World Knowledge Forum 2012

Tuesday, October 9, 2012 – John Rogers: What is the Future of Finance?

On Tuesday, October 9th, 2012, the 13th World Knowledge Forum brought forth a discussion of the status of ethics in the global financial market. Speaking on the issue was John Rogers, President and CEO of the CFA Institute. In his speech, entitled *What is the Future of Finance?* he expressed the belief that finance has become detached from the global economic system, and that the broken model needs to return to its proper role.

Mr. Rogers outlined many problems that exist today before proposing three steps he sees as essential to solving the problem.

Today's global financial situation suffers because of a loss of confidence in finance and a lack of trust in the market. "Failures of the individuals who practice the craft of finance has led to the social contract between finance professionals and those we serve being broken," Mr. Rogers explained.

Record levels of cash reserve and similar shifts in behavior point towards short-term savings, rather than the long-term savings of the past. Mr. Rogers stated, "These are the roots of a social problem that, if not corrected, will wash over us in the next generation."

Investing for the short-term will result in what Rogers refers to as "a savings gap." He predicts that the impact will be felt through intergenerational stress, government regulations and tax change, and unsatisfactory retirement. "The saddest social impact of all is when people who reach retirement age simply don't have enough money, and they live lives that are not the kind of retirement lives they expected," he said.

Mr. Rogers continued, "Finance has no divine right to exist. Finance was not created by our Maker on the Seventh Day, and in fact, there are plenty of examples of the financial sector being marginalized when finance fails to provide a social purpose." He referred to examples of marginalization and failure in the Icelandic bank system, the Greek economy, and the now-irrelevant capital market in Japan.

However, Mr. Rogers feels that there are ways to restore finance to "its right and proper place in the global economic system." He cited three "pillars of trust" that can help to build a more sustainable financial system for the future. He pointed to education, ethics, and the enforcement of rules as key areas of improvement that can build societal trust in finance.

The first area of improvement he addressed was education. He began with an anecdote about the Beatles, saying, "Many people thought that they were a miracle that had come down from heaven or a spaceship; their music was so perfect, so balanced, so revolutionary." This perceived perfection, Mr. Rogers stated, was a result of over 10,000 hours of practice.

He firmly believed that a professional designation should require the same time commitment. "In the United States, it's easier to become financial advisor than to become a cosmetologist, someone who does nails," Mr. Rogers lamented. "No one should be able to manage someone else's money without proving their knowledge, skills, and abilities," he said.

The next area that Mr. Rogers detailed was the need for was a code of ethics. "Ethics are part of a system of belief, values, and norms. Ethics are part of creating trust, and trust is at the heart of the social contract," he said.

He cited academic research on the type of personalities that tend to lean towards careers in finance. Many of them have been grouped as possessing the ‘narcissistic’ trait, he pointed out. “I don’t mean that as a bad word, there’s nothing wrong with having healthy self-regard,” Mr. Rogers assured. “However, it’s unfortunate that if you give people an opportunity to cheat, and you group by personality types, those in the narcissistic corner tend to cheat more.”

He detailed further psychological research that showed simple recall of the Ten Commandments eliminated all cheating within a group of test participants. “Having an oath, having a code, having a system of ethics and repeating that code or oath on a regular basis is proven to reduce the propensity to cheat,” he said. Mr. Rogers believes that this could be a large factor in restoring trust to the financial sector, particularly because the rewards for cheating in finance are so large in comparison to the risks.

The third area for improvement, the enforcement of rules, could further reduce the level of cheating. Mr. Rogers asked his audience, “If you can cheat, do the wrong thing in the financial system and not get caught, then what good is a system of laws?” In the finance industry, the rewards for cheating “can be counted in billions of dollars, but the punishment of breaking the laws can be quite limited.”

Mr. Rogers emphasized the need for stronger enforcement of laws. Although he acknowledged that it can be expensive, time-consuming, and carry the risk of political tension, he believed that enforcement was another key factor in improving the integrity of the finance industry to restore its proper role in the economy.