring that corporate actors recognise their obligations to society.

As Economic Secretary to the Treasury and City Minister over the past three years, I know that our world-leading financial services sector is ideally placed to showcase this responsible capitalism and help build an inclusive, stakeholder economy.

In recent years, our leading companies have increasingly recognised their obligations to society as well as to their shareholders. Corporate social responsibility (CSR) and environmental, social and corporate governance (ESG) concerns have moved centre stage, becoming a critical part of the corporate mission, not the fringe, box-ticking obligation of an earlier era. I welcome this development.

We must build a vision for responsible capitalism – recognising that we must harness the power of the market to revitalise the economy and fund world-class public services, while ensuring that corporate actors recognise their obligations to society

At the same time, we must guard against some of the worst excesses of what critics have termed as 'woke capitalism'.

The ESG, responsible capitalist agenda needs to focus on inclusivity, not a divisive, identity politics-driven agenda that can be too easily caricatured as catering to a metropolitan elite and ignorant of the world outside the M25. While my job title is 'City Minister', I'm very much aware that the UK financial services sector is so much more than just the occupants of the Square Mile.

The Treasury is fully committed to not being too London-centric. I was delighted to see the Chancellor announce in the Budget that the first ever UK infrastructure bank would be based in Leeds and a new 'Treasury North' campus will be set up in Darlington. Ron Kalifa's Fintech Review, commissioned by the Treasury, has also highlighted the importance of the network of fintech clusters across the country, in driving innovation and creating jobs.

The drive to champion responsible capitalism should not be taken as evidence of a lukewarm attachment to the wealth-creating, free market engine of our economy. It is a mistake to read this as 'capitalism-lite' or 'diet capitalism'. It is instead a recognition of the wider societal obligations of corporate actors beyond the immediate bottom line and an appreciation that the interests of shareholders are enhanced by a more holistic view of the corporate mission. The Government has been on the front foot on this agenda and we will continue advancing these themes in the almost four years remaining of the parliamentary term.

In my area of the Treasury, our commitment to building a responsible capitalism can be most clearly seen in the Government's support for financial inclusion.

In 2018, the Government established the Financial Inclusion Policy Forum which I chair alongside Pensions Minister Guy Opperman. We meet bi-annually, gathering together leaders from across financial services, the third sector, ministers and the regulator to keep the pressure up on this issue and to raise awareness of the importance of financial inclusion. At our last meeting in November, we had an important discussion around supporting those who are financially vulnerable as well as how best to get low-income consumers to access credit.

In addition, one of my proudest achievements in the Treasury has been the work we've done on helping those with problem debt. Working alongside charities such as StepChange and the regulators, the Government introduced Breathing Space. For those with the misfortune of finding themselves with spiralling debt, the scheme effectively stops the clock for 60 days. As well as freezing interest and preventing creditors from taking enforcement action, individuals also receive professional debt advice. It also allows those receiving treatment for a serious mental health crisis to be protected until the completion of their treatment. Regulations for Breathing Space have been fully approved by Parliament and will go live on 4 May 2021.

These crucial reforms would be important in 'peace time' but are even more pertinent now given the economic challenges we face in the wake of the COVID-19 pandemic. Guy Opperman and I published the Government's second Financial Inclusion Report at the end of last year and it sets out some of the initiatives we have taken this year to advance the agenda. This included a commitment at the Spring Budget to bring forward legislation to give credit unions a bigger role in the provision of products and services to vulnerable people. It also highlighted the announcement last May of the release of £65m of dormant

assets to fund Fair4All Finance to scale up access to financial products for those in financial difficulties.

While in the Treasury we are focused on building a model for responsible capital – it is undoubtedly down to financial services businesses to turn that vision into reality. There can be no doubt that if businesses are to truly serve a modern, vibrant society and understand its needs, firms must reflect the diversity of today's United Kingdom.

A major part of my role has been to drive forward policies that seek to boost the inclusion of people from all backgrounds, throughout every level of the financial services sector, right up to the most senior. While there is still some way to travel, I'm pleased that we are starting to see a sea change. The last vestiges of anachronisms like the Old Boys' Club are being consigned to the dustbin where they belong. Instead, businesses are wholeheartedly joining in with a range of initiatives that seek to increase the representation of the brightest and best people from all backgrounds.

I'm delighted that over 370 firms have now signed up to the Treasury's Women in Finance Charter, that aims to help talented women to progress to senior roles. And late last year, the Government launched a new taskforce, along with the City of London Corporation, to boost socio-economic diversity in the industry and help those from lower income backgrounds to reach their potential.

There can be no doubt that if businesses are to truly serve a modern, vibrant society and understand its needs, firms must reflect the diversity of today's United Kingdom.

I'm well aware, however, that if we are to build a true system of responsible capital, there is still much more to do. We need to ask ourselves big questions: What more can financial services firms do to tackle climate change? Can we make it easier for pension funds to invest to help us build back better and greener after Coronavirus? How do we boost the UK's fintech sector while ensuring new technology doesn't leave anyone behind?

The start of 2021 was always going to be an important inflection point for the UK economy. With the added imperative of getting the UK back on its feet after the pandemic, this year has now taken on even greater significance.

We need to be at the forefront of building a responsible, capitalist economy, with a vibrant financial services sector at its centre. Our goal should be to create a dynamic market economy that attracts the brightest and the best, but one that never loses sight of those in society in a much more precarious financial position.

We have made significant progress on this journey and I am excited about furthering this agenda in the years ahead.

# CHAPTER 4 – EXPECTING BETTER: LABOUR'S RENEWED RELATIONSHIP WITH BUSINESS

**Anneliese Dodds MP**
Shadow Chancellor of the Exchequer

> The Coronavirus crisis has affected us all, although not equally. Experiences of the last year depend considerably on where in the country you live, your ethnicity, gender, the nature of your job and the type of business in which you work.

Some of this is unavoidable. COVID-19 physically affects some much more severely than others. The way in which the virus spreads means that someone who works in a restaurant has seen their workplace close altogether while a graphic designer may have been able to switch to working from home.

Yet many aspects of this crisis were eminently avoidable. There is nothing inherent about COVID-19 that means people living in the North should have been more likely to have their working hours reduced, to have lost their jobs entirely – indeed, to have lost their lives – than those living elsewhere, when everything else is held equal. It is not inevitable that an estimated seven in ten people who develop symptoms are not self-isolating because their income, the nature of their work and their socioeconomic status all act as barriers to doing the right thing.

The fact is that we went into this crisis as one of the most unequal countries in Europe and with too many people living on a knife-edge. At the start of the pandemic a quarter of all families in the UK had less than £100 in savings to fall back on. That lack of resilience at the individual household level spoke of a broader lack of resilience in the country as a whole. As a result, the UK has suffered the worst recession of any major economy.

The fact is that we went into this crisis as one of the most unequal countries in Europe and with too many people living on a knife-edge.

These points matter because it is only through an honest assessment of the weaknesses in our pre-COVID economy that we will be able to lay the foundations for a sustainable recovery. Doing so will require a responsible approach from government and businesses alike, working in partnership.

We have seen that partnership working at its best during the crisis. Government, businesses and trade unions came together to develop the furlough scheme that has helped keep people in jobs during national lockdowns – although subsequent government attempts to unwind the scheme too soon have at times risked undoing that good work.

We've seen businesses rise to the challenge of the times in a spirit of civic duty. I saw that for myself last year at Airbus's advanced manufacturing centre in north Wales, where production lines were switched in a matter of hours to start producing the ventilators we so desperately needed. In my own constituency, AstraZeneca has done groundbreaking work with the University of Oxford to develop a vaccine that will now be rolled out at cost.

We should capture and retain that spirit of cooperation as we plan for the recovery. Because we should also be honest that it has not always been there in recent years.

Businesses have not been able to expect a responsible approach from government. Over recent years, political brinkmanship – up to and including the threat of breaking international law – has jeopardised the UK's reputation as a place to do business. Short-termism has characterised the government's handling of the COVID crisis, with business support packages being chopped and changed – often at the last minute – with no thought to the long-term certainty that firms need to plan.

At the same time, not every business has taken its own responsibilities seriously. From high-profile collapses as a result of severe failures of governance, to gaping holes left in pension schemes, to shocking revelations about conditions in supply chain factories, to the appalling use of 'fire and rehire' tactics; poor corporate behaviour has also been too often in evidence in recent years.

It feels as if businesses have come to expect less and less of government, and government has come to expect less and less of business in return. It does not have to be like this. Under new leadership, Labour is committed to rebuilding that partnership – to expecting better of one another.

Labour will always back British business, laying the long-term foundations and providing the clarity and stability that firms need to succeed and to grow. I know personally how good businesses, like the small firm my father ran, are more than just about conducting transactions – they're the heart of our communities and our high streets.

It feels as if businesses have come to expect less and less of government, and government has come to expect less and less of business in return. It does not have to be like this.

Labour's ambition for the UK to be the best place to grow up in and the best place to grow old in cannot be achieved without a flourishing private sector. That's why under Labour, businesses can expect a government that thinks long-term, that lays the foundations on which innovative firms can compete and flourish.

That means well-targeted investment in infrastructure, like Labour's call for government to accelerate £30 billion of capital spending in the next 18 months to stimulate the creation of 400,000 jobs. It means investment in skills and training so that people are ready to take up those new jobs. It also means enabling a clear, dependable operating environment: establishing a stable regulatory context, tackling barriers to coordination, and setting out open and interoperable standards.

Yet this has to be a two-way street. Labour will also expect more of business in return. That means broadening the lens of what good corporate performance looks like, so that as well as returns to shareholders, more businesses are thinking about the contribution they make to our transition to net zero, the responsibility they have to their employees – working with trade unions, investing in skills and development – and the role they play in the local community.

It is time politicians and businesses start expecting more of one another. The last ten years have too often shown what happens when we do not have those high expectations. The last ten months have shown inspirational examples of what can happen when we do.

# CHAPTER 5 – TACKLING THE POVERTY PREMIUM – A CASE-STUDY OF THE POTENTIAL POSITIVE IMPACT OF STAKEHOLDER CAPITALISM

**David Duffy**
**Chief Executive**
**Virgin Money UK plc**

## Introduction

> The global pandemic has created a once in a generation crisis that has the potential to have deep and lasting effects on our economy and the lives and businesses of everyone within it.

Unlike the 2008 crash where the banking sector was seen to be punishing rather than serving its stakeholders, the sector's response to the pandemic has highlighted a shift in behaviour that has been steadily evolving over the past decade. Rather than acting solely in the interests of their bottom line, banks have rediscovered their role in the stakeholder economy and have sought to be a helpful partner to Government, businesses and consumers with the rapid provision of loans, payment holidays and interest-free overdrafts.

This action was a critical response to the initial shock of the pandemic; however, this won't be enough to help the UK economy rebuild. For banks and other major companies our role in the stakeholder economy is about much more than offering good products and support services to customers in their hour of need – it is about pre-empting potential customer detriment from economic shockwaves with innovative, responsible and thoughtful Environment and Social Governance (ESG) strategies.

There are a multitude of ways industry can do this, but I would like to draw on just one example as a case study for the benefit that true stakeholder capitalism can bring – the importance of tackling the "Poverty Premium".

## The Poverty Premium

In 2021 it seems regressive that we still live in a society where those on lower incomes pay a "Poverty Premium" to access essential services including utilities, access to credit and insurance. It is estimated that around 14 million people in the UK pay a poverty premium – one fifth of our population. According to research from the University of Bristol, the premium levies impacted households with an average of £478 in excess costs each year and for one in ten these costs can rise to as much as £780 each year. What is worse is that many of those impacted have no idea they are being penalised.

For a family on an average income the Poverty Premium would be a significant sum, perhaps making the difference as to whether or not they could go on holiday or make home improvements. For a lower-income household, however, this could be the difference between coping and crisis or between food and heating – and the pandemic has only made things worse.

The FCA estimate that in the first six months of the pandemic the number of adults exhibiting signs of vulnerability increased by over 15 per cent. This is one of several reports that indicate an increase in people struggling financially, many of whom will be paying the penalty for being poor, at the same time as the UK seeks to rebuild. Meanwhile, the reliance on digital during the pandemic has only served to strengthen societal divides between those who can afford to get online and use digital services easily and those who do not have easy access to a Laptop/smart device or WiFi and perhaps lack confidence with digital skills. But why is this an issue for business leaders to be concerned with?

As well as a moral concern, the Poverty Premium puts UK productivity at risk as many of those who pay this premium will be employees as well as customers. Money worries have long been associated with issues of anxiety, insomnia and the knock-on impact on concentration, motivation and creativity. Research commissioned by Aegon estimated that, in 2018, poor financial wellbeing resulted in 4.2 million days of work being lost annually, with a productivity cost to the UK economy of £1.56bn.

In a stakeholder economy, the more people that we have supporting and driving it, the more likely it is to rebuild, grow and flourish, creating more opportunities and wealth for the stakeholders within it. If the Poverty Premium is not addressed, we will exclude people from the UK's future success and hinder the speed of our recovery.

In a stakeholder economy, the more people that we have supporting and driving it, the more likely it is to rebuild, grow and flourish, creating more opportunities and wealth for the stakeholders within it.

## Our approach to tackling the Poverty Premium

While COVID-19 has brought a variety of challenges, it has also helped to sharpen our focus at Virgin Money on supporting our customers when they are most vulnerable.

In November, we launched our refreshed ESG strategy. As well as commitments around important issues like the climate crisis, we set ourselves a new challenge to eliminate the Poverty Premium from our customer base by 2030.

To do this, we are working with Fair By Design, an organisation dedicated to tackling the Poverty Premium, and other organisations who are similarly committed to driving systemic change around this issue.

The University of Bristol identified that Poverty Premiums can be put into seven different categories with 23 component premiums across those categories, covering a variety of sectors. The seven categories are:

- Use of prepayment meters
- Non-standard billing methods
- Not switched to best fuel tariff
- Area-based premiums
- Insurance for individual items
- Access to money
- Higher-cost credit

We are using the categories as a basis for our work, investing in data analysis to identify the customers that are paying a premium for these services. Some of these premiums we may be able to address ourselves, while others will require collaboration with other sectors.

The first premiums we are focused on relate to energy. We have already identified those customers who are overpaying for energy services because of their payment method and we will be contacting them shortly to make them aware they are being penalised; highlight that they may be able to save money by paying by Direct Debit, or switching to another tariff; and dispel myths and false perceptions about taking these actions.

This, of course, will not be enough to eradicate the energy Poverty Premium from our customer base. That is why we are working across sectors to understand what other solutions we can bring, in particular for those who are digitally excluded and struggle to shop for the best deal and those with poor or no credit history who may not be eligible for monthly billing and the discounts that brings.

As we start to learn more we are reaching out to others who are passionate about finding a sustainable solution to Poverty Premiums and will be looking to convene a cross-sector group to share best practice and identify what more can be done to tackle this important issue. We are focussed on learning from experts, sharing knowledge as we go, and bringing some smart disruption to some of the more complex challenges.

There are some actions that we have already taken – most importantly our new basic bank account offering, the M Account. Basic bank account customers are likely to be subject to the Poverty Premium as they typically have low and/or fluctuating income, with poor or no credit history and often low financial literacy or confidence. Rather than offer them a vanilla, transactional product we have developed an account that gives these customers access to money management tools, where they can set limits, send balance alerts, track their transactions, more easily save and, crucially, power down their energy bills through an in-app partnership with Go-Compare. A small step, but one of the most significant Poverty Premiums is being on the wrong energy tariff. Ironically, tools like these are often incorporated in the more sophisticated bank accounts that are targeted at consumer-savvy, affluent customers but aren't readily available to those that actually need them the most.

If businesses are serious about stakeholder capitalism there is a moral obligation to tackle the Poverty Premium swiftly and effectively

## Our call to action

We are at the very beginning of this journey and know that such a complex, systemic issue cannot be solved by an individual organisation, however determined we are.

That is why we are calling on the industries that contribute to the Poverty Premium to take five simple actions that we believe will go a long way to tackle this issue:

1. Make tackling the Poverty Premium an ESG commitment.
2. Develop stretching targets to tackle the premium and publicly disclose progress.

3. Invest in data, technology and resources to identify those customers most at risk from paying a poverty premium and develop solutions to safeguard them.
4. Join us in working with experts and other sectors to share insights, best practices and find innovative solutions.
5. (For banks) invest in basic bank accounts so they are no longer 'basic' and instead incorporate the tools that help those most in need of support to thrive.

## Conclusion

As the UK seeks to rebuild, it is more important than ever that all of society has the opportunity to contribute to the country's future success. If businesses are serious about stakeholder capitalism there is a moral obligation to tackle the Poverty Premium swiftly and effectively, but crucially for productivity and UK GDP, it is essential that is addressed so that we can truly build back better and faster post-pandemic.

# CHAPTER 6 – CONNECTING STAKEHOLDERS WITH [THEIR] CAPITAL

**Charlotte Black**
**Non Executive Director**
**Aberdeen Standard Asia Focus PLC**

> "The market is a good servant – but a bad master"
>
> Lord John Eatwell

## Introduction

Capitalism is a vital and positive force and the future of nations and citizens depend on its continuing success. However, trust and confidence in corporate governance has been eroded and a chasm opened up between business and its wider stakeholder base. The failings of corporate governors and the long complex supply chain between savers and their underlying shareholdings both contribute to this burgeoning discontent.

The disaffection with UK plc and globalisation more generally, stems from too little corporate engagement with investors, employees, suppliers and customers. The ever-widening pay gap and the apparent one rule for the boss and another for everyone else deepens the fault line. The only shareholders who have the opportunity to take any action are institutional, but they are under short term pressures and often in the same pay band as the bosses they are meant to police, while savers in the ISAs and Pensions they manage have no direct relationship with UK plc – so there is a need to reconnect.

These grievances add fuel to an ominous anti-capitalist insurgency. How do we make business and bosses more accountable and the rest of us aware that we are all stakeholders and that it is in all our interests for business both to safeguard the planet and to flourish?

Today three quarters of all households in the UK have some form of invested savings and now through auto-enrolment, one of the most promising Government policy achievements in recent times, all working people have a stake in UK plc and should be able to give a view on how it behaves. With fast developing technology and the modern mobile labour market, auto-enrolment should enable a pension pot to follow workers from job to job with a single valuation on their phone, showing the principal shareholdings in their pot. Savers could then be aware and shop accordingly, e.g., Vodafone not Sky, Tesco instead of Morrisons – or vice versa – as well as responding to polls on 'their' CEOs' pay, their company's policy towards net zero emissions or other matters of corporate behaviour.

Such facilities could be a short time away with new smart technologies and will not require complex legislation or regulatory box ticking or even the massive Pensions Dashboard that Government and industry is trying to build; but just postponed again to 2023 having promised it in 2019. Technology could enable us all to put up or shut up on corporate governance matters and dent the arguments for more coercive and restrictive practices – the antithesis of the free market. Encouraging such engagement and transparency will

motivate saving and support the fundamental freedoms that allow business to develop, while influencing its social and environmental policies.

## Shareholder power and executive pay

Following political and media pressure the message on executive pay is getting through to its relatively small audience of interested professional investors. BlackRock, one of the world's largest investors, does not support the re-election of board directors who fail to rein in outsized pay packets unless workers' wages increase by a similar quantum. This and similar stands taken by Standard Life Aberdeen and other institutions, are arguably more powerful than any rules or regulations.

Nonetheless, there is a need to broaden engagement beyond the narrow cohort of institutional shareholders.

We have for some time been experiencing reduced confidence in the institutions and corporations that shape our society and COVID-19 has exacerbated this – so government must re-contract with citizens and business engage with stakeholders to deliver solutions for these concerns.

## Existing rules and new opportunities

Setting aside the complex and flimsy corporate governance obligations of institutional investors under the FRC Code. It is only when significant numbers of savers and investors are given a role in governance that the tide will turn and fund managers have to take more account of the views of their customers, while the media will have an incentive to express opinions to a large and receptive audience at last.

There is no wish to undermine the existing nominee custodial arrangements which is the only cost-efficient method of share ownership for small savers and investors. Equally, there is no point in enhancing the rarely used proxy arrangements introduced in 2006 – for which there is little appetite as they are cumbersome and expensive.

Now a new form for stakeholder engagement and communication needs to be developed and is possible using smart technology.

It could work like this: savers' annual ISA or pension statement includes a free offer to register *to 'vote in a poll'* or *'to have your say'*. Savers sign up for alerts on their PC or phone from the FTSE 100 and 250 companies held within their pension or investment product. They then receive a simple polling card ahead of the AGM – e.g., to approve Directors' pay awards, dividends and ESG policies and vote For or Against in a 'one man one vote' advisory poll and press send.

The facility could be extended by companies to their employees and other stakeholders of both public and private companies.

'Votes' will be aggregated and supplied to registered shareholders and Board before the AGM, after which the poll results will be published alongside the registered shareholders' actual votes. The registered shareholders will either comply with poll 'advice' – or explain why not.

Pension providers should develop an auto enrolment account that employees can take with them from job to job, with tools to show how increasing their savings will enhance their pension at retirement. Together with these stakeholder services, such a platform

could energise savers and encourage them to bring all their savings into one service, as should soon be possible under the Open Finance project.

Savers and pensioners put up their savings as risk capital for business and potentially for national or local infrastructure projects and they should be treated as valued investors.

This 'enfranchisement' of even a proportion of the 12m individuals in equity related savings products today and the increasing millions more through auto-enrolment, could be akin to the 1980's sale of council houses in terms of its political awakening. Indeed, Unilever has just announced that there will be an Advisory Vote at its 2021 AGM on its net zero by 2030 policy. Mark Carney also believes that investors could have a vote on a companies' climate plans – to "establish a critical link between responsibility, accountability and sustainability."

A new form for stakeholder engagement and communication needs to be developed and is possible using smart technology.

There are nonetheless challenges as well as opportunities within this proposal:

- Encouraging underlying savers and investors participation – who are notoriously hard to engage and there will need to be a pilot to test public appetite.
- Legacy contracts – always a challenge to any systems development.
- A complex data matching project, but well within capabilities.
- Costs – though more of an opportunity for data gathering and mapping.
- Legislation – none should be required as polling would be purely advisory – though political will and support would be a vital ingredient and a spur to the development of a pilot. 'Votes' would not be binding and no challenge to Company Law, they will be aggregated and anonymous – it will be their publication that wields the power.
- Regulation or voluntary? All voluntary. Any mandatory requirements will add more complexity with the need for audit trails of huge data – adding inexorably to costs. As the 'vote' or poll is advisory, votes will be cast anonymously – it will be publicity and peer pressure that steer Boards' strategy and behaviour, rather than another tick box exercise.

## Strengthening the employee, customer and wider stakeholder voice

Companies including private companies could freely provide such a service to their wider stakeholders. Both public and private corporations are aware of growing disquiet and the new populism that threatens them; their attempts to appear more local and in touch are increasingly apparent through their social media feeds. Boards will soon know if their policies are unacceptable or just misunderstood and be keen to address any concerns, for fear of poor publicity.

## The right combination of high standards and low burdens

The key principles at the heart of UK corporate governance – that is unitary Boards and shareholder rights and the voluntary nature of comply or explain, with its high standards and low administrative burden – will each be enhanced by broader inclusion of other stakeholders' views.

We can't turn the clock back on global capitalism, it slips around the world with ease, but we can enable savers, employees and consumers to have a say in how it performs.

The awakening of registered shareholders (institutional investors and pension trustees) acting on behalf of millions of smaller investors, savers and pensioners in both passive and active funds, should result in more consideration of their responsibilities and engagement with their underlying customers; while these customers will realise that they do have a stake and it is in their interests that the companies in which they are invested do well, safeguard the planet, make profits and employ the very best talent.

We can't turn the clock back on global capitalism, it slips around the world with ease, but we can enable savers, employees and consumers to have a say in how it performs. Post-COVID, governments must re-launch capitalism making it more engaging and accountable – to save it from anger and mistrust.

Globalisation is not pernicious as claimed; it is a remarkable force for the broadest prosperity. But while business wields such economic and cultural power it must do so not only for the benefit of its shareholders, but also for its staff and customers, society and the planet – and now interactive technology can make it do so.

# CHAPTER 7 – STAKEHOLDER CREDIT: WHY WIDESPREAD ACCESS TO FINANCE IS A FORCE FOR GOOD

**Chris Leslie**
**Chief Executive**
**Credit Services Association**

## Introduction

> There are certain things in life we often take for granted. In the course of managing our household finances, we know that it's good to plan expenditure to fit our income. But in that daily and weekly balancing act, we are helped immensely by a phenomenon now widely available: credit.

Credit helps to smooth the flow of available free cash from month to month and has had a transformative – and positive – impact on the standard of living for billions of people worldwide. It's no longer necessary to force individuals to save up the full cost of expensive items before they can make use of them. Credit has made it possible for those without deep reserves, but who do have regular earnings, to access higher value capital items that would otherwise be beyond reach.

In a market economy, helping people benefit from the building blocks of decent living standards today, rather than wait years and years going without, has had a transformative impact in opening up opportunities and new horizons that many of our predecessors never had. Modern prosperity has been accompanied by the invisible benefit of credit: a hundred years ago GM cars made in Detroit became obtainable for the first time with a 35 per cent down payment; Diners Club credit cards replaced the need for separate revolving credit at multiple merchants in the 1950s, introducing significant new convenience for customers.

The story of Twentieth Century progress would be incomplete without a nod to the benefits that greater access to finance and credit helped bring – improving access to decent housing, furniture, refrigeration, entertainment, travel and more besides. Obtaining a home loan with repayments spread over 25+ years made it possible for millions to make choices on where and how they live in a way simply impossible in generations gone by. How many of Britain's nearly six million businesses – and the innovations they have generated – would have got off the ground without the kickstart provided by credit?

Modern prosperity has been accompanied by the invisible benefit of credit.

The basic concept of a facility that frees many people to acquire new benefits and opportunities ought to be chalked up as a formidable social achievement. Alongside other great advances for humanity in the past hundred years – literacy, science, hygiene, communications and technology – access to finance has helped reduce the number of people living in extreme poverty according to World Bank data from two-thirds in 1950, to

42 per cent in 1981, then less than ten percent in 2015. And this at a time when population growth has burgeoned.

There are of course new challenges which have emerged – for example, a shortage of housing supply and high demand driving house prices often beyond the multiples available through today's mortgage frameworks. But these are problems involving a myriad of factors (town planning, taxation, financial regulation and so on) that are capable of being solved if, as a society, we will our governments and parliamentarians to do so.

There have also been examples of bad practice and abuse requiring society to respond; excessive charges or rogue operators pursuing morally questionable tactics. It was precisely to combat these that the UK has established one of the most comprehensive and rigorous regulatory regimes governing financial services of any country in the world, and why trade associations such as the Credit Services Association have developed strong codes of practice to provide additional reassurance to customers and creditors alike. We have learned that good governance and common standards must accompany financial services innovation.

Credit does come with a cost. But if regulated appropriately, society benefits from available credit – the convenience it offers, providing choice for individuals, flexibility if required and forbearance in repayments when necessary. For every borrower there is a creditor, in a cycle of credit driving the engine of our economy. Creditors are too often perceived as faceless banks, when the truth is they are collectives of savers, pensioners or households. A family moving home and renting out their property until ready to sell. The local gym offering membership benefits. A restaurant waiting for the invoice to be paid after catering a wedding party. They all offer credit in varying forms.

If the last decade helped us realise the importance of regulatory standards, then maybe this is the decade in which we begin to properly value and appreciate the obligations we have to one another as stakeholders in the credit cycle.

Sometimes we forget that our economy is built upon these millions of individual transactions, agreements, deals and choices, where each participant has a mutual responsibility to one another (often unspoken) and where those shared responsibilities – creditor to borrower and vice versa – are the bonds of trust and reciprocity we each have as stakeholders in society.

If the last decade helped us realise the importance of regulatory standards, then maybe this is the decade in which we begin to properly value and appreciate the obligations we have to one another as stakeholders in the credit cycle.

How best should we nurture those mutual responsibilities so we all gain as a result? The obvious starting point is basic financial literacy and money education, equipping young people so they understand how credit works, the considerations made by both lenders and borrowers, how legal obligations are framed, how mortgages work and the nature of compound interest. Making sure society's financial stakeholders have full insight into the obligations they are entering into should be a basic prerequisite.

Signposting those in need of support to the right advice and supporting the vulnerable is crucial. But this should go alongside a concerted effort to destigmatise conversations

about money and debt. People shouldn't be afraid to pick up the phone and talk to their creditor or collection agency, not least as it is in everyone's interests to reach a mutually acceptable repayment plan as soon as possible and get to a quicker resolution as a result. Dialogue – and not reticence – is a litmus test for a well-functioning stakeholder economy. Money advice agencies, creditors and government should work together to promote the benefits of early engagement and conversations as soon as issues crop up for individuals.

With the climate change challenge and the need to build a robust recovery out of the COVID-19 pandemic in the years ahead, flexible and available finance will be absolutely crucial to underpinning the public infrastructure and household investment we need to cope.

It is not possible to have a well-functioning stakeholder economy without widespread access to affordable credit. And if we don't work towards an open 'stakeholder credit' culture, but instead descend into the narrative that lending and borrowing is some sort of 'demerit' activity to be constrained or reserved for the privileged, then millions of people who might gain from the flexibility offered by credit tailored to their circumstances simply won't have that option available in the future.

The global financial crisis of 2008 severely damaged the reputation of banking and financial services, rightly forcing new regulatory safeguards. There were indeed bad practices and major policy failings. But in an era of polarised debate, the case for responsible credit availability feels very much drowned out by those seeking to make wider ideological conclusions. A casual glance at social media shows that there is a vocal anti-credit, anti-capitalist zeitgeist which, if given unchallenged credence, would risk throwing the baby out with the bathwater.

It is not possible to have a well-functioning stakeholder economy without widespread access to affordable credit.

The truth is that credit and financial services can be a force for good – even if it is unfashionable to say so. Orwell was right when he said that sometimes it is our first duty to restate the obvious. And while it is quite telling that today very few policymakers feel able to do so, it does need to be said.

# CHAPTER 8 – THE TRIPLE CHALLENGES OF A POST-COVID WORLD

**Frances Coppola**

## Introduction

> As the vaccine is rolled out across the UK, and the threat to life from COVID-19 starts to recede, thoughts naturally turn to what happens next. How can we repair the damage caused by the pandemic? Will we ever "get back to normal"?

How short our memories are. The issues we now think the pandemic has brought upon us were already there before it struck. Indeed, we were actively discussing them. Have we so soon forgotten our agonised debates about the future of work in a digital age? The growing gulf between the haves and the have-nots, those who benefited from globalisation and those who were "left behind" by it? The anger of young people at the selfishness of their elders and a political system that favours the old at the expense of the young? And the existential fear that caused people to riot in the streets over climate change? All of this was there before the virus arrived, and will still be there after it has passed. In this respect, life will get back to normal.

Of course, we must repair the damage caused by the pandemic, as far as we can. But this must not distract us from the three fundamental challenges of our time:

1. The rise of the digital economy.
2. Ageing populations and the historically anomalous phenomenon of "retirement".
3. Climate change and environmental destruction.

For the first of these, pandemic restrictions have forced the pace of change. Working practices have changed, perhaps forever. People who have abandoned high streets and shopping malls in favour of online shopping may never return to them. Businesses that have had to adapt to a virtual existence may decide that they rather like it: even if travelling for holidays returns in force, travelling for business could remain a shadow of its former self, replaced by Zoom conferences. Service industries that depended on people physically working and socialising together face a grim future. And in the financial sector, banks are moving online at an ever-faster pace, while the growth of contactless trading and the threat of negative interest rates raise – once again – the question of how long physical cash will continue to exist.

Digitising finance sounds like an unalloyed good. Who would not prefer to make an instantaneous payment using a bank card or QR code on their phone, rather than carrying around piles of dirty banknotes and coins? But we should beware of the control that digital finance gives to institutions. Physical cash is an anonymous bearer instrument: once in circulation, people cannot be prevented from holding and using it. But when banks and governments control people's access to money, the social consequences for those shunned by society could be severe. We should think hard before eliminating all means of transacting anonymously.

Providing a digital means of transacting anonymously was the early promise of cryptocurrencies like Bitcoin. Bitcoin was originally designed as cryptographically secure anonymous electronic cash. Sadly, it has veered far from its original purpose and is

currently a speculative asset for investors desperately searching for yield. So far there is no widely-known alternative. But it's early days in the cryptocurrency revolution, and they are not yet widely understood among the people who most need to use physical cash – the elderly and small businesses. So as digital money becomes ubiquitous, not only in availability but in understanding, perhaps an anonymous digital bearer instrument will emerge. Indeed, perhaps central banks should create one. After all, they create today's anonymous bearer instruments.

The pandemic has also brought into sharp relief the scourge of inequality, and in particular, intergenerational unfairness. The rise of the digital economy disrupts working practices, encouraging the rise of an atomised "gig" economy in which workers' protections are eroded and their wages depressed. In contrast, the pensions of those who lived and worked in an earlier, kinder age are protected. Pensioners are of course the group worst affected by the virus itself: they have died by the thousand. And better-off pensioners are suffering an income squeeze due to very low interest rates. But the principal financial cost of the pandemic has fallen on young people, just as the cost of its predecessor the Great Financial Crisis did. The millennial generation has suffered two catastrophic financial shocks since leaving school, and the younger "zoom" generation is entering the workforce in the deepest recession since the 1930s.

The phenomenon of "retirement" is taken for granted in Western economies, though it is of relatively recent origin. Older people regard it as their right to live comfortably on some combination of state and private pensions for twenty or thirty years. Few think that rising life expectancy should mean continuing to work for longer, and to be fair, many younger people – notably employers – don't think they should do so. Particularly now, when unemployment among younger people is high and rising, it can be very hard for those approaching the generally-accepted retirement age to find work. But the returns on pension savings are at an all-time low. Those lucky enough to have defined-benefit pensions are to some extent protected from the pension income squeeze, but many of the companies and organisations that sponsor their pensions are finding it increasingly difficult to maintain them.

The millennial generation has suffered two catastrophic financial shocks since leaving school, and the younger "zoom" generation is entering the workforce in the deepest recession since the 1930s.

Despite the best efforts of government and the finance industry, it isn't possible for today's young people to build up the sort of pension pots they need for the comfortable retirements that today's older people enjoy. Forced saving such as auto-enrolment, and campaigns to encourage working people to save for their retirements, may give some relief from the future pensions crisis, but at the price of continually depressed aggregate demand as people prioritise saving over consumption. When everyone is saving like crazy, the economy goes into a sustained slump.

The defined-benefit pensions crisis shows that private pensions are ultimately paid by current workers in the form of eroded wages and insecure jobs. State pensions are paid by current workers in the form of higher income and payroll taxes. And defined-contribution pensions are vulnerable to interest rate changes that can leave their recipients considerably poorer than they expected. The financial industry is unable to

provide the pensions that people expect, because the promises were made at a time of much higher interest rates and, frankly, a failure to recognise the implications of a rising elder population and a shrinking younger one.

The truth is that people don't save for their own retirements, they pay during their working lives for the retirements of others. That is true whether the pension they eventually receive is a pay-as-you-go state pension or a fully-funded private one. We need a new social contract that more fairly distributes the costs and benefits of retirement, and a complete rethink of the approach to retirement provision. Pension savings should be fully deployed in building productive enterprises and activities bringing about social change, not dumped in "safe assets". And the state should fully guarantee a decent standard of living in retirement regardless of taxes paid during working life.

We need a new social contract that more fairly distributes the costs and benefits of retirement, and a complete rethink of the approach to retirement provision.

One area that pension savings could and should be deployed into is the green economy. Old and young alike often assume that climate change and environmental destruction is a problem for young people to solve, because the old won't be there to see its effects. But old people have children and grandchildren: even though they may not actively be involved in saving the planet, their retirement savings can provide the money to enable younger generations to do the work and be properly paid for it. The finance industry can help by redirecting retirement savings into green investments and project funding.

The ideas in this article only scratch the surface of what needs to be done. Digital transformation, the pensions crisis and climate change are not going away, but if the wealth of the old can be productively deployed to enable the young to bring their brains and their creativity to bear on these triple challenges, we may yet secure the future of today's young people and those yet to be born.