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Investment professionals blame bank leaders, want global consultation on new financial system

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The results of an international survey of financial professionals about their views of the financial crisis were today released in London. The survey was conducted by AQ Research in partnership with the Network for Sustainable Financial Markets (NSFM).

Survey results show that:

- Investment professionals assign responsibility for the crisis mainly to financial industry insiders, such as
  - **bank leaders**, who didn't understand risk position & were incentivised to bet big
  - **their boards**, that allowed the bankers to get out of control, and
  - **shareholders/fund managers** who failed to exercise governance on companies or understand the risks in their investments.

  The other major parties cited were:
  - **Politicians and regulators**, who didn't have the desire or confidence to supervise banks and
  - **central bankers**, who ignored asset price bubbles.
- 64% believe that the global response to the crisis has encouraged **moral hazard.**
- Beyond the immediate responses, 93% consider the response has to be global in scope.
- Only 7% believe that the response should only come from **government**. Half think the **finance industry** broadly should be also involved, the remainder suggest other stakeholders ranging from consumers through to international agencies like the World Bank.

Who was to blame for the financial crisis?

Bank leaders & their boards	21%
Shareholders/fund managers	19%
Politicians and regulators	14%
Central bankers	10%
Asset owners	9%
Investment analysts	9%
Hedge fund investors	7%
Accountants	6%
End customers	6%

- Less than 12% thought that the solutions should be reactive to events as they unfold. Half thought that the best solutions should come from a **1-2 year global consultation**, with the remainder suggesting a medium term considered view from politicians & regulators.
- 74% thought that the voice of investors **should be more important** than that of bankers in the debate, while only 38% thought that investors currently had a more important voice.
- Investment firm leaders and ordinary investment professionals, were judged more important than ESG professionals and trade associations in **communicating** this.
- Three things are judged almost certain to happen:
  - More **intrusive regulation** with stronger penalties;
  - Greater scrutiny of **executive pay** and rewards;
  - **Governance** of financial institutions will be much tighter.
- Only 11% of the respondents will not change their professional behaviour as a result of this crisis. Greater involvement in **governance** is the most likely development, with 60% agreeing with these two statements:
  - Pay greater attention to corporate governance aspects as an investment issue, even if it means you **pass up on upside potential;**
  - Be more **active as owners** and pay greater attention to corporate governance, even if it means you **irritate company management.**

William Russell-Smith, Managing Director of AQ Research, commented: “What this survey shows is that financial market participants clearly recognise they have a significant responsibility for the situation - more or less on par with bankers and regulators. And they see the need for investor involvement in solving the problem and recognise that the investor voice is currently much less effective what it should be. Interestingly, the expectation is that CEOs and investment professionals are expected to take the lead here, not trade associations or ESG / RI specialists.

"But there are also some worrying features. That investors see politicians, regulators and central bankers as the way forward shows that the industry is most comfortable operating within guidelines.

“A clear majority also acknowledge that today's cures have encouraged moral hazard. And there is a clear sense that things have to be different - only 11% aren't planning to make any change, But what is worrying is that across all the answers, we saw little difference between the view of experienced market participants and those who have little experience of booms and busts. The industry is clearly very intelligent and has thought about bubbles a lot but if this doesn't result in real learning and change, the sector seem destined to keep reliving old mistakes."

Helen Wildsmith, one of the current co-ordinators of NSFM and Head of Ethical & Responsible Investment at CCLA noted that “The time has come for the long-term interests of beneficiaries to be firmly placed at the centre of investment decision making. By working together boards, fund-managers, trustees and regulators are more likely to develop a financial system that will withstand the challenges of the twenty-first century”

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Background

- The survey was open during October 2008.
- 125 investment professionals completed it.
- 45% were from Europe, 45% from North America.
- The sample represented the mainstream (e.g. 78% agreed or strongly agreed that the financial crisis is nothing new, bubbles & recessions come & go):

Consultant	19.6%
ESG specialist	15.9%
Asset owner	15.0%
Fund Manager	13.1%
Investment advisor	13.1%
Broker	4.7%
Academic	1.9%
Other	16.8%

- With a range of experience- although there was little variation in the responses between the most and least experienced (question: earliest event with investment experience):

Dot com collapse in 2001	30.2%
LTCM/emerging markets in 1998	17.9%
1987 crash	23.6%
Early 1980's recession	12.3%
1970's oil price shock	16.0%

About AQ Research
AQ Research (www.aqresearch.com) provides quantitative analysis of analysts’ recommendations and eps forecasts, using data obtained from the broking houses involved. AQ has been analysing investment research since 1998. AQ Online delivers this analysis through a web browser.

About NSFM
The Network for Sustainable Financial Markets (www.sustainablefinancialmarkets.net) is an international, non-partisan network of finance sector professionals, academics and others who have an active interest in long-term investing. We believe that the recurring crises recently experienced in our financial markets are not isolated incidents. Rather, this instability is evidence that the financial market system is in need of well thought-out reform so that it can better serve its core purpose of creating long-term sustainable value.