

# *The International Banker*

**Connect to prosper**

OUR NEW LORD MAYOR'S BIG IDEA



AUTUMN 2023



AUTUMN 2023



*The Worshipful Company  
Of International Bankers*

## CONTRIBUTORS

GERALD ASHLEY  
THANOS BIKAKIS  
FRANK BROWN  
RICHARD CHARNOCK  
ALISON COTTRELL  
STEPHEN EVANS  
ALI GRIFFITHS\*  
LIZ FIELD  
SIR JOHN KAY CBE  
ANGELA KNIGHT CBE\*  
GEORGE LITTLEJOHN\*  
ROBERT MERRETT\*  
ALI MIRAJ  
JAMES NISBET  
SIR DAVID OMAND GCB  
KARINA ROBINSON  
CAROLE SEAWERT\*  
TIM SKEET  
IRINA ONS VILABOA  
ALEEM WALLANI  
MARTIN ZETTER  
\*Editorial Panel members

THE WORSHIPFUL COMPANY  
OF INTERNATIONAL BANKERS  
12 AUSTIN FRIARS, LONDON EC2N 2HE

CLERK: CAROLE SEAWERT  
DIRECT LINE: 020 7374 0212  
EMAIL: [clerk@internationalbankers.co.uk](mailto:clerk@internationalbankers.co.uk)  
[www.internationalbankers.org.uk](http://www.internationalbankers.org.uk)



## From the Editor

### The challenges of ethical AI

In the northern spring of 2023, a winter chill lingered. The Cassandras were out in force, claiming artificial intelligence (AI) would be the end of mankind. Elon Musk, Steve Wozniak (co-founder of Apple) and more than 15,000 other luminaries had written an open letter calling for a six-month pause in the development of AIs more powerful than the current state of the art.

Eliezer Yudkowsky, head of the Machine Intelligence Research Institute, a not-for-profit in Berkeley, California, is regarded as one of the great AI gurus. Writing in *Time* magazine just before Easter, he foretold darkness: “The most likely result of building a superhumanly smart AI, under anything remotely like the current circumstances is that literally everyone on Earth will die. Not as in ‘maybe possibly some remote chance,’ but as in ‘that is the obvious thing that would happen.’ ... If somebody builds a too-powerful AI, under present conditions, I expect that every single member of the human species and all biological life on Earth dies shortly thereafter.”

Yudkowsky has proposed, some years ago, a modified Moore’s law, that every 18 months, the minimum IQ necessary to destroy the human race drops by one point. Many bankers headed for their cellars, quaffing their best vintages before time was called on our race. But enter, around the same time, the City’s most distinguished and perceptive polymath, Honorary Freeman Professor Michael Mainelli, with his “695th Lord Mayor’s Ethical AI Challenge.” The ethics around the development and deployment of AI are complex. But Professor Mainelli has helped to simplify them, with a focus on the concept of “principlism”. This refers to a common-sense approach to ethics that uses a framework of four universal and basic ethical principles: respect for autonomy, non-maleficence – in

medicine, for instance, the obligation of a physician not to harm the patient – beneficence, and justice. Principlism has been adopted enthusiastically in many professional fields, mainly because it avoids complex theoretical debates in moral philosophy.

The approach was first advocated by the US National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research in its 1976 Belmont Report. It was developed in a book on “Principles of Biomedical Ethics” by Tom Beauchamp and James Childress, published three years later. They highlighted and developed those four *prima facie* principles that lie at the core of moral reasoning in health care: respect for autonomy (the capacity to make an informed, un-coerced decision), beneficence (the welfare of participants), non-maleficence (the concern that given an existing problem, it may be better not to do something, or even to do nothing, than to risk causing more harm than good), and justice. In their opinion, these four principles are part of a “common morality;” an approach that “takes its basic premises directly from the morality shared by the members of society—that is, unphilosophical common sense and tradition.”

The Lord Mayor’s Challenge in this key area has brought together an unparalleled range of talent across the Livery, and the wider community, resulting in parallel educational developments from BCS, The Chartered Institute for IT, and the Chartered Institute for Securities & Investment.

And huge thanks on this issue to Past Master Robert Merrett, and as ever to our ace designer, Lisa Bamford of Stoats & Weasels.

**George Littlejohn**

Editor – *The International Banker*  
[george.littlejohn@btinternet.com](mailto:george.littlejohn@btinternet.com)

# Contents

## INTRODUCTIONS

<b>From the Master</b>	4
<b>The Installation Dinner</b>	6

## LOOKING OUTWARDS

<b>Artificial intelligence: saviour or destroyer?</b>	8
<b>Ethics and generative artificial intelligence</b>	10
<b>When quantum meets AI</b>	13
<b>The ocean emergency – and how to fix it</b>	15
<b>Managing crises in finance</b>	18
<b>Clear thinking about pensions provision</b>	20
<b>The leader on the board</b>	23
<b>Consumer Duty begins to bite</b>	24
<b>The Secondary Banking Crisis: Historical or Perennial?</b>	27
<b>Fixing one's interest on a floating mortgage</b>	30
<b>Are banks underwriting or underwater-writing mortgages?</b>	32

## CHARITY AND EDUCATION

<b>Pitch a Charity</b>	34
<b>ClementJames Centre</b>	36
<b>The Share Foundation</b>	36
<b>Uprising</b>	37

## LOOKING INWARDS

<b>A strong new course for membership</b>	38
<b>Managing the charitable fund's investments</b>	39
<b>Other committees</b>	40
<b>Our new Junior Warden</b>	42
<b>From the Clerk</b>	43
<b>The best and brightest events from the second half of 2023</b>	44
<b>Forthcoming events</b>	48



### MORE REGULAR NEWS ON THE WCIB LINKEDIN CHANNEL

Join the many WCIB members who are already part of the exclusive WCIB LinkedIn group, to share news and contact each other directly. Sign up swiftly here: [bit.ly/WCIBlinkedIn](https://bit.ly/WCIBlinkedIn)

If you have the LinkedIn app on your phone, you can use this QR code.



# A welcome to Angela Knight, Master for 2023-24

THE NEW MASTER WAS INSTALLED AT A GLITTERING DINNER IN DRAPERS' HALL  
ON 4 OCTOBER 2023, THE BIGGEST IN THE COMPANY'S HISTORY

Angela Knight CBE is on her “fourth career” as she puts it, starting with 15 years in engineering in the north of England, followed by a term in Parliament as an MP and as a Treasury minister. She is most well known for her “third” career running trade associations, most notably the then British Bankers Association (now UK Finance) through the financial crisis. Currently she is a non-executive director on the boards of three companies and she chairs the terrorist damage reinsurance company, Pool Reinsurance.

---

*Master Angela is proposing to focus on turning into reality the new strap line of the WCIB as “a vibrant inclusive livery company, connecting leaders in international banking and financial services to promote the City, networking, insights, education and philanthropy”. This builds on the diversity of the membership of the Company both in respect of women (25%), internationality (with over 40 countries represented), and members from all age groups.*

---

She said: “we will be giving members more opportunity to meet and discuss financial matters, with relevant speaker guests on a bi-monthly basis”. She cited improving EU relations and the possibility of mutual recognition as one key topic, plus the impact of geopolitical shifts on the attractiveness of the UK and London.

Contemplating the huge changes in the last 25 years or so brought about by mobile phones, email and social media, and with AI now firmly on the business agenda, she said: “...the first of our financial events takes up the Artificial Intelligence challenge with a debate on ‘Is the City’s fading glory being replaced by Jobs for the Bots?’”

In concluding her comments, Angela looked back at the beginnings of the WCIB and that it has always been “a gathering ground for the broad church of financial services professionals and from closely related professions.....and this broad community matters profoundly for maintaining and creating sustainable growth in this country and elsewhere.”

As a modern livery company the WCIB had to make sure that it had an offering for all members and all generations and asked all those present to join in the many events throughout the year and “in ensuring our Company moves and changes with our changing times”.

## ANDREW BAILEY: A GOVERNOR FOR ALL SEASONS

The key speaker for the Installation Dinner was Dr Andrew Bailey, Governor of the Bank of England. In thanking him, Angela commented on the breadth of the issues with which he has had to deal since his appointment in 2019. “I’m not entirely sure when you signed up for the role,” she suggested, “that you had expected to be the Governor during a pandemic, and through furlough, ballooning debt, a war, rocketing energy prices, and a period when inflation came back to the world in such force. Added to that, you’ve had to deal with four Chancellors of the Exchequers and four Prime Ministers - and counting?.... never has the Daily Mail been so interested in the Governor of the Bank of England”.

“But I’m sure I say on behalf of us all here today not just a very big thank you for spending the time with us this evening and your speech, but also for the skill and calm with which you are handling such a difficult economic period. There seem to be some green shoots and we all look forward to some more.”





Angela Knight



The Master with her Wardens



Andrew Bailey



The Master with the Immediate Past Master and new Freeman just before her Installation



# Installation Dinner at Drapers' Hall

COMPANY MEMBERS AND GUESTS ENJOYED A SUPERB EVENING AT DRAPERS' HALL FOR A ROUSING WELCOME TO OUR NEW MASTER







### THE JOYS OF THE EVENT

On 4th October, Members of the Company (including some newly-clothed Liverymen and new Freeman) came together to celebrate the Installation of Angela Knight CBE as our new Master. We were honoured to welcome the Governor of the Bank of England, Dr. Andrew Bailey, as our speaker and Guest of Honour, and to share a very enjoyable evening with many guests.

# Artificial intelligence: saviour or destroyer?

**OUR NEW LORD MAYOR, HONORARY MEMBER PROFESSOR MICHAEL MAINELLI, HAS BURST ON THE SCENE WITH A TIMELY DEEP DIVE INTO THE ETHICS OF AI DEVELOPMENT**

The WCIB has been fortunate in its short life to have had more than its fair share of Lord Mayors in its ranks. Former Masters Alderman Sir Peter Estlin, and the late and much-lamented Alderman Sir Roger Gifford, paved the way. Now we have a third, Alderman Professor Michael Mainelli, in the Mansion House for a year from November 2023. And what a year it promises to be.

Alderman Mainelli is the polymath's polymath, as at home in discussions about the mathematics and practicalities of carbon pricing as he is with deep theoretical physics or the tactics of racing Thames sailing barges. A summary of his career is impossible in these pages. Try Ms Google. But he is focused, very clearly focused, on what he wants to achieve in his life and as Lord Mayor. From the get-go, he has a laser-like fix on the ethical challenges that artificial intelligence (AI) poses for all of us. "AI," he says, "has the potential to affect society and individuals materially in both positive and negative ways. Rapid development of AI technology means that ethical

considerations must be taken into account from the beginning of the design process. AI systems rely on large amounts of data, which raise privacy concerns. Without ethical guidelines and regulations in place, the misuse or mishandling of data can result in harm to individuals or groups. Ideally, AI systems are transparent, accountable, and inclusive, and we must ensure that they do not reinforce or amplify existing inequalities.

"As AI becomes more advanced and widespread, there are growing concerns about issues such as bias, transparency, accountability, and safety. If people do not believe that AI is being developed and used in a responsible and ethical manner, they hesitate to use or interact with beneficial technologies." His mayoral theme, "Connect To Prosper – Our Knowledge Miles In The World's Coffeehouse" – embodies this challenge (see box). It celebrates the City of London's knowledge connections and convening power to solve global problems. The Lord Mayor is promoting an "Ethical AI Initiative" as one of his 'experiments' during the Connect To Prosper year as it is helping to address a global problem.

The Initiative aims to ensure that AI is developed and deployed in ways that benefit society, while minimising potential harm. Ethical AI training can help ensure that AI is developed and deployed in a way that aligns with our values, respects human rights, and promotes the common good. The initiative will establish ethical guidelines and principles for AI development, encourage transparency and accountability in AI systems, and promote collaboration and dialogue among stakeholders.

## The programme starts with two types of qualification:

Firstly, domain qualifications for "AI Deployers" – ie for the responsible deployment of AI. The Chartered Institute for Securities & Investment is the financial services domain certificate provider. Early discussions with other sectors indicate interest in areas such as accountancy, law and surveying. This is a 12-hour course.

Secondly, BCS, the Chartered Institute for IT, is creating an award for developers under the ethics area of the BCS AI Foundation Pathway. This will demonstrate how the societal impact of AI will be controlled by human interaction. It considers:

- the impact of, and level of responsibility for, AI in business
- scaling up the impact and responsibility of AI to society
- potential harm and safeguards
- the role of humans in an AI world

Viscount Camrose, Minister for AI & Cyber, Department for Science, Innovation and Technology said of the new qualifications: "There is no doubt AI has the capacity to supercharge our economy, but to reap the benefits of this extraordinary technology, we must first understand and mitigate the risks AI poses - including making sure it is safely and responsibly used in the financial services sector. This programme will help to increase accountability and unlock further opportunities for integration of AI technology across the sector and beyond."

**For further information on the educational programmes being run under the auspices of the Lord Mayor's Initiative, please visit [cisi.org/ai](https://cisi.org/ai).**







## Connect To Prosper – What’s The Big Idea?

As Lord Mayor Mainelli sees it, “the City of London’s Square Mile is the world’s coffee house where people bring their dreams to get them realised. Over 40 learned societies, 70 universities, and 130 research institutes surround the City. Our workforce is as much science and tech as finance. We have ‘knowledge miles’ of art, media, culture, engineering, research, accounting, law, banking, shipping, insurance, and investment management. Realising dreams involves everything from the creative and technical start to the support of professional and financial services. Why do knowledge miles matter? Because the world’s most productive concentration of connected knowledge networks solves problems, most notably the Sustainable Development Goals (SDGs).”

His “Connect To Prosper” plan follows and builds on Alderman Vincent Keaveny’s theme of “People & Purpose” as Lord Mayor 2021-2022 and Alderman Nick Lyon’s theme of “Financing Our Future” as Lord Mayor 2022-2023:

- On Commerce, reinforce our knowledge networks, strengthening ties with leading research, science, technology, and deep infrastructure developments internationally.
- On Community, integrate many networks from science to finance, the Commonwealth, Chambers of Commerce, and the livery, in common purpose, alongside government departments and initiatives directed at advancing knowledge, solving problems, and increasing trade in goods, services, and ideas.
- On Charity, the Lord Mayor’s Appeal’s and Mansion House’s voluntary and NGO machinery promotes the inclusive, healthy, skilled, and fair City we all seek, with a strong focus on education and mental health.

# Ethics and generative artificial intelligence

## TAMING THE SEEMINGLY UNSTOPPABLE SPEED AND SCOPE OF DIGITAL TECH

2023 has seen the splashy emergence of generative artificial intelligence (AI) and a range of other AI applications, with fears expressed about its possible role in destroying the human race (unlikely, say most) and also great hopes in the worlds of healthcare, science and education – and finance.

Alas, many AI risks – and opportunities – are “unknown unknowns”. AI is changing and morphing very quickly, and those challenges and options for growth will develop and evolve as that goes swiftly on. Learning through watching and waiting – but not for too long – is the way ahead.

Leaders across business, from board level onwards, are at the early stages of clarifying where accountability, contestability and redress would sit in relation to AI systems. In financial institutions of any size, a key mission is to define the role – and legal liability – of not just of board members, and the C-suite, but also lenders and investors, and any advisers in the world of finance and their clients.

### The opportunities – and challenges

One of the best and most intensive recent surveys of business and governmental attitudes to AI was conducted in the first quarter of 2023 by Pew Research Center, one of the world’s most highly-regarded think tanks. In all, more than 300 technology innovators and developers, business and policy leaders, researchers. According to Pew, overall they anticipate striking improvements in healthcare and education. They foresee a world in which wonder drugs are conceived and enabled in digital spaces; where personalised medical care gives patients precisely what they need when they need it; where people wear smart eyewear and earbuds that keep them connected to the people, things and information around them; where AI systems can nudge discourse into productive and fact-based conversations; and where progress will be made in environmental sustainability, climate action and pollution prevention.





But there were darker sides to many of the developments they celebrate. Inevitably, some expressed fears that align with statements in 2023 by technology leaders and AI specialists arguing that AI poses the “risk of extinction” for humans that should be treated with the same urgency as pandemics and nuclear war.

---

*Some pointed to clear problems that have been identified with generative AI systems, which produce erroneous and unexplainable things, and are already being used to “foment misinformation and trick people.” Some are anxious about the seemingly unstoppable speed and scope of digital tech that they fear could enable blanket surveillance of vast populations and could destroy the information environment, undermining democratic systems with deepfakes, misinformation and harassment.*

---

They fear massive unemployment, the spread of global crime, and further concentration of global wealth and power in the hands of the founders and leaders of a few large companies. They also speak about how the weaponisation of social media platforms might create population-level stress, anxiety, depression and feelings of isolation.

In sum, the experts in this canvassing noted that humans’ choices to use technologies for good or ill will change the world significantly.

### The broader ethical concerns in IT

The ethical and societal issues around AI are broader than just the new technologies themselves. For businesses, technology has a variety of interconnected impacts including unintended consequences, data risks, and appropriateness of technological uses, as well as broader environmental concerns. In a July 2023 paper in *Harvard Business Review*, three distinguished authors offer a systemic “Responsible Computing Framework” that integrates environmental challenges including energy consumption and emissions with many other social and governance aspects. It is a practical blueprint that firms can use to make their IT more green, ethical, trustworthy, and sustainable, based on six pillars that leaders need to address for their business to become a

responsible computing provider: data centres, infrastructure, code, data, systems, and impact. For each they provide several KPIs that leaders should focus on.

Their work carries weight in this field. The authors are Rashik Parmar, CEO of BCS, the Chartered Institute for IT; Mark Peters, Chief Technology Officer (CTO) for Energy & Utilities Europe and CTO for Deutsche Telekom; and Llewellyn DW Thomas, an Associate Professor at IESE Business School in Barcelona and Visiting Professor at Imperial College Business School.

“Over the past few years, IBM has spoken to hundreds of chief technology officers (CTOs) reflecting a cross-section of industries ... Clearly, business leaders recognise that technology will be a central part of delivering the future enterprise. However, they are also well aware that society is looking to businesses to prove they can live by the values they espouse — and computing has a key role to play. And these same CTOs mentioned that the societal impact of technology is keeping them up at night.

“For businesses, technology has a variety of interconnected impacts including unintended consequences, data risks, and appropriateness of technological uses, as well as broader environmental concerns. Leaders are worried about introducing vulnerabilities to their companies, about deploying systems with harmful biases, about how AI will be perceived internally and by the public, and about the environmental impact of using certain technologies. These issues are all connected, though they’re often discussed separately. If companies want to ensure they are responsible users of technology, they need a holistic approach.”

### The dual roles of regulation and standards

In March 2023, the UK government published a white paper – a discussion document – called *A Pro-innovation Approach to AI Regulation*. It sets out the government’s strategy for supporting innovation in AI, while providing a framework to ensure that the risks associated with it are identified, addressed and mitigated. It lays out a proportionate and “pro-innovation” approach to AI regulation.

According to Lord Mayor Michael Mainelli: “One of our strengths in Britain in regulatory frameworks has been a bias towards the use of industry or community ‘standards markets’, where industry standards and assurance processes provide ‘accredited conformity assessment’. Standards markets based on proportionate and pro-innovation business ecosystems ranging from safe gas boiler supplies to fire prevention, aircraft certification, or shipping safety.” He is a member of the board of UKAS, the United Kingdom Accreditation Service which is the sole national accreditation body recognised by the British government to assess the competence of organisations that provide certification, testing, inspection and calibration services.

“These standards markets should provide accreditation and certification such that people can place appropriate reliability on the assessed products and services,” he says. In a foreword to a July 2023 paper from the Association of Chartered Certified Accountants (ACCA, of which he is a Fellow) – covered below – he notes its focus on the opportunity to use such standards, particularly existing ISO standards, for inspection and testing to provide appropriate assurance on AI products and services. “This combination of minimal regulation with maximal use of standards markets can provide a middle path between two extremes: a completely unregulated approach leaving a tangle of confusion to the legal system and an overly regulated approach where nothing can move until permission is granted.

“Those of us with decades of experience in the fields of AI have long recognised the need for standards. These ISO standards have not just ‘popped out of the woodwork’ due to recent media attention; rather they have been the result of years of concerted work to reach international agreements. This paper contends that it is now appropriate to push firmly towards their use in accredited UK conformity assessment,” he says.

#### The UK approach to AI development and regulation

The aim of the white paper was to produce a flexible, common-sense approach to the regulation of AI and to align with other principles such as those suggested by the Organisation for Economic Co-operation and Development (OECD).

---

*ACCA and EY are supportive of regulating outcomes rather than the technology itself. (This aligns for instance with the principles-based approach to regulation for the accountancy profession in the UK). Their report stresses the importance of “effectively engaging with existing codes and standards specific to individual sectors and domains – including their evolution and future direction.” It sees these as fundamental to the approach proposed by the white paper.*

---

The government will not put its cross-cutting principles on a statutory footing initially but has left the door open for placing a statutory duty on regulators later. So there could be a considerable delay in deciding between AI-specific mandatory requirements linked to implementing the white paper principles, on one hand, and relying on self-regulation or suggested guidance on the other. Organisations value regulatory certainty. A long, uncertain waiting period risks delays to upskilling and preparation for future compliance, particularly among small- and medium-sized entities (SMEs), which will be less likely to commit cost or effort without certainty.

And this concern about SMEs is reflected elsewhere in the ACCA-EY viewpoint. “There is a huge difference between the capabilities, resources and requirements of the large technology companies and those of SMEs. The white paper’s approach of carrying on within existing regulatory ambits, needs care to avoid – despite best intentions – entrenching power imbalances. Those holding customer channels, access to training data and research budgets may tend increasingly and irreversibly to pull away from the pack. Consideration is needed to avoid creating monopolies and stifling the very innovation that is sought. It is also important to be sensitive to blind spots in innovation, because truly disruptive – as opposed to incremental – change often comes from SMEs and AI innovation is ripe for exactly this type of transformative change.”

#### AI’s banking and investment challenges

Key questions emerged from UK Government’s AI Safety Summit, held at Bletchley Park on November 1-2, on the role of bankers and investors, particularly in three key areas:

- Risk categorisation, for example in the EU AI Act, or in the UK Government AI Summit outcomes paper – how universal is it?
- How can banks and investors monitor and assess the risk exposure of both developers of AI platforms and their users? How can we monitor progress on commitments that they make, for instance those that the top AI companies made in July 2023, or emerging processes for frontier AI safety published in October 2023?
- What are reasonable investor expectations? What are the key AI governance asks for companies? What policy measures should investors advocate for?
- What engagement and escalation tools and techniques should investors use?

We will be covering these crunch issues in detail in the next issue of *International Banker*.





# When quantum meets AI

PAST MASTER AND QUEEN OF QUANTUM KARINA ROBINSON  
ON THE POTENTIAL WHEN AI MEETS THE DIZZYING WORLD  
OF QUANTUM COMPUTING

The interaction between quantum and AI is the most exciting development in modern-day technologies. The hype cycle is focused on AI, but in the words of Lord (William) Hague, speaking in spring 2023 at Imperial College: “Quantum computers can provide AI with the computational firepower needed to unlock their full potential. This means that if the country can lead on quantum computers, we can secure a lead on AI. And if we fall behind on quantum, we will likely fall behind on AI.”

The essence of quantum is that it isn’t binary – even today’s supercomputers are – but instead allows for multiple possibilities at the same time, making it ideal for optimisation problems. And

the UK has the second largest number of quantum start ups in the world, plus a £2.5bn UK Quantum Strategy.

---

*There are two misapprehensions about quantum. One, that it is prohibitively expensive because of the construction costs of a quantum computer and the environment in which it needs to be kept.*

---

In fact, companies can access time on one via the Cloud, with Microsoft Azure and AWS, among others, offering it as a service used by banks like HSBC and JP Morgan.

Second, quantum is only about computing, with the goal of creating a quantum computer that can break current encryption within 5-10 years. In fact, quantum and quantum-inspired algorithms are already being used on classical computers, and the rather basic quantum computers – think of your first Iphone – that we have today.

Additionally, there is a large product suite associated with the technology. Quantum sensors, for instance, are one of the most exciting developments

in the field of quantum physics. They are a magnitude more powerful than current ones in identifying minerals underground or coin-sized holes in undersea gas pipes and are likely to be commercialised by companies like Bosch within the next two years.

---

*And there are other quantum technologies being worked on in parallel, such as a quantum internet, all of which provide venture capitalists with investment opportunities. The financial services industry is already experimenting with quantum and machine learning.*

---

In CB Insights' recently published Top 100 AI Most Promising Companies, only two quantum companies were mentioned: Sandbox AG and Multiverse, one an American spin-out from Google, the other a European medium-sized start up with UK offices.

Multiverse, who I advise, has worked with the Bank of Canada on cryptocurrency scenarios; with Credit Agricole CIB on counterparty credit rating downgrades and valuations of derivatives; with Spanish bank BBVA on maximising portfolio returns for a given level of risk, and a host of others.

Marco Pistoia, the Managing Director of JP Morgan Chase's Global Technology Applied Research Center, is very clear on why the banking behemoth is seriously investing in quantum: it promises dramatic speed-up and accuracy improvements in optimisation, simulation and machine learning. Finance is awash with exponential complexity, and

classical computers cannot deal with big datasets, let alone with the time constraints usual in the industry.

HSBC, meanwhile, recently announced quantum computing projects in cyber security and fraud detection, and became the first bank to join BT and Toshiba's quantum-secured metro network (QSMN) to protect against cyber-threats. The QSMN connects the Canary Wharf headquarters with the global bank's data centre in Berkshire, and will be used to trial experiments such as secure video communication and financial transactions.

---

*Quantum machine learning will also be useful in predicting financial crises. Financial firms and regulators have access to large amounts of data, but analysing them intelligently within a usable time frame requires more computing power and AI than is currently available.*

---

Consultancy BCG estimates that at maturity (projected to be around 2035), quantum technology can create \$450 billion to \$850 billion in net income for end users through a combination of new revenue generation and cost savings.

William Hague recently wrote a couple of reports with Tony Blair urging the Labour and Conservative parties to make leadership in science and innovation, and AI especially, the New National Purpose. As he points out, quantum is a keystone technology.

"You don't need to understand how quantum works to understand how quantum will revolutionise our world," were his parting words at the event at Imperial.

The mind-boggling possibilities of AI using quantum as its underpinning technology are one of the reasons I founded The City Quantum Summit at the Mansion House. The annual event, now in its third year, brings together the City and the quantum community, with three principles: free for all; no jargon, no lingo, only understandable language; gender-balanced panels.



*Karina Robinson is Founder of annual The City Quantum Summit at the Mansion House, Senior Advisor to Multiverse Computing, and CEO of Redcliffe Advisory.*





# The ocean emergency – and how to fix it

**PAST MASTER ROBERT MERRETT REVIEWS THE WORLD OF OCEANS FROM A BANKING AND AI PERSPECTIVE**

Oceans play a critical role for our planet and human survival. But the threats have never been greater. So, the questions I want to review are: What support can international banks provide towards a sustainable ocean economy? And can generative Artificial Intelligence provide some inputs to guide us?

Citi published an informative report in June 2023 entitled “*Sustainable Ocean Economy: Charting a Prosperous Blue Future from Risk to Resilience*”.<sup>1</sup>

It noted that we grossly underestimate the importance of the oceans to the survival of our planet – home to 80% of all life; producing 50% of the oxygen that we breathe; absorbing 30% of CO<sub>2</sub> produced by humans; capturing 90% of the heat generated by human emissions, etc. It also highlighted the key stresses on ocean health – over-exploitation and seascape change, with over-fishing having the largest impact on marine diversity; climate change, which is causing ocean warming, acidification and de-oxygenation; and pollution, particularly from plastics.

All of these are harmful to ocean biodiversity and ecosystems.

Citi’s analysis identifies various opportunities for businesses and financial institutions. For example, offshore wind capacity has been growing steadily, from below 3 Gigawatts in 2009 to an estimated 55.7 GW in 2021. The International Energy Agency estimates that \$840 billion of capital expenditure will be required for offshore wind by 2040. There is also growing interest in mass seaweed cultivation for carbon removal, improved water quality and sustainable sources of food and raw material. According to the UN Conference on Trade and Development, the global seaweed market has grown from \$4.5 billion in 2000 to \$16.5 billion in 2020. Other emerging ocean industries discussed include floating solar photovoltaic, as well as tidal, ocean wave, thermal and salinity gradient technologies.

Jason Channell, Head of Sustainable Finance at Citi, commented: “We have the opportunity to build a sustainable

ocean economy, which can play a major part in addressing the climate and biodiversity challenges before us, and help to save the planet and our species, while building new industries, creating millions of new jobs, and capturing economic multipliers of 5x from the vast investment opportunity which it lays before us.”

These opportunities would also benefit from greater ocean literacy across the broader public, private and finance communities. This would assist with addressing the current mismatch between the significance of ocean sustainability and the lack of attention and investment towards the issues. For example, United Nations Sustainability Development Goal 14 Life Below Water is the least funded. But new forms of finance, such as blue bonds, debt for nature swaps, blue carbon and biodiversity credits, etc, offer enormous potential. Banks therefore have a critical role to play in the structuring and use of the global pools of capital for the benefit of the ocean economy.

<sup>1</sup> [icg.citi.com/icghome/what-we-think/citigps/insights/sustainable-ocean-economy](https://icg.citi.com/icghome/what-we-think/citigps/insights/sustainable-ocean-economy)

# A potential use case for AI?

Given the current discussions about the use of generative Artificial Intelligence, I also wanted to find out what thoughts AI could provide. So I posed two questions to ChatGPT.

**Question:** How can banks utilise innovative financial approaches to support a sustainable ocean economy, including blended finance, blue carbon and biodiversity credits, and blue bonds?

**ChatGPT answer:** Banks can employ innovative financial approaches to support a sustainable ocean economy, leveraging tools like blended finance, blue carbon and biodiversity credits, and blue bonds. Here's how each of these approaches can contribute to financing marine conservation and sustainable ocean-related projects:

1. **Blended Finance:** Blended finance combines public and private sector funds to finance projects with both commercial and developmental goals. In the context of the sustainable ocean economy, banks can use blended finance to attract private capital by offering financial products with lower risk profiles. This approach can be particularly useful for projects that may be considered high-risk or have longer payback periods, such as marine conservation initiatives or sustainable aquaculture projects. By blending public and private funds,

banks can unlock more significant investments and help bridge financing gaps for critical projects.

## 2. Blue Carbon and Biodiversity

**Credits:** Blue carbon refers to the carbon captured and stored by coastal and marine ecosystems like mangroves, seagrasses, and salt marshes. Biodiversity credits, on the other hand, are similar to carbon credits but are earned through projects that enhance biodiversity and protect ecosystems. Banks can support these mechanisms by creating markets for blue carbon and biodiversity credits, allowing companies and governments to offset their carbon footprints or ecological impacts by investing in marine conservation and restoration projects. Banks can facilitate the trading and verification of these credits, providing financial incentives for protecting and restoring marine ecosystems.

3. **Blue Bonds:** Blue bonds are debt instruments specifically issued to finance sustainable ocean-related projects. Governments or organizations can issue blue bonds to fund initiatives like marine conservation, coastal restoration, sustainable fisheries, or offshore renewable energy. These bonds appeal to investors seeking to make a positive environmental impact while earning returns on their investments. Banks can underwrite and distribute blue bonds, connecting issuers with investors interested in supporting the sustainable use of ocean resources.

## 4. Sustainable Ocean Impact Funds:

Banks can establish sustainable ocean impact funds that focus on investing in a portfolio of projects aligned with the goals of the sustainable ocean economy. These funds can target various sectors, such as renewable energy, sustainable fisheries, marine conservation, and coastal protection. Investors who are passionate about ocean sustainability can allocate their capital to these funds, and banks can manage the investments, ensuring they adhere to strict sustainability criteria.

## 5. Innovative Risk-Sharing

**Mechanisms:** To support emerging industries and technologies in the sustainable ocean economy, banks can develop risk-sharing mechanisms. This could involve partnering with governments, international organizations, or development finance institutions to share risks associated with investing in new and unproven projects. By sharing risk, banks can reduce the financial burden on investors and encourage them to support innovative ventures in the marine sector.

## 6. Impact Measurement and

**Reporting:** Banks can take a leadership role in promoting transparency and accountability in sustainable ocean finance. They can establish clear impact measurement and reporting frameworks to assess the positive outcomes of their investments in the marine sector. Transparent reporting enhances the credibility of these financial



approaches and attracts more investors who are seeking verifiable environmental and social impacts.

By utilizing these innovative financial approaches, banks can effectively channel capital towards a sustainable ocean economy, promoting environmental conservation, responsible resource use, and long-term economic benefits from the oceans and seas.

**Question:** Will generative AI become part of the solution for a more sustainable ocean economy?

**ChapGPT answer:** Generative AI has the potential to contribute positively to building a more sustainable ocean economy. While AI alone cannot solve the complex challenges associated with sustainability, it can be a valuable tool in supporting efforts toward a more sustainable ocean economy in the following ways:

**1. Data Analysis and Insights:**

Generative AI models can analyse vast amounts of data related to ocean health, marine ecosystems, and human activities affecting the oceans. By processing and interpreting this data, AI can provide valuable insights into patterns, trends, and potential areas for intervention and conservation.

**2. Modelling and Prediction:** AI can be used to develop predictive models that help anticipate changes in marine ecosystems, such as sea-level rise, temperature fluctuations, or the impact of human activities. Such predictions can inform decision-

making and proactive measures to protect marine resources.

**3. Optimization and Resource**

**Management:** AI-driven optimization algorithms can help manage and allocate resources more efficiently. For example, in the context of sustainable fisheries, AI can assist in determining optimal catch limits and fishing quotas to prevent overfishing and ensure long-term fishery sustainability.

**4. Monitoring and Surveillance:**

Generative AI models can be employed for real-time monitoring of maritime activities, including illegal fishing, marine pollution, and other illicit practices. By identifying and flagging suspicious behaviour, authorities can take appropriate enforcement actions.

**5. Environmental Impact**

**Assessments:** AI can aid in conducting environmental impact assessments for proposed projects, such as offshore wind farms or marine infrastructure. By assessing potential ecological consequences, decision-makers can make informed choices that balance development with environmental conservation.

**6. Supporting Sustainable Finance:**

AI can assist banks and financial institutions in identifying and assessing sustainable ocean-related projects and businesses. By analysing data and sustainability metrics, AI can contribute to more informed investment decisions in support of the sustainable ocean economy.

**7. Innovation and Research:**

Generative AI can facilitate research and development in various areas, including marine biotechnology, ocean energy, and innovative solutions for ocean conservation. AI models can help identify potential breakthroughs and drive progress in sustainable marine technologies.

**8. Education and Awareness:**

AI can be used to create engaging and informative content that raises public awareness about the importance of ocean sustainability. By disseminating information through AI-generated content, a broader audience can be reached and informed about the challenges and opportunities related to a sustainable ocean economy.

However, it is important to acknowledge that AI is a tool, and its effectiveness in supporting sustainability depends on how it is developed, implemented, and integrated into broader strategies and actions. Ethical considerations, data privacy, and responsible AI practices are critical to ensure that generative AI contributes positively to a more sustainable ocean economy without causing harm or exacerbating existing challenges.

Moreover, AI should be complemented by human expertise, interdisciplinary collaboration, and public engagement to address the multifaceted aspects of sustainability effectively.

# Managing crises in finance

## SIR DAVID OMAND ON HANDLING THE GROWING TIDE OF CRISES, IN THE BANKING WORLD AND BEYOND

Sir David Omand was the first UK government security and intelligence coordinator, responsible to prime ministers for the professional health of the intelligence community, for national counterterrorism strategy and for homeland security. He served for seven years on Britain's key Joint Intelligence Committee, he was Permanent Secretary of the Home Office, Britain's Interior Ministry, from 1997 to 2000 and, before that, Director of GCHQ, the government's electronic intelligence hub.

He has also served at board level in major public and private organisations, including 12 years on the board of Babcock, the UK based defence giant, where he was senior independent director. He is the author of *How to Survive a Crisis*, published in June 2023, and before that, *How Spies Think*, based on his career at the very top of the intelligence community.

*Sir David, before coming on to your new book, can we talk, please, about the one before that on how to think like a spy? What sort of lessons are there in there for finance and business generally?*

It's important, I think, to be conscious of how you are taking a decision, and that's something the intelligence world has learned by hard experience - that you can get these things wrong, particularly if you allow unconscious biases, cognitive dissonance and so on to creep into your decision making. If you have a decision to take, and it doesn't really matter if you're an investor, if you're somebody at home deciding where to work or change jobs or whatever, or a Prime Minister making a life-altering decision, you have to bring together in your mind two different kinds of thinking.

One is driven by values and indeed by emotion – this is what I think the situation really is and this is what I want to achieve by my decision – and you can see how that kind of thinking is quite easily swayed by unconscious biases. And the other is the analytical part that those in the financial community know all about. But that's taking a rational view of what the situation really is, explaining why things have moved the way they have in the recent past, and then using that information to try and estimate the possible different ways things might evolve in the future.

I have an acronym to describe this which is S.E.E.S. So, you start with situational awareness, which you've got to be quite careful about because any fool can find information to support a thesis or hypothesis if you look hard enough. With situational awareness, you have to ensure you're satisfied you really do understand the position - and of course with

economic and financial figures you are to a certain extent looking in the mirror and the information may be out of date by the time it's reached you. Then follows explanation, because all the data analysis programs in the world won't help you if you haven't got a decent underlying explanation of why you've been seeing what you've been seeing.

Here's an example. A young man is in front of the magistrate's court, he's accused of throwing a bottle at a police officer during a bit of a riot, and his fingerprints are on the fragments of the bottle – open and shut case. Up, pops the defence lawyer – “No, this bottle belonged to my client; it was sitting in his recycling bin outside his house, the mob rushed past, they picked it up, and that's how the fingerprint got on the bottle”.

So, you have the same objective fact, but two entirely different interpretations of what it actually means, and it's very easy looking at recent movements in stock or bond prices, whatever it might be, to misunderstand why they moved the way they did.

So that's the first three letters of S.E.E.S – situational awareness, explanation and then estimation. But just as you're about to take your decision, something totally unexpected happens, and hits you on the back of the head. And that's the final “S” in thinking rationally, which is about strategic notice. So, instead of taking the recent past and trying to work forwards into what might happen, you start in the future, and you work back to the present.

So, you use your imagination to think about some of the developments that might happen – no guarantee, but they





might happen – and then you work back to the present to say, ‘well, if this happened, would I be in a position to take advantage of it?’ That might lead to some preparatory work, or I really don’t like that future, and if it were to come I would much rather I’d hedged heavily against that possibility. So, you’re using information, which is really speculation about possible futures and that impact on you to decide is it worthwhile taking precautionary steps now, so that when surprises come, you won’t be so surprised by the surprise itself?

*All of these things have been developed wonderfully in your last book on Thinking Like a Spy. Now you’ve moved on from there to look at what happens even with that strategic notice, as you worked with prime ministers directly, from Margaret Thatcher to Tony Blair, and crises happened inevitably. So, what sort of lessons have you learned over the years for our finance sector in how to handle these crises as they emerge or before they emerge?*

Well, what I’ve just been describing is ways of rationally analysing the situation and trying to detect whether or not you’ve been falling into, falling victim of, one of the many different cognitive biases, like over-optimism, confirmation bias, group-think, and all the rest of them. Though that way of thinking gives you a bit of a handle on warning of real trouble coming, we can all think of examples in which governments in particular have been really caught out – they haven’t made the investment in resilience; there weren’t the stockpiles of personal protective equipment to deal with the pandemic; the machinery of government had failed to spot that something really unpleasant was heading our way. So, this led me to start thinking more about what is the nature of that crisis?

We can all remember occasions in which we’ve been, events have happened, so quickly with major impact. You lose control and for a little while you are genuinely reckon this situation is not under your control. That’s frightening for most of us. But it needn’t last long if you’ve taken some basic preparatory steps, particularly as a business – if you’ve thought through some of the things that might happen, you’ve rehearsed some plans, you’ve taken the right kind of hedging or insurance and so on. So I see a crisis as poised rather uneasily between, on the one hand, emergencies that you know how to deal with, you’ve been there before, it can be very painful, but, you know you’ll get through it in the end.

So, emergencies on the one hand, but disaster on the other. You slide into the disaster when sadly you didn’t take those preparatory steps, you weren’t mentally prepared, mentally resilient for the problems, or the business simply didn’t have the underlying resilience to cope with the storm. The crises come really in two kinds. There’s the sudden emergency, sudden impact, nobody could really foresee it, bang, it happens, and you’ve got to cope with it, and you’ve got to make the best of it with what you’ve got. The emphasis there is on general preparation and resilience.

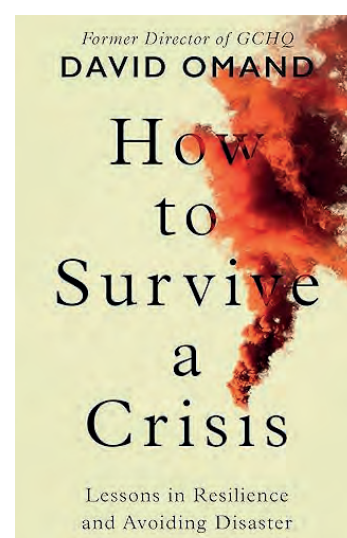
But the other kind of crises, and these are the most difficult and the most corroding of business, are the slow burn crises. These are the ones that year on year, most of the executive team kind of knows there’s a problem. It’s never quite the right moment to deal with it either because you have a horrible feeling it might be too expensive to deal with or just because the executive, they were the ones who were responsible for the decisions on the company that got them into this position, so they’re not going to stand up in front of the shareholders and say, “Oops, I’m afraid those investments are really not paying off” until they’re forced to do it. So this leads to this sort of paradox of warning, that the warning in the sense of the crisis finally coming may be too late to actually do the necessary to save the business.

And governments get into this position as well. The Grenfell Tower tragedy is a good example where, for years and years and years, tower blocks were put up with the wrong kind of cladding, which was not as fire resistant as was claimed or as the architect would have wanted. Those in the know would have known this problem was around but it wasn’t really ever tackled until Grenfell Tower, and it’s a disaster waiting to happen, and in a sense the whole system is resting on an assumption of luck and it’s not going to happen on my watch.

In the business world you can certainly see situations where companies should have done something much earlier to divest themselves of bits of the business that weren’t working as well as it should have done, but they couldn’t quite bring themselves to do it until it’s too late – confidence has been lost and then you’re really scrambling for survival.

We never know when a crisis might explode. Some sudden impact events, such as terrorist attacks or natural disasters or bank failures, blow up out of a clear blue sky. Other slow burn crises, especially in finance, smoulder away for years, often with warning signs ignored all along the way until, as if from nowhere, the troops storm the palace. Our finance sector has suffered its fair share of both these types of crises.

So, the mission facing management in both business and finance is to detect a looming crisis and extinguish it, or at least survive it with minimum loss. And we suffer in finance from incomplete, fragmentary, and sometimes just plain wrong knowledge. There is much to learn from the intelligence community on how to fix that problem and to prepare for crises long before they begin.



# Clear thinking about uncertainty in pensions provision

SIR JOHN KAY ON HOW TO ADDRESS UNCERTAINTY  
IN THE FRAUGHT WORLD OF PENSIONS PROVISIONS

*I prefer true but imperfect knowledge, even if it leaves much indetermined and unpredictable, to a pretence of exact knowledge that is likely to be false. The credit which the apparent conformity with recognized scientific standards can gain for seemingly simple but false theories may, as the present instance shows, have grave consequences.*

Friedrich von Hayek, Prize lecture in Stockholm on receiving the 1974 Nobel Prize in Economics.

1974 was also the year I thought about pensions for the first time, although not for long. I was a young academic, and the long-standing provision of defined contribution pensions to university staff was replaced by a defined benefit scheme, USS. This was an era in which most large employers and many small ones were making similar moves. After a long political debate, Barbara Castle presided over the bipartisan introduction of an earnings-related tier to the state pension scheme, with provision

for good occupational schemes to “contract out”.

Following the establishment of the “cradle to grave” welfare state in the decades immediately after the Second World War, this extension of defined benefit occupational pension schemes was perhaps the greatest success of British social welfare policy. The system was not without problems. I recall in the 1980s helping Sir David Walker organise a seminar at the Bank of England to discuss issues in the

governance of occupational pensions and their relationship to corporate balance sheets. But as schemes matured, the beneficial results of the growth of occupational pensions became apparent. In 1995, more than 60% of pensioners had below median incomes. By 2010 the distribution of pensioner incomes was in line with that of the working population, as the architects of defined benefit schemes had envisaged. Old age was no longer a major cause of poverty.

But then the foundations of defined benefit provision began to crumble. Famously, the scale of Robert Maxwell’s theft from Mirror Group Newspapers pension funds was revealed when he was found dead in the sea near Madeira in 1991. It became evident, as we had recognised at that Bank of England seminar, that more needed to be done to promote the security of pension promises. Less dramatically, in 1997 Exley, Mehta and Smith delivered a seminal address which introduced a generation of actuaries to modern financial economics.

I had once been startled to find that actuaries knew little of this theory - soon I would come to think they knew too much or at least took it too seriously. Accounting practice was shifting from historic cost to “fair value” assessment of balance sheet values, with possible implications for the treatment of pension liabilities, which became a reality with the adoption in 2001 of IFRS 19. The outcome of these events was a stream - then a torrent, then a flood - of fresh complexity and regulatory intervention.



Watch here: <https://shorturl.at/sxENW>



---

*There were several components to the economic contribution to actuarial analysis. It had long been recognised that money in the future is worth less than money today.*

---

This idea was systematised in the calculation of discounted cash flow (DCF) valuations, which enabled a present value to be attached to a stream of prospective cash flows. Subjective expected utility (SEU) valued uncertain returns by reference to their variance and the ‘risk aversion’ of an agent, with such “risk aversion” deduced from the second derivative of the function relating utility to income or wealth. Modern portfolio theory (MPT) and the capital asset pricing model (CAPM) emphasised that the uncertainty attaching to an investment portfolio depended not just on the uncertainties (variances) associated with returns on individual assets but on the covariances between them. Finally, the efficient market hypothesis (EMH) expressed the idea that market prices reflected all publicly available information. (Importantly, the empirical observation that historical equity returns substantially exceeded levels readily explicable by these models, described in 1985 by Rajnish Mehra and Edward Prescott as “the equity premium puzzle”, still lacks good explanation within this theoretical framework.)

This analytic framework was extensively developed in the 1950s and 1960s and contributed to the transformation of the world of finance from one in which well-bred gentlemen exchanged inside information with each other over long alcoholic lunches to the professional activities of today which sweep many of the ablest students of mathematics into the City of London and Wall Street (or Greenwich, Connecticut). And

Nobel Prizes were awarded to Harry Markowitz (MPT), William Sharpe (CAPM) and Eugene Fama (EMH) for their contributions; LJ Savage (SEU) had died in 1971 aged only 53.

These models have been indispensable tools in developing our understanding of financial markets. But Hayek’s 1974 lecture gave prescient warning of the dangers of their misapplication.

He observed “I regard it in fact as the great advantage of the mathematical technique that it allows us to describe, by means of algebraic equations, the general character of a pattern even where we are ignorant of the numerical values which will determine its particular manifestation. We could scarcely have achieved that comprehensive picture of the mutual interdependencies of the different events in a market without this algebraic technique. It has led to the illusion, however, that we can use this technique for the determination and prediction of the numerical values of those magnitudes; and this has led to a vain search for quantitative or numerical constants...”

He continued: “...compared with the precise predictions we have learnt to expect in the physical sciences, this sort of mere pattern predictions is a second best with which one does not like to have to be content. Yet the danger of which I want to warn is precisely the belief that in order to have a claim to be accepted as scientific it is necessary to achieve more. This way lies charlatanism and worse. To act on the belief that we possess the knowledge and the power which enable us to shape the processes of society entirely to our liking, knowledge which in fact we do not possess, is likely to make us do much harm.”

‘Much harm’ of this kind was done in the events which led to the Global Financial Crisis of 2008. But this paper is concerned with the harm done by “the pretence of knowledge” in the evolution of pensions in Britain. There has rarely been a better illustration of the adage (ironically, attributed without evidence to Mark Twain) “It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so”.



---

*The only good answer to a question such as “what is the cost of a pension promise maturing fifty years hence” is ‘I do not know’. That is not to say that nothing is known and, for example, it is possible to describe some of the variables - inflation rates, mortality experience, etc. - which might be relevant to the answer.*

---

But the uncertainties which surround estimates of these things are sufficiently great that no numerical answer likely to be accurate even to one significant digit is available or conceivable.

If anyone doubted that, then the fact that massively different answers to the valuation of the liabilities of the same pension funds were given in 2020 and 2023 should dispel such illusions. The liabilities had not changed much - what had changed was the estimated net present value of these liabilities.

Let me spell the point out further, if that is necessary. In the past two years the yield on the 2071 gilt has been as low as 0.5% and as high as 4.8%. Discounting a liability which falls due in 2071 at 0.5% reduces its cost by 20%; at 4.8% by more than 90%. There are people working today who will not even have reached retirement age in 2071 and who can realistically expect to live into the twenty-second century.

*Sir John Kay CBE is one of the world’s most distinguished economists. He is author with Lord (Mervyn) King, former Governor of the Bank of England, of Radical Uncertainty. Sir John is also author of “The Emperor’s Pension: a tale of (not very) ancient times”, which recounts the parable of 2022’s bond market crisis in a 10-minute podcast. Available on the WCIB LinkedIn channel.*

This does *not* mean that commitments to pay future pensions are virtually costless if interest rates are 5% and prohibitively expensive if they are 0.5%. Whatever pension arrangements are in place - pay-as-you-go (PAYG), defined benefit (DB), defined contribution (DC) or some hybrid of these - the bread that a retiree eats in 2071 is baked by someone working in 2071 who very likely has not yet been born.

Pension provision is necessarily an inter-generational contract and the fairness of that implicit contract is a fundamental issue. Once put in terms of inter-generational equity, I find it difficult to avoid the conclusion that my generation has done very well for itself at the expense of its grandchildren.

There is a second issue of distributional fairness *within* generations. This conditions the arrangements that are put in place in 2023 and 2043 and 2063, in anticipation of the realisation in 2071 of commitments made in 2023 and 2043 and 2063. The manner in which these preemptive arrangements are made and the manner in which the related commitments are ultimately honoured is a matter of contemporary, and no doubt evolving, conceptions of fairness. These are questions of equity and social and economic organisation and cannot, as Hayek emphasised, be answered by any pseudo-scientific calculation.

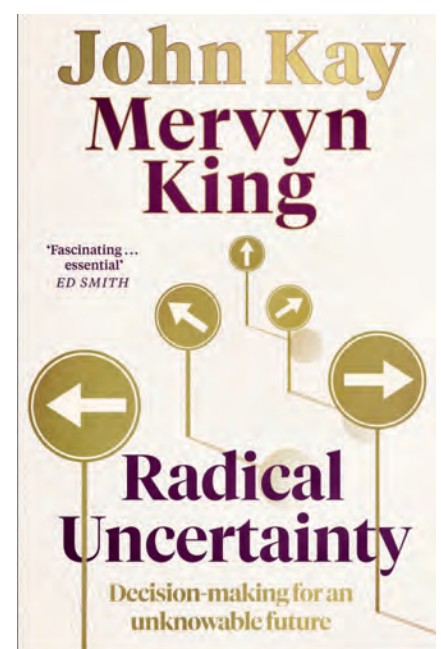
Although we must abandon “the pretence of knowledge”, individuals and institutions need to act in the face of uncertainties. The proper response is not to insist on receiving answers to unanswerable questions – “I need to know” - but to reformulate the problem in ways which allow the preparation of information which relates directly to the issues faced by decision-makers. So ‘what is the net present value of all my existing pension

commitments?’ is not a useful question. Not only is the answer not knowable - even to within an order of magnitude - but the answer has no obvious implications for sensible action.

---

*A more appropriate approach is to ask “how can I make my pension arrangements resilient to an unpredictable future?” This approach is equally relevant for individuals and pension providers. And it provides a basis for the beginnings of informed and thoughtful decision making.*

---





# The leader on the board

**LIVERYMAN RICHARD CHARNOCK, FORMER CEO OF STANDARD LIFE WEALTH,  
ON BRINGING LEADERSHIP TO BEAR ON NED ROLES**

Some years ago, the *Financial Times* published an article titled “non-executive directors – a task for which no one is qualified”.

As many of us expect to become a non-executive at some point that statement is troubling - how can it be after a lifelong career in financial services at senior level that we're not qualified to sit on a board and discharge our function as a non-exec in an effective manner? As senior execs or CEOs we may have seen off countless different chairmen while non-executives have been and gone so surely we can do as good if not a better job than all of them.

Well maybe we can but not until we understand that first of all there is a necessary transition period which can be a painful one. How good are we at challenging ourselves to assess our true strengths and capabilities in a different context and of course we can only do that if we have a sense of what that new context might look like. Moreover, moving into a non-exec position doesn't just mean an adjustment to our skill set but it probably aligns with a shifting lifestyle that might not be an easy journey.

The principal advice repeated by many was never say that you have retired - you will just be defined by that word and it will create a false impression in every respect. We know all about increased longevity which can mean extended careers for many professionals but in case the penny hasn't dropped the role of the non-exec is massively changed from previous times.

Before it might have been viewed by many as a straightforward factotum role that was an inevitable shift on a glide path to packing in executive activity altogether. I well recall a colleague manoeuvring to become a non-exec on an investment trust because he felt the challenges would be minimal and the burden of responsibility extremely light. That was 15 years ago and he was as wrong then as he would be now.

Good advice is to plot a lifestyle and fit a board role into it. Why? Because the NED or NEDs will drive the rest. If that sounds no different to a full-time role then you're beginning to understand what's involved. There's no such thing in our FS community as arms-length board engagement - think of how board oversight was managed when your personal involvement was as CEO / director - it's no different for the non-exec.

In fact it can be more difficult because issues/ papers/ events are not your daily fodder any more. But try telling that to

the FCA if something goes wrong - everyone understands the enhanced personal accountability requirements of SMFs so make time to absorb/ read and understand absolutely everything that is happening in the business.

---

*And that is the crucial point - NEDs are real jobs and can be just as time consuming as a full-time role. So why commit to one?*

---

It's rather like an older car engine - it should always run for a while before being switched off. The oil needs to circulate and the components have to settle before they're stopped altogether.

Many of us work flat out for at least 40 years - a sudden stop is wrong on every level. In our profession a senior position can and should be with purpose - help customers with financial challenges, help them understand the savings market and narrow the savings gap etc. Unless that purpose is immediately replaced why not continue to support a business in the same space that you were previously in. Let's call it giving back - perhaps that is why we do it, FS has been good to us, if we walk away then we're just journeymen and women who've taken the shilling but haven't really been committed to what we do.

After all - and for once - as a NED we should know what we're talking about.



# Consumer Duty begins to bite

LIVERYMAN FRANK BROWN ON RECENT DEVELOPMENTS IN THE FCA'S CONSUMER DUTY APPROACH – AND HOW TO HANDLE IT



The Financial Conduct Authority's Consumer Duty rules came into effect at the end of July 2023. Its tentacles have spread, even in surprising places – in the capital markets – and the regulator has not been slow in deploying their new powers. On day one they announced a plan to require banks and building societies to pass on interest rates to savers. This was followed up by the Insurance Market Priorities document in September which highlighted their expectations for improvements across all the areas of Consumer Duty. And behind the scenes, we've already seen s166 and enforcement activity.

In contrast to the regulator, firms across multiple sectors have been slow to adopt the Consumer Duty rules, and many still have work to do, to meet the requirements. As widely reported in October 2023, a large and high-profile investment firm has been struggling with a fairly fundamental interpretation of fair value – despite it being 28 months since the proposals (CP21/12) were released and three months since the rules came into force. And this firm is not alone.

More broadly, financial services firms are facing increased regulatory pressures; and increasing expectations

from regulators that the firms will be far more proactive in identifying and fixing issues, long before significant harm occurs.

And these challenges are prompting firms to reassess their approach, and consider whether their control frameworks are fit for purpose. They are asking questions such as:

## If we have:

- Policies and procedures to inform staff of the right way to do things.
- Training and Competency to ensure staff fully understand the requirements.
- Line management to oversee that the controls are being applied correctly.

---

*Why are there breaches, QA fails and risks outside of tolerance? Why are the controls not working?*

---

The answer could be sought from learning from the natural world, and the principle of homeostasis. And by

taking inspiration from this approach, firms could become more self-aware, and self-correcting, and:

- Identify and correct problems, quicker.
- Free up Board and Exco time.
- Reduce regulatory risk.
- Gain greater clarity in the roles and responsibilities of the Three Lines of Defence.
- Achieve competitive advantage.

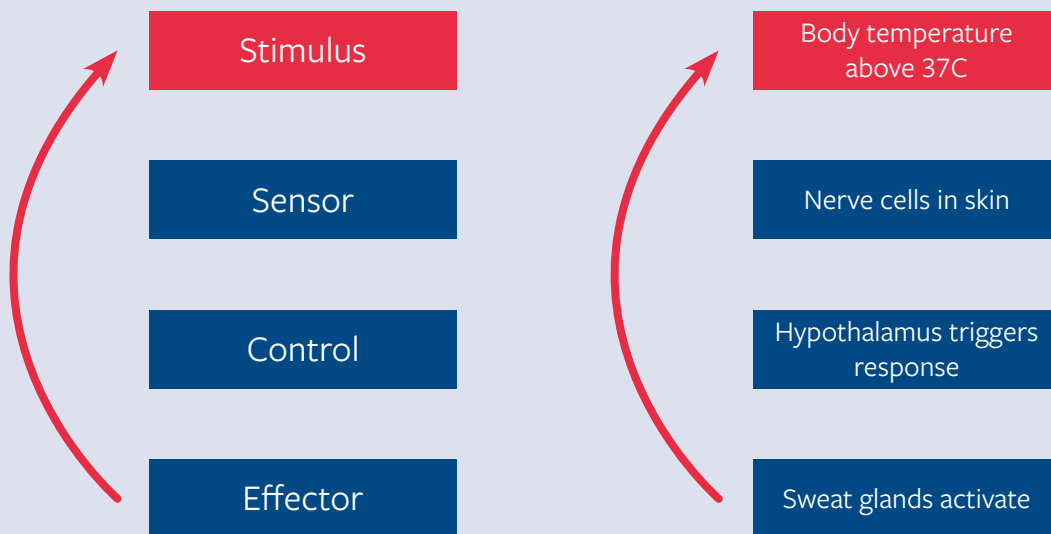
## What is Homeostasis?

Homeostasis is a fundamental principle in physiology. It refers to the dynamic balance maintained by living organisms to ensure their internal environment remains stable, despite external fluctuations. This system requires an interrelated network of sensors, controls, and effectors, which work in harmony to maintain balance.

24 hours a day, the autonomic system of the body monitors heart rate, oxygen concentration, glucose levels and many other vital functions. Messages are being received from nerves and sensors to indicate issues like - glucose concentrations being too high or oxygen levels too low. And systems within the body are taking



## HOMEOSTASIS IN ACTION



prompt action to correct the imbalance and return the organism to a steady state – homeostasis. It can be seen how this Stimulus/Sensor/Control/Effector model is analogous to the control framework and Three Lines of Defence model within a firm – with management responding to incoming MI results, and taking action to correct issues.

However, the distinguishing factor of the homeostatic system, within the body, is that this control and self-correction activity is happening without active oversight. The pancreas automatically ‘knows’ to release glucagon when blood glucose levels are too low; the brain is not making a conscious decision to do so. Because if the brain were required to constantly adjust control of breathing, heart rate, and other functions, it would completely overwhelm the mind.

By ‘delegating’ these operational functions to the homeostatic system, the human body frees up brain capacity to: paint a landscape, compose a melody, achieve a desired objective. To follow the analogy – if a business is over-expending resources on control and oversight; constantly fire-fighting, micro-managing and tying up Board/Exco focus on day-to-day operational issues, it simply does not have the

bandwidth and capacity to effectively achieve its strategic objectives.

#### Homeostasis in business

The appeal of adopting the homeostatic approach is in this freeing up of resources, time and focus. It is in the firm’s ability to rely more on the internal ‘sensor/control/effector’ systems, within operational areas, to effectively detect and correct issues – before senior management and Compliance need to get involved.

The homeostatic organisation doesn’t abandon controls and oversight, but it does expect more from its control and oversight systems. To achieve this, firms should seek deeper insights and ask harder questions of themselves. And whilst many of these

hard questions will be directed at the operational areas of the business, they should also be asked at the Board/Exco level. Like:

---

*Why do management teams who brook no compromise in their drive to achieve the annual sales targets, consistently accept mediocrity in the performance of their control frameworks?*

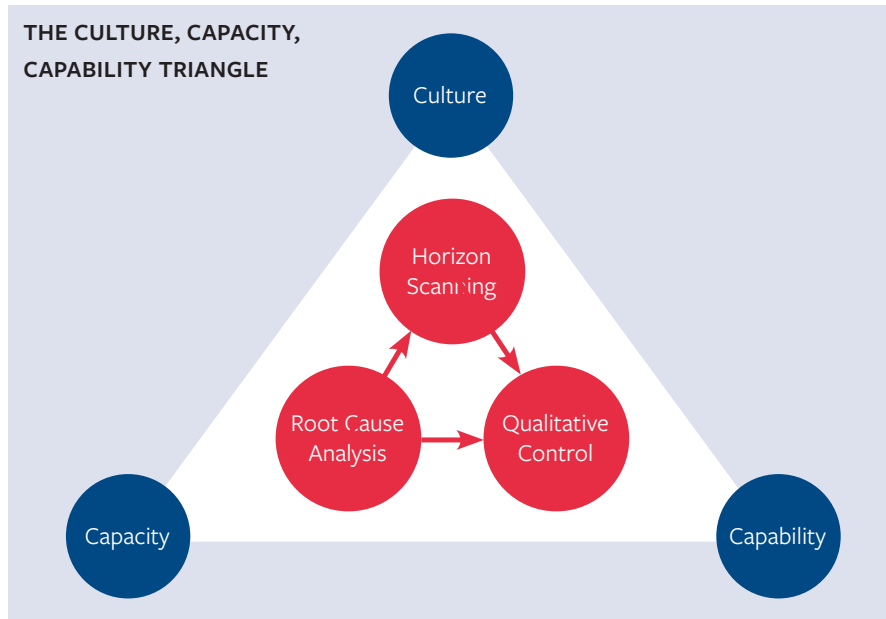
---

As we will see, answering these questions and developing a homeostatic approach requires

*What an organism feeds upon is negative entropy...  
An organism’s astonishing gift of concentrating a ‘stream of order’ on itself and thus escaping the decay into atomic chaos - of ‘drinking orderliness’ from a suitable environment.*

Erwin Schrödinger – What is life?

THE CULTURE, CAPACITY, CAPABILITY TRIANGLE



effort, but that effort delivers significant rewards. And in a regulatory environment of Consumer Duty and foreseeable harm, firms are putting themselves at increased risk if they are not fundamentally reassessing their approach to control and oversight. So what steps might they take to defend their positions?

### Horizon scanning

The dinosaurs were unaware of the approaching asteroid. *Saccharomyces Cerevisiae* (brewer's yeast) is unaware that its growth and expansion is creating a toxic environment that will lead to its demise. The homeostatic organisation, in contrast, draws on a wide range of data and insights from internal and external sources, in order to understand the environment and its place within it.

- **Awareness** – identify threats (and opportunities), in a timely manner
- **Action** – bring issues of concern back within tolerance.
- **Adaption** – change behaviour or approach, in response to the information received.

And it is the Adaption element which is most important. The homeostatic approach (despite its etymology) is not about remaining static and fixed in place. Firms should be able

to assess change, and respond to it - for example, regulatory change (like Consumer Duty), or changes in the competitive landscape or market conditions. The homeostatic organisation uses effective horizon scanning to alert themselves of issues and enable themselves to take action in a proactive and timely manner.

### Qualitative control

The lowly house-fly larvae can happily exist with a basic stimulus/response mechanism of being negatively heliotropic (they move away from light). Financial services firms are much more complicated operations and require a monitoring framework that is commensurate with that complexity.

However, most firms are still relying on readily available data and quantitative metrics. For example, firms place an over-reliance on monitoring complaints MI, and using this as the primary assessment of customer outcomes. Complaints MI is a measurement of failure - the risk has already crystallised, and poor outcomes have already occurred. And those small number of customers who actually complain may be the tip of a much bigger iceberg. In the MI, and in oversight activity, traditional businesses focus too much on simple binary measures and box-ticking compliance:

- We made the required information available to the customer – procedure.
- The agent said the words in the script – QA.
- We have a control in place – audit.

But a firm should not expect to prosper if they are solely relying on a quantitative approach. In contrast, the homeostatic organisation uses qualitative control to gain deeper and richer insights into what is (and could be) happening, and what the actual outcomes of this may be. And this need for a different approach is reflected in new regulations like Operational Resilience and Consumer Duty, which place a far greater expectation on firms making subjective and nuanced assessments of their controls, and adopting qualitative assessments, alongside the traditional quantitative metrics. Consumer Duty, in particular, brings in the concept of 'foreseeable harm', and the expectation that firms will place greater emphasis on using leading, not just lagging indicators. Firms should not expect to assess alignment with principles-based regulation, by solely relying on rules-based measurements.

### Root Cause Analysis

All financial services firms will be familiar with Root Cause Analysis (RCA). But for most firms, the RCA approach is focussed on complaints handling - because DISP 1.3.3R requires them to do so. Homeostatic organisations have a different mindset, and they use RCA to find and fix issues, across the whole firm. The "how" of applying RCA across the business requires effort (and there are a range of tools, techniques and frameworks to utilise). But the "why" of doing it should be self-evident – it will enable the targeting of resources and focus on those underlying causes of the issues being identified.

For a copy of lawyer Frank Brown's paper on Consumer Duty, please email him at: [frank.brown@grrconsulting.co.uk](mailto:frank.brown@grrconsulting.co.uk)



# The Secondary Banking Crisis: Historical or Perennial?

LIVERYMEN GERALD ASHLEY AND MARTIN ZETTER  
ON LESSONS FROM THE 1970S

The 1973-1975 Secondary Banking Crisis, in the United Kingdom, is best known for the Lifeboat operation that the Bank of England used to maintain confidence in the UK banking system. The crash in British property values, credit control policies, and the global stock market crash of 1973-74 are often cited as the prime culprits but the causes were a complex mix of macroeconomic and microeconomic factors. The Lifeboat operation, successful as it was, leaves lessons that are still relevant today.

The crisis exposed the limits of the Bank of England's supervisory function as well as a distinction between banks recognised as deposit-taking institutions and those that were not. However, deposit-taking was not the only factor in the Bank's recognition of an institution as a bank. The Bank of England also expected certain standards of conduct from institutions in accepting them as fully-fledged banks, and these standards were subject to continuing supervision.

The crisis began in November 1973, when London and County Securities could not renew deposits taken in the money markets. It had held a banking licence since 1967, had been a quoted company since 1969, and had substantial deposit liabilities to the public. The Bank of England was concerned that the situation would spread into the UK banking system more widely.

This is the central banker's old problem: the contagion of fear. Consequently, it convened a Control Committee, made up of managers from the clearing banks and the Bank of England. This first met in December 1973, becoming known as 'the Lifeboat'. It set three conditions for providing support. First, the company had to be solvent and likely to remain solvent if it received assistance. Second, it had to be a bank with significant levels of public deposits. The third condition was that no support from institutional shareholders was available.

---

*The idea was to ensure that unviable institutions were not merely propped up, delaying the inevitable, and that public money should only be used when institutional money was unavailable.*

---

Generally, the risk was shared by all those in the Lifeboat according to the relative size of eligible liabilities. In most cases, the Bank of England's share of the risk was 10%, the clearing banks took the rest, and the Bank played a co-ordination role. Clearers charged to support the lending, based on the interbank rate plus a risk-related margin. This was typically between

1.5% and 2%, additionally commitment fees were charged for undrawn approved facilities. The fact that the system was fully operational by the end of January 1974, with 80% of the companies needing support identified by the end of March, is testament to the Lifeboat's efficiency. By the end of March, the amount of support was just short of £400 million. Effectively this was 'deposit recycling' as deposits that had been withdrawn from the supported institutions had usually gone to the banks in the Lifeboat, the clearers who were lending them back.

---

*Just when things seemed to be improving, later in 1974, confidence in the UK economy degenerated because of a miners' strike, a three-day working week, and tough fiscal measures coming after a fourfold increase in the oil price.*

---

Confidence in secondary deposit-taking institutions fell following a

sharp decline in property values. The problem was deeper than merely recycling deposits would fix. As property values continued to fall while the rate of inflation was steadily climbing, more institutions became vulnerable. What had originally looked like a liquidity problem soon became a solvency problem.

Initially, the support needed increased sharply as property finance companies such as First National Finance Corporation and United Dominions Trust struggled to maintain their money market deposits. By August 1974, the support totalled £1.2 billion, representing about 40% of the capital and reserves of the clearing banks of England and Scotland. The situation worsened internationally too, with German private banks, Union Bank of Switzerland, The Israel-British Bank of Tel Aviv, and Franklin National Bank, in New York, all in trouble. September saw Lloyds Bank International announce exchange dealing losses of £33 million from a fraud in their Lugano branch.

The Bank of England found itself in a precarious position, as the number of banks seeking assistance from the Lifeboat rescue fund continued to grow. The Bank felt compelled to extend support beyond the initial £1.2 billion and the risk-sharing partnership turned into a bailout. Shortly after the situation appeared to be improving,

the U.S. property sector suffered a recession in early 1975. This hit U.S. banks that were heavily exposed to real estate investment trusts. The financial difficulties of New York City and other U.S. municipalities further added to the banks' woes. The UK economy was also in a weakened state, necessitating the rescue of strategically important corporates such as Burmah Oil, and forcing the Bank of England to continue rescue operations to avoid undermining their earlier success.

The lessons learned from this crisis reflect the need to integrate regulation of solvency risk with that of liquidity risk and the importance of coordinating regulatory action internationally.

In the wake of the Secondary Banking Crisis, the UK Parliament passed the Banking Act of 1979. This legislation aimed to strengthen the Bank of England's regulatory powers over lenders and protection for depositors. The Act regulated deposit acceptance, restricted the use of names and descriptions associated with banks, and prohibited fraudulent inducements to make deposits. Extending the Bank of England's regulatory powers and providing greater protection for depositors, it was a significant step towards greater oversight of the UK banking system and provided greater protection for bank customers.

Overall, the Lifeboat and subsequent operations proved successful, as the cost of a banking collapse would have been much greater than the actual amount sustained by the Lifeboat and the subsequent action. However, it is worth reflecting on some of the wording in the Bank's report to the Wilson Committee: 'That is not to say that there will never in future be either instances of individual banks running into difficulties or more general crises of financial confidence'. How right they were!



Gerald Ashley



Martin Zetter



### DICK LLOYD CEO OF WILLIAMS & GLYNS BANK RECALLING THE FORMATION OF THE “LIFEBOAT” COMMITTEE.

I think it would have been quite unacceptable to those in and around the government to have had a banking disaster.

---

*A way had to be found to retrieve what was a melting situation of bad loans which came about by three oil shocks put in quite short sequence in 1973/4.*

---

So there was a feeling we'd got to get this right and the Bank of England was entrusted with it and a man of superb authority and competence was Sir Gordon Richardson who was the chairman, who was the Governor of the Bank of England. He did it and he had staff around him who could do it and they became overnight of great importance in putting the Lifeboat together.

### ROGER BARNES SECRETARY OF THE “LIFEBOAT” COMMITTEE ON THE 1973/75 SECONDARY BANKING CRISIS

And I can't really remember how much the Treasury was kept in the picture. The Treasury knew that we were doing something because, you know somebody came down from the Treasury for lunch on Wednesdays and Fridays. Wednesday was overseas day, and Friday, connected with the Treasury Bill tender, was home finance day. And they stayed on for a sort of briefing.

---

*And they must have been, sort of, well you know there's been a little bit of a problem, we've got it all in hand. And they told the Chancellor it's all in hand, I mean.*

---

## The WCIB Oral History Project

The Worshipful Company of International Bankers has teamed up with Cambridge University's Centre for Financial History to launch an Oral History Project. The project aims to provide members and researchers with an audio resource of interviews with key players in major banking events. For each interview there is a transcript with explanatory and contextual notes.

The project aims to provide a timeline from the Secondary Banking Crisis of 1973-75, via Old City, New City including Big Bang, the Global Financial Crisis and the other highs and lows of City banking to the present day.

We are proud to feature some of the 'big names' in the respective periods including Roger Barnes (Secretary, Bank of England Control Committee), Christopher Fildes (City Editor, Evening News), Sir Richard Lloyd (CEO, Williams & Glyn's Bank), Sir Willie Purves (Chairman & CEO HSBC), and Bob Wickham (Bank of Scotland), David Kynaston (author of the 3-volume history of the City of London as a financial centre), Martin Vander Weyer (City commentator of The Spectator Magazine and contributor to The Daily Telegraph).

The OHP group comprises Liverymen John Thirlwell, Gerald Ashley, Martin Zetter and Richard Collins who conduct and document our interviews and co-ordinate the programme.

The project's archive is housed at the Centre for Financial History at Cambridge University:  
[www.centreforfinancialhistory.org/oral-histories/](http://www.centreforfinancialhistory.org/oral-histories/)

We are grateful for the support of Duncan Needham, Dean of Darwin College, who heads the Centre.

Our archive of interviews with key players offers a unique perspective on these events and their impact on the financial sector and proves to be of interest to people in financial services and beyond.

**If you think you have an interview to contribute from your experience working in the sector, please contact us via the Clerk.**





# Fixing one's interest on a floating mortgage

**ONLY BRIEF FIXED-TERM MORTGAGES ARE OFFERED IN THE UK. BUT IT DOESN'T HAVE TO BE THAT WAY, WRITES MIDDLE WARDEN TIM SKEET.**

Will they or won't they? This question dominates financial press headlines as economists study the runes and seek to interpret the utterances of central bank governors to divine the direction and degree of interest rate movements.

It's a pressing question in particular for the UK's strained economy, and one that hits hard the many mortgage borrowers across the land. The UK's excessive exposure to a floating rate cost of borrowing is once again taking its toll.

This old routine is very much part of life in the City, although most people had almost forgotten the rules of this headline-grabbing guessing game following a prolonged period of almost zero interest rates. We were all lulled into a false sense of security. But what is a puzzle to City pundits is a drama for many borrowers.

---

*Why has the UK economy, with all its supposed financial acumen, not managed to engineer a change in mortgage practices?*

---

The rediscovery of inflation and associated rising interest rates are a worry, adding another aspect to the cost-of-living crisis. The average UK mortgage holder is very exposed to the upward trajectory in interest rates through floating levels of mortgage interest. This is a long-standing structural issue in the UK economy, an enduring feature of Britain's historically inflation-prone economy where mortgage borrowers remain wedded to floating mortgage rates.

Some of us remember rates rising to the mid-teens in the 1980s, making the digits of today seem distinctly modest. Yet, as the UK struggles with today's rising rates, borrowers in other jurisdictions appear better protected, with the ability to have locked-in, low and fixed rates. Why on earth has the UK economy, with all its supposed financial acumen and City expertise, not managed to engineer a change in mortgage practices?

Having been involved in the wholesale mortgage funding markets from the late 1980s (indeed working on early securitisation and later the evolving market for covered bonds), it is clear to me that banks have become far more adept at funding their mortgage books and innovating on this side of the balance sheet than on the lending side, particularly in the UK.

Decades of developments, including advances in securitisation, risk transfer and on-balance sheet covered bond secured funding, helped bring down costs for lenders and increase funding availability. Moreover, banks benefit from capital and liquidity relief in respect of their mortgage portfolios relative to other forms of lending, something recognised in global capital and liquidity directives.

There were inevitably problems along the way, with over-reliance on wholesale markets, rising default levels, and squeezed margins in earlier cycles (the failure of Northern Rock, or earlier centralised lenders of the 1980s). But little has significantly changed in the fundamental nature of the UK mortgage market besides a better provision of mortgage lending availability. Back in the 1970s and '80s, lenders had to ration their mortgage lending to established clients in a queue system.

So, is mortgage lending a good business? Today, it remains a generally profitable activity for lenders, benefiting from a low default rate along with a reasonable margin due to low deposit rates and a conservative pricing mechanism (the standard variable rate). But as rates rise, borrowers face increasing levels of discomfort.

It is true that, in recent years, borrowers have been able to fix the rate of interest for short periods, although doing this entails potentially extra interest cost, not to mention hefty break costs. However, elsewhere in the world, there are jurisdictions where the mortgage moves with the borrower and/or attaches to the property, giving greater flexibility. In the US, homeowners are able to borrow very flexibly at long-term fixed rates with little in the way of penalties or break clauses. Drawing on years of experience in the sort of liability-side, funding innovation in the banking industry's wholesale markets, one former banker, Arjan Verbeek, has resolved to tackle the issue through some innovation on the lending side. He is the founder of a new company, Perenna Bank, established to lend medium- to long-term mortgage money at fixed rates with flexible break clauses.

Applying lessons from the wholesale markets, and with an eye to past mistakes, Mr Verbeek's Perenna Bank, whose marketing blurb states that it was set up to 'create a nation of happy homeowners', offers fixed-rate loans of up to 30 years. This is something that would have been unthinkable in past cycles. Does this potentially point to the future, or is it an innovation set to be fast forgotten?

Perhaps unsurprisingly, Mr Verbeek is a fellow former debt capital markets banker and one-time rating agency professional. In setting up Perenna, he has made the most of his many years of experience structuring the funding side of banks and their mortgage books. To be fair, he has already managed to obtain a banking licence, itself no mean feat in today's UK. Good luck to him and others attempting to bring about change. Perhaps the British public can now get a chance to fix their borrowing costs and break the habit of several lifetimes. In the meantime, while Perenna Bank takes its tottering baby steps, the British public joins the City economists and other luminaries in the perennial game of 'spot the next interest rate'.

---

*Maybe the future will become more predictable for borrowers in the UK, as it is elsewhere, but that might just be either wishful thinking, or perhaps good financial engineering.*

---



*Tim Skeet is a career banker in the City with over four decades of experience. He previously worked in the debt capital markets, specialising in wholesale mortgage finance and meeting bank capital and funding needs. Originally published in The Banker magazine. Reproduced by kind permission.*

# Are banks underwater-writing mortgage-backed securities?

FREEMAN THANOS BIKAKIS ON CLIMATE AND OTHER RISKS THREATENING BANK BALANCE SHEETS

For centuries, real estate has been considered a key pillar of one's investment portfolio thanks to its steady cashflows, capital appreciation, and attractive risk-adjusted return profile. Waist-high waters in properties appear to be the new norm as evidenced by the 2021 flash floods in London and the rest of the world. As such it has become widely accepted that climate change will have significant adverse economic effects.

Properties worldwide are increasingly threatened by climate change and extreme weather conditions. The adverse effects that said conditions will have on the housing market may ultimately lead to sudden changes in banks' reserves and capital.

It is only within the past decade that central banks, international organisations, and researchers have started investigating the financial risks associated with climate change.

## Climate-Related Financial Risks

Climate change poses two primary types of risk for the financial system: transitional risks and physical risks.

Transitional risks are the threats associated with progressing to a low-carbon, greener economy and have been the focus of multiple studies. The transition to a low-carbon economy can affect financial markets via three channels: climate policy, technological progress, and consumer preference.

Climate policy may act as an incentive for firms to adopt an environmentally friendly production method.

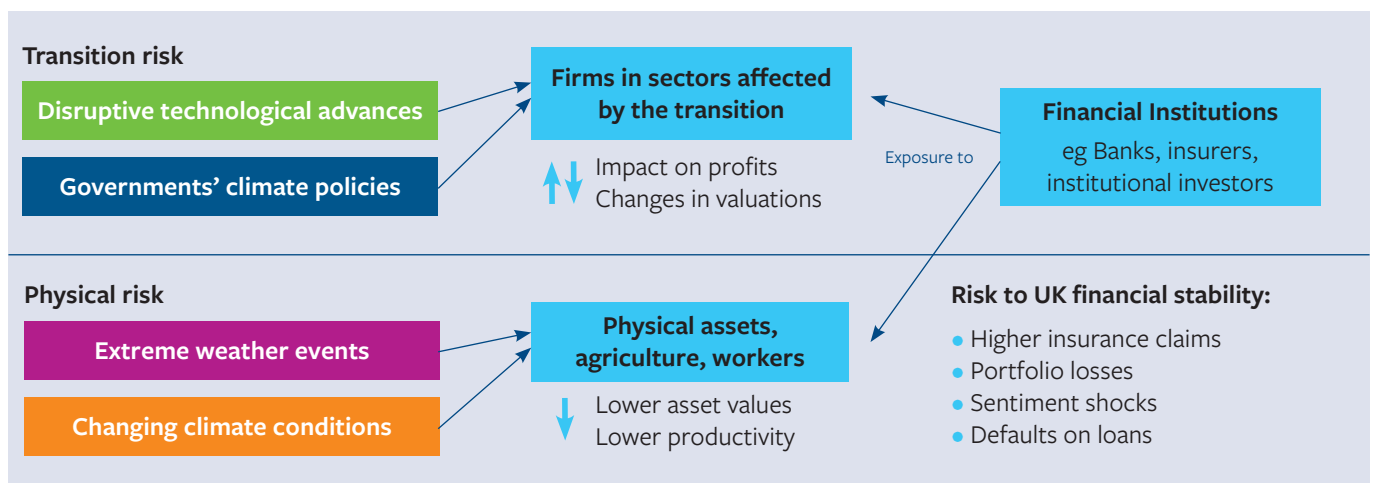
Additionally, policy makers may pass legislation forcing firms to disclose detailed carbon reports about their activities so that all stakeholders can be aware of the firm's impact on the climate. It is evident that such policies can result in premature write-downs of loans and investments in high greenhouse gas emitting (GHG) sectors thus creating shocks in the financial markets.

The additional disclosure requirements, however, might result in capital flight away climate-prone mortgage-backed securities (MBS) leaving some investors stranded. Interestingly, when looking through numerous EU and US MBS prospectuses, one finds zero commentary on climate,

environmental, or flood risk. It can be argued that this is the case because MBS are geographically diversified thereby hedging any such risk however, as climate risk becomes increasingly systemic the ability to diversify away materially decreases.

Physical risks, on the other hand, are the threats caused by the increase in extreme weather events such as floods, droughts, and storms. Due to the complexity and erratic nature of extreme weather, identifying the physical risks is substantially tougher and relies on human expertise.

The increase in severe weather events will have direct consequences on insurers if the damages and losses are covered – in the case of MBS this is predominantly led through credit enhancement. It is important to note that an increase in events covered by insurers would result in higher premiums for clients. However, there are multiple events which insurers do not cover, in this case the damages would be covered by households, firms or governments. This could have second round effects on financial institutions as they are exposed to these agents through mortgages, loans,



Source: Bank of England (2017)



shares and bonds<sup>1</sup>. This price reduction of corporate bonds and the rise in debt defaults could induce climate-related financial instability which would adversely affect credit expansion magnifying the negative impact of climate change on financial activity.

The geographical location of a property will play a crucial role on the impact of climate change. A property found in a high physical risk location will experience an increase in the probability of default (PD) as the value of the property deteriorates whilst climate-related damages increase. Also, property locations may experience a reduction in loan-to-value (LTV) ratios as banks begin to include the cost of physical risks in their cost modelling<sup>2</sup>.

### Climate-Related Flood Risk and the MBS Market

The relationship between physical risks and the MBS market is a rather axiomatic one. We can expect that as climate-related flood damages materialise, the probability of climate-related flood defaults for mortgages will increase in flood prone areas. Not only will existing flood prone areas face higher extreme flooding but also previously floodproof areas might now be classified as flood prone<sup>3</sup>. As such, the riskier, lower tranches of an MBS which normally bare the highest risk assets, could see an increase in failure rates. We might also expect to see an increase in default rates in higher tranches.

A clear distinction should be made between the immediate impact on variable rate and fixed rate mortgages. Longer dated fixed rate mortgages are more prevalent in the US than the UK. Households with variable rate mortgages in flood prone areas may experience an increase in their mortgage rate, and/or repayment schedule, as the risks are factored in. The new cost might be unattainable for some households and may result in mortgage defaults. This could have second round effects on the banks and financial institutions which underwrote these mortgages. We can expect MBS

to also be impacted as the mortgages within the mortgage pools default. As a result, we can expect second round effects of these MBS defaults to impact the underlying holders of MBS.

Critics of this sort of price mechanism may reference neoclassical economic literature in their defence citing Adam Smith's 'free hand' and Eugene Fama's 'Efficient Market Hypothesis'. Whilst both these theories add value in short term pricing, they unfortunately fall short in accurately reflecting risk premia in the long term. This is not a fault of the hypotheses, but rather one of human behaviour. As a result of inefficient risk factoring, we can expect to see MBS defaults not only as a result of an inability to service the debt but also as a result of inefficient risk premia leading to uninhabitable properties.

Another key problem for MBS is the likelihood of an inaccurate risk profile. Accurately categorizing the risk profile of underlying assets and tranching them appropriately is complicated. By overlaying an additional parameter of climate change, we can almost guarantee that the risk profile of the underlying assets will be far from accurate. For example, a mortgage might initially find itself in the BBB-/Baa3 tranche thereby classifying as investment grade. However, fast forward five years and the same mortgage is heavily exposed to climate-related flood risk but is still classified as BBB-/Baa3.

*This rigid structure ultimately hurts the investors as they are not rewarded for the additional risk they are now taking on.*

Taking into consideration these arguments and assuming perfect information of climate-related flood risk, an investor with unconstrained

capital could go Long floodproof MBS and Short flood prone MBS with the aim of generating alpha whilst remaining climate risk neutral. Of course, this arbitrage opportunity would only be alpha generative as long as climate risk is not priced in.

*But a larger question remains. Does the lack of climate-risk factoring in the mortgage market indirectly imply that banks are underwater writing mortgages?*

Thanos writes in a personal capacity. He enjoys delving into the academic theory behind investing and holds a Masters in Finance from the University of Cambridge. He has authored published academic research covering the impact of climate-related flood risk on the UK mortgage market, which he continues to explore. Thanos has been working as an investment professional in the City for four years.



# Pitch-a-Charity 2023: the BBA Legacy Fund

**ALISON COTTRELL OF THE CHARITY AND EDUCATION COMMITTEE IN PRAISE  
OF A SUPER NEW SCHEME TO BACK THREE SPECIAL CHARITIES**

2023 has been a special year for the Company's charitable activities thanks to its largest ever donation of £409,000, courtesy of the British Bankers Association (BBA). When the BBA became part of UK Finance, its members were given the opportunity to donate to charity any surplus funds following the buyout of the BBA pension scheme. Many did so, and the International Bankers Charitable Trust (IBCT) was delighted to be one of only two organisations selected to distribute this money; something we will do over a ten year period. Our considerable thanks in this context to Liveryman Henrietta Royle, who was instrumental both in promoting the option of donation by the banks, and in supporting the IBCT as a beneficiary.

The BBA legacy, alongside funds brought in by our ever-hardworking Fundraising Committee, means that we have around £182k to distribute to charitable causes in the current financial year (which runs from September), from £135k in 2022/23 and £107k in 2021/22.

To help the Charity and Education Committee think as broadly as possible when it came to identifying recipients of the first tranche of the BBA legacy fund, members of the Company were invited to "pitch a charity", nominating organisations that could make good use of the funding. The aim was to

identify two or three bodies whose work was aligned with our core charitable objectives (helping underprivileged young people in London, promoting financial literacy and education, and recognising excellence, employability and raising aspirations), and where funding provided over a three year period and complemented by active engagement from WCIB members would have a substantive impact.

---

*We received seventeen proposals from a wide range of organisations doing some very impressive work; a reminder, if any were needed, of the variety of charitable causes that WCIB members are involved in.*

---

Shortlisting was not an easy task, but after much thought the Committee selected five proposals that it wished to explore in more detail.

We met with each of our shortlisted charities in September and, having considered the bids and after further discussion, selected the three that would be the first beneficiaries of the BBA legacy fund. These are The Share Foundation, which will receive £20k pa over the next three years; UpRising, which will receive £15k pa over three years; and The ClementJames Foundation, which will receive £8k pa over the same period. As the accompanying boxes show, all are doing valuable work that aligns closely with the Company's objectives, and we look forward to adding our support and building a strong working relationship with each.

Congratulations to all three, as well as to Career Ready and Working Chance who were also shortlisted, and thank you to all of the organisations that submitted a proposal. Thanks also to everyone who nominated a charity and took part in this initiative; you made the Committee's job an extremely difficult one, for which we are very grateful! And a particular thank you to the sponsors of our selected charities – Henrietta Royle (The Share Foundation), Peter Stredder (UpRising) and Tom Newman (Clement James) - who will now be managing our ongoing relationship with each and ensuring that our engagement is as helpful and productive as possible.



Liveryman Henrietta Royle

Economic and social circumstances mean that the work of all of the seventeen charities nominated is as important now as it ever has been. While demand for the services they provide is high (and in many cases rising), however, costs have increased and competition for funding and resources remains intense. This makes the support of WCIB members, both individually and collectively, only all the more important. Our new Volunteer Database helps ensure that your skills and available time can be used where they are needed; if you haven't yet registered and would be interested in doing so, Shamir Sangrajka (shamirs@gmail.com) would be very happy to hear from you.

---

*Congratulations again to The Share Foundation, UpRising and ClementJames, and we look forward to working with both our new and existing charities as they continue to make a real difference to so many people's lives.*

---

Freeman Alison Cottrell (below) is former CEO of the Financial Services Culture Board



## BBA Legacy Fund, Nominated Charities and proposals

### Nominated, shortlisted and selected:

- **ClementJames Centre:** providing education, adult learning and support to young people and low income adults in a range of London boroughs
- **The Share Foundation:** 'Stepladder Plus'; incentivised financial education for young people (15-17 years) in care
- **UpRising:** Helping young people (18-25 years) from underrepresented communities to realise their potential, take on leadership roles and gain employment

### Nominated and shortlisted

- **Career Ready:** boosting social mobility by providing workplace experience and mentoring for young people (14-18 years) from diverse and disadvantaged backgrounds
- **Working Chance:** helping women with convictions find employment and succeed in work and life
- Nominated
- **Andrew Reed Foundation:** (Reed's School) supporting vulnerable children who have lost one or both parents, outreach work
- **Chartered Banker Institute 2025 Foundation:** 'Smart Futures' programme to support social mobility
- **Family Action:** supporting families experiencing poverty, disadvantage and social exclusion
- **Fitzwygram Foundation:** free places at Hampton School for children from disadvantaged backgrounds
- **Greenhouse Sports:** providing coaches, mentors and role models for underprivileged young people in London
- **London Music Fund:** transforming under-served communities by giving children access to high quality music education
- **Meningitis Now:** ensuring no-one loses their life to meningitis; raising awareness and providing support
- **Safety4Kids:** supporting children as the move from primary to secondary school
- **St Paul's Cathedral Chorister Trust:** sponsoring for girl choristers, able to join from 2025
- **The Children's Bookshow:** helping children (5-11 years) to love reading through workshops, performances
- **Universify Education:** working with non-selective state schools to improve access to university education

*Read about selected charities on the next page*



## ClementJames Centre

Founded in 1981, the ClementJames centre provides education, adult learning, employment and wellbeing support to young people and adults on low incomes or receiving benefits in Kensington, Hammersmith and Fulham, Brent and Westminster. In 2021 it helped 1,500 young people and 1,100 adults.

Our donation will help fund advocacy to support young people at risk of being excluded from school. ClementJames works on this in partnership with Coram, who provide specialist legal and trauma advice. The aim is to work with c.30 young people pa, with benefits both the young person themselves and their family.

While this is a specialist area of activity not appropriate for volunteer input, ClementJames would welcome WCIB member involvement with the charity's wider work on e.g. numeracy and literacy tuition, or insight days for adults (help with interview skills etc).

[clementjames.org](http://clementjames.org)



## The Share Foundation

The Share Foundation aims to encourage inter-generation rebalancing by providing young people from disadvantaged backgrounds with both the material resources and the life skills they need to succeed. It does this by operating the Child Trust Fund and the Junior ISA for young people in care, as well as by running programmes that help young people in general claim their Child Trust Fund accounts.

Our donation will provide funding for an initiative called 'Stepladder Plus'; a six-step programme of incentivised learning to help young people (aged 15-17 years) in care gain skills in literacy, numeracy, financial capability, financial planning and securing education and employment. The programme has been running for 6 years and has to date engaged 770 young people in 91 local authorities. The aim is now to scale it up and make it accessible to all care leavers in the UK.

WCIB member support would be welcome both in promoting and sharing learning from this programme, and in volunteering to help with the work itself; in particular, at 'Step 4' where participants are encouraged to plan for their future and are asked to write about their aspirations and how they will use and invest the money they are earning.

[sharefound.org/stepladder-of-achievement](http://sharefound.org/stepladder-of-achievement)





## UpRising

UpRising provides leadership programmes and employment training to help young people (18-25 years) from underrepresented and underserved communities fulfil their potential, take on leadership roles and gain meaningful employment. Founded in East London in 2008 as part of the Young Foundation, UpRising aims to support over 400 young people each year through its programmes. Its funding having been disrupted in the pandemic, UpRising announced in the summer that it would be restarting its Environmental Leadership Programme in the West Midlands. Our donation will go towards a new 'Making Change Happen' programme in East London, marking the return of the charity to the capital where it was founded. The London programme is projected to work with 200-250 young people over three years, helping participants understand how they can become leaders and instigators of change in their communities. UpRising also plans to use the WCIB funding to help unlock additional support from other sources, amplifying the value of our donation.

WCIB member involvement would be very welcome in numerous ways, including help with writing CVs and job applications, running mock interviews, helping young people practise networking skills, and providing venues for participants to attend weekly meetings (e.g. on Friday afternoons over the course of the six week programme).

[uprising.org.uk](http://uprising.org.uk)





# A strong new course for membership

MEMBERSHIP COMMITTEE CHAIR LIZ FIELD ON THE COMPANY'S GROWTH STRATEGY

From its earliest days, our Company has been a gathering ground for a broad group of financial services professionals, all at the heart of creating and maintaining sustainable growth in this country and globally. The Company has a clear purpose and its activities reflect its aims: Charity, Education, Fellowship and Promoting the Profession. Our recently agreed Purpose and strapline reads: WCIB: The meeting place for financial services professionals.

---

*A vibrant, inclusive livery company, connecting leaders in international banking and financial services to promote the City, networking, insights, education and philanthropy.*

---

Connecting is key to our *raison d'être*; the Lord Mayor of the City of London in 2023-24, Honorary Freeman Alderman Michael Mainelli and a member of WCIB, has put that centre-stage in his mission for the year, "Connect to Prosper." We are part of a tradition that goes back some 800 years. Though only formed in 2001, we have almost 700 members, including many senior people from the financial services profession, four Lord Mayors and other City leaders. As our Master underlined in her Installation Address, the late, great Sir Roger Gifford, Past Master and Lord Mayor, proudly believe that bankers would save the world. That was the cornerstone of his work in establishing London's position as a global leader in sustainable finance, and on a much broader field of creating solutions to global problems – as we have been doing for centuries. But he was well aware that bankers could not do the job without the accountants,

the actuaries, the insurers, the lawyers, the treasurers, and yes the regulators, all the great professions that lie at the core of the City's success. These are all welcome as members of WCIB.

So what are we going to do to continue to be the attractive place to meet? Each member will have their own motivations for joining, but broadly there are three key reasons:

- **Fellowship and networking** with members of all levels of seniority is an obvious and immediate attraction. This is true for people setting out on their careers or those finding more time on their hands and looking to remain involved in the life of the City while no longer working full-time.
- The rich array of **events and educational talks**, both formal and informal, that provide tremendous opportunities to meet new people from other parts of our diverse profession.
- The third principal reason, ranked first by many, is the **significant charitable work** of the Company, supporting education, mentoring and career development for young people, principally at inner-London schools, to improve their

employment opportunities. We do this through the financial generosity of members and also the pro bono time they offer. Collectively, the City livery companies and guilds are the sixth most significant providers of charitable donations in the UK (giving an aggregate of £75 million in 2021/2022).

Membership of the Company can be viewed as being part of a club that has diversity and inclusion at its heart and welcomes people of all ages, backgrounds and beliefs. We have a range of members with ages from under 20 to over 70, and while we do not require them to give us their personal information, of the data we have, some 25% are female, representing more than 40 nationalities. The Company embraces tradition but is working to transform and reset the City for the business of tomorrow. The word "International" in our title is unique amongst livery companies and we take great pride in embodying a bold, outward-looking and international view, reflecting the finest traditions of the City of London.

*Liveryman Liz Field is Chief Executive Officer of PIMFA, the Personal Investment Management & Financial Advice Association*





# The International Bankers Charitable Trust Fund

## COURT ASSISTANT STEPHEN EVANS PROVIDES AN UPDATE ON FINANCIAL PERFORMANCE

The Worshipful Company of International Bankers maintains the International Bankers Charitable Trust (IBCT). It was formed in 2001 and was valued at £1,614,896 at the end of August 2023.

### Annual and one-off contributions

The major contribution to the trust fund, roughly £140,000 per annum, originates from Members' charitable donations - we encourage all members to match their annual subscription with an equivalent donation to the charitable trust. In addition, we receive income from charitable events, up to £60,000 per annum, including our own fundraising dinner in 2022 and recent Securities Finance Charity Ball's. The charitable disbursements by the IBCT broadly equal the amount of donations each year. Since formation it has therefore distributed over £1.5 million to over a hundred causes that reflect the charitable aims of the WCIB.

In January 2023, a generous one-off donation of £409,000 was made by the British Bankers Association. Although it is some years since the BBA and some other financial trade associations joined together to become UK Finance, a few residual functions are still being wound up. As part of this process, our charitable trust received a donation which will materially increase our ability to make grants to the causes that WCIB supports.

### Fund capital and performance

The Finance Committee also seeks to grow the underlying capital of the fund to pay for future disbursements. When the IBCT was first constituted the initial fund monies were held in cash at banks. From 2012-2016, under the Chairmanships of Sir Peter Estlin and Robert Merrett, some investing took place in FTSE tracker funds given the low interest rates on cash. This was during the decade when interest rates were rock bottom and negative in real terms. In 2017, the then Chairman of Finance, Nick Garnish, started a plan to move funds into a diversified portfolio of equities and bonds. The aim was to obtain real growth in the capital and to keep to the long-term objectives throughout the cycles in the market. The Court approved a model portfolio using low-cost globally diversified funds, 65% equity to 35% bonds. The Committee acts as the manager and meets once per quarter to review performance.

### The current portfolio of funds is as follows:

- Legal & General International Index equity
- Fidelity International World Index equity

- Vanguard Life Strategy 60% equity, 40% bonds
- Vanguard Global Bond Index, hedged.
- Schroder Long Dated Corporate Bond

Funds of £779,349 were phased into the market since January 2018. The value at 5th September 2023 was £997,419. This represents a gain of £218,069. The percentage gain is 27.98% or approximately 6.6% per annum, taking into account the phased introduction of funds into the market. By comparison, interest rates were below 0.5% per annum during the period 2010 to 2018, and between 0.75% and 0.1% from then until May 2022. Performance was also assisted by low fund costs of 0.17% per annum and the Hargreaves Lansdown account charge is 0.25% pa.

A benchmark for the portfolio is the return from the average performance of funds in each investment sector, e.g. UK equities, UK bonds, international equities etc. The Finance Committee is pleased to report that our underlying strategy is performing. The IBCT portfolio as of September has given a return of 37.8% over 5 years (with dividends re-invested) compared to 26.0% for the benchmark.

The purpose of holding bonds in the portfolio is to reduce risk and volatility. However, in 2022 both equities and bonds fell in value together. This was largely caused by the inflationary environment. The committee considered that the value of the bond funds is likely to recover when interest rates eventually move down. In the meantime, the bonds continue to deliver a high yield. Global equities have given a return of 30% over three years.

### Publication of Accounts

The Finance Committee has the important role of ensuring the timely publication of accounts. This includes the WCIB internal accounts and the IBCT accounts for the Charity Commission. The Committee is pleased to report that both sets of accounts are up to date to 30th September 2022. The Committee has expressed its appreciation to the current Chairman, Jenny Knott, for the tremendous effort on her part, and others, in submitting accounts on time. In addition, Jenny has overseen a strengthening in the governance regime and an updating of our systems.

*Liveryman Stephen Evans studied economics at Nottingham and qualified as a Chartered Certified Accountant (ACCA). He worked abroad for seven years. In 1988 he established his firm, Evans Hart as an Independent Financial Adviser.*

# Communicating for good

LIVERYMAN ALI GRIFFITHS, CHAIR OF THE COMMUNICATIONS COMMITTEE, ON ITS DYNAMIC WORK

The WCIB Communications Committee is responsible for advising the Master's Committee and Court on all matters relating to communications to members, and our external face to the world. We welcome interest from Freeman and Liverymen who would like to join the Committee and get more actively involved in the running of our Company.

## Our remit includes:

- Finding the most effective ways to increase the understanding of members of the City, the Livery, and of the WCIB's role within it
- Highlighting ways in which members can get involved with the Company and with the charitable programmes we support
- Promoting the events we run, and
- Being the custodian of the WCIB brand.

In practice, this means we are focused on delivering tangible ways to improve communication and engagement with our members, whilst attracting new ones.

- **The International Banker Magazine:** Freeman George Littlejohn edits a bi-annual magazine with articles by members highlighting the many facets of international banking to which they contribute.
- **LinkedIn:** This is one of the most potent ways in which we can promote the Company – both to existing members, and to prospective new ones. We share content from the magazine onto LinkedIn, as well as reviews of events, whilst continually looking for new ways to maximise the impact of this channel.
- **LinkedIn WCIB Closed Group:** We have actively invited every WCIB member on LinkedIn to join the WCIB closed LinkedIn group, to help members identify each other and to connect directly. If you are not already a member, please let us know!
- **Monthly e-update:** In the first week of every month, all members receive details of our own events, and also those which may be of interest in the wider Livery.

We are fortunate to be supported by the Clerk, who delivers the monthly E-Update, and who contributes to our LinkedIn Page and closed member group.

## A NEW STRAPLINE AND WEBSITE FOR THE WCIB

This year, we have focused on two specific deliverables: the creation of a WCIB strapline; and delivery of website and CRM in 2024. We worked with the Master's Committee and Court to agree a new strapline for the Company, to encapsulate its ethos, and to form the bedrock of future communications

projects, including the new website. The wording we have arrived at is intended to emphasise that networking is at the heart of our proposition, enabling diversity and cross-pollination of relationships and ideas:

“WCIB - The meeting place for financial services professionals: A vibrant, inclusive livery company, connecting leaders in international banking and financial services to promote the City, networking, insights, education and philanthropy.”

This wording is being used to inform and underpin the creation of a new website, CRM and events management system, which is due to come on stream by the end of the first quarter 2024.

*Ali Griffiths joined WCIB in 2017. She has worked in strategy, marketing and commercial roles in listed global businesses, trade bodies and VC-backed scale-ups, in sectors including insurance, fintech and cybersecurity.*



# Liverymen's Committee – our priorities for the next six months

**LIVERYMAN JAMES NISBET, CHAIR OF THE LIVERYMEN'S COMMITTEE, ON ITS TARGETS FOR 2025**

The liveryman target is 225 by 2025. There are currently 217 Liverymen so we hope to achieve and surpass this key target a year in advance. A stretched target will then be discussed as we continue our drive to increase numbers. Our Ordinances permit the Company to have no more than 300 Liverymen.

## **Journeyman scheme**

A recent e-update invited Associate members to join the WCIB Journeyman Scheme which is designed to give Associates who have proven themselves to be interested and actively involved in the WCIB the opportunity to:

- Potentially progress to Livery faster than would otherwise occur.
- Become involved in the WCIB standing committees.
- Have access to a mentor who will be a senior member of the Company.

## **Encouraging Liverymen to pay their Quarterages by automatic payment**

It has emerged that almost 100 Liverymen do not pay their annual quarterage by automatic payment. In order to reduce the assistant clerk's workload we will look to increase this. The outgoing Livery Committee Chair has written to those not currently doing so as he steps down to request that they complete an automatic payment form. In the future it is proposed that that prior to their Clothing ceremony, all new Liverymen should have completed such a mandate.

## **Liverymen's Lunch 2024**

The 2024 Liverymen's Lunch is being planned for 7 February 2024. These more informal lunches have been re-instated having proved popular in the past, where friends old and new can share a convivial meal and a glass (or two) of wine.

*Commander James Nisbet VR RN's financial career started in the City of London in 1994 at NatWest Bank. Since then, he has worked for a number of international banks in the syndicated loan market. James has been increasingly active in the civic side of the City in recent years, becoming Chairman of Broad Street Ward Club and a Mansion House Scholar mentor for the WCIB.*



James Nisbet

Congratulations to our new Liverymen (L to R): Jago Toner, Vladimir Cauville, Geraldine Kelly, Raj Tumber MBE, Tony Ward, Joe Snell, Vikas Aggarwal JP.





# Our new Junior Warden

## LIVERYMAN ALI MIRAJ ON HIS JOURNEY IN THE WCIB

I joined the Company in 2010, became a Liveryman in 2013, was elected to Court in 2019 and have committed myself to the WCIB's work in a number of ways. I have served as Chair of the Charity and Education Committee where I established the "Pitch your Charity" initiative to get members directly involved in advocating for financial support from the Company for organisations where they have a personal involvement and that meet our charitable objectives. In that role I also brokered an introduction to LIBF, which has now developed into a partnership, to drive our financial literacy programme for young people.

I have been delighted to host the annual Schools Essay competition at ING in recent years, acted as a mentor as part of the Mansion House Scholarship Scheme and served on the editorial board of the International Banker magazine for four years, including writing pieces myself and commissioning articles. I have also introduced several new members to the Company and served as a Wandsman at official functions.

I believe that we should be "A Diverse Company for a Diverse City". That comprises three elements. First, diversity of the offering to our members built around a strong range of events to suit different interests and tastes. Second, diversity of thought where the Company uses its unique convening power across the financial services sector to reflect on the trends shaping our industry by providing a forum for robust discussion on topical issues. That is why I have worked with

the Master on initiating an inaugural WCIB debate which I hope will become an annual fixture going forward. Third, diversity of our membership leveraging our position as a truly international and young livery company to become the natural home for a range of people looking for fraternity with a desire to contribute to the future success of the City.

I intend to focus on three areas. First, continuing to raise the profile of the Company by securing renowned speakers for events. Given my media interests as a broadcaster and commentator as well as my political connections, I believe I can make a significant contribution here. Second, I will actively support the fundraising gala dinner established by the previous Master to move the dial with respect to our charitable and educational pursuits which is the beating heart of our purpose and is very important to me personally. Third, I would like to support the younger members in their activities as well have some fun, so I would be very happy to DJ at an event if they want to organise one!

I have always believed in public service and have stood for parliament twice, served as a local councillor and been a governor of two schools. I have also sat on multiple charitable and educational boards, including the strategy board of Bayes (previously Cass) Business School, the board of the LIBF and am national Vice President of the Campaign to Protect Rural England. I also founded the Contrarian Prize over a decade ago which recognises individuals in British public life that demonstrate independence, courage and sacrifice.

I have a deep affection and love for the City. I am a Managing Director in Infrastructure Finance at ING responsible for managing global relationships with infrastructure equity investors. Having joined the bank in 2001, I previously worked in Syndicated Finance underwriting transactions across multiple sectors and am a qualified Chartered Accountant having begun my career at Price Waterhouse.

---

*I am an international banker to my core and delighted to serve as Junior Warden to continue to support the WCIB in achieving its aims.*

---



# The view from the Clerk's eyrie

## CAROLE SEAWERT REPORTS ON THE WHIRL OF HER FIRST YEAR

The past year as your Clerk has whizzed by; it's certainly been a year packed with social and civic activities. We have also grown our membership: every quarter at our Court meetings we have welcomed around 15 to 18 new Freemen into the Company. And we have seen a steady flow of members progressing to Liverymen. It's been great, too, to see so many gaining their Freedom of the City at the Guildhall – the first step in achieving Liveryman status. In fact, we had a first in July: a joint Freedom of the City ceremony with a total of nine WCIB members taking part.

Many of you will have attended one of our events during the year – either a dinner, our winter or summer party or a roundtable discussion. If you haven't managed to come along this past year, I encourage you to do so if you are able. It's a great way of getting connected to the WCIB and of meeting like-minded new contacts.

The last social event of Jason Van Praagh's year as Master was a special evening at the Tower of London for all new Freemen and their sponsors, as well as all members who progressed to Liveryman during his year. The success of our livery company depends on attracting new members so I urge you to introduce a colleague or a banking friend to the WCIB by inviting them to one of our events.

### Lord Mayor's Show

We had a tremendous day at the Lord Mayor's Show on 11 November. A big thank you to those of you who have donated so generously to help fund our civic responsibilities during Alderman Michael Mainelli's year as Lord Mayor. It is greatly appreciated. As Professor Mainelli is an honorary member of the WCIB and also Alderman of our ward (Broad Street), we took part in the parade in a joint float with two other livery companies located in Broad Street, the Carpenters and the Drapers. Members of Broad Street Ward Club joined us on the float. We had our usual presence in the Modern Liveries float.

### Looking to 2024

Our new Master, Angela Knight CBE, has a full programme lined up for her year. The first event was our City debate on October 28, "Is the City's fading glory being replaced by Jobs for the Bots?". And put the first Thursday in every month in your calendar, as there will be round table discussions

alternating with informal pub get-togethers. Watch this space. On an administrative note, 2023/24 quarterage payments are now due. If you pay by bank transfer, please ensure you make your payment by the end of October. This helps our cash flow and means you won't have to receive reminder emails from me. We encourage everyone to pay by direct debit to save on admin. If you would like us to sort this for you, please email me at [clerk@internationalbankers.co.uk](mailto:clerk@internationalbankers.co.uk) and I will send you a direct debit mandate to fill in.

Finally, I'd like to say 'thank you very much' for making me feel so welcome while I settled in to my new role. I look forward to meeting more of you – and here's to an equally busy 2024.

*Carole is based at our office in Furniture Makers' Hall. You can reach her on the usual email address: [clerk@internationalbankers.co.uk](mailto:clerk@internationalbankers.co.uk) Her work days are Monday to Thursday.*



# WCIB events

Irina Ons Vilaboa CFA, the new Chair of the Events Committee, is a seasoned Senior Fixed Income Indices Quant, with 17+ years in the financial industry. She works for FTSE Russell, a London Stock Exchange Company. She is a WCIB Liveryman, and a former member of the Events, Membership and D&I committees. Irina is keen to hear from all company members with ideas for events – whether to suggest new venues (through work or other affiliations), or to indicate a speciality that they would like to see represented on the events calendar (or could contribute to), to request events related to cultural highlights, or finance-related interests to improve their subject-related knowledge.

From January 2024, the Events Committee is establishing a series of monthly networking drinks, alternating between Zoom and in-person. At the same time, the Livery FSG (Financial Services Group) of which WCIB is a member, is also establishing a monthly networking drinks, the details of which will be shared as soon as known. Longer term, the aims are to continue to offer stimulating events with sufficient frequency to foster the fellowship of the members, achieve wider awareness of the Company in the City, while reflecting the purpose of the Company and its membership through the variety offered. So here's a brief round-up of some of the wonderful events organised by WCIB in the latter part of this year.

## APRIL 2023

### Digital assets at The Walbrook Club

With many thanks to Mathew McDermott from Goldman Sachs for a superb talk, delivered with that rare skill of being inclusive for those new to digital assets, yet with effortless depth and precision in his Q&A responses. Organised by Jordan Buck, former Chair of the Events Committee, a key takeaway was that we should all prioritise developing our understanding of the opportunities and challenges presented by this emerging digital revolution in financial markets.

## MAY 2023

### Liverymen's lunch, Information Technologists' Hall

Over 90 Liverymen (male and female) enjoyed a delicious lunch, and the opportunity to get to know fellow Liverymen from across the WCIB membership.

### Breakfast briefing at The Walbrook Club, a book signing by Henry Sanderson, the author of *Volt Rush – The Winners And Losers In The Race To Go Green*

A huge thank you to Henry for sharing his insights and views with us at this breakfast meeting, organised by Freeman Sharmila Whelan of the Events Committee. For those following the EV industry and the stand off between the

West and China, the book is a fascinating read. Sharmila's key takeaway of the event was that the only pathway to net zero must include China: it is way ahead of the US and Europe in electric battery technology, production and in securing supplies of critical raw materials. Food for thought?

### WCIB networking drinks at the City Livery Club

WCIB networking drinks at The Little Ship Club by the River Thames - also the new home of the City Livery Club. A fantastic turnout on a balmy evening, meeting old friends and make new ones from across our diverse livery company.

## JUNE

### Joint WCIB event with the Glaziers, Glass Sellers, Launderers and Bridge Ward Club on "the power of networks," in the City and beyond

Past Master, Jason Van Praagh discussed how to manage business, personal and livery networks. After the formal part of the evening, we repaired to the River Room to enjoy views over London Bridge, to chat with livery colleagues.

### WCIB summer party at Middle Temple Hall and Gardens

We held our summer party in the beautiful surroundings of Middle Temple Gardens. The weather was lovely, the Pimms flowed and the conversation was lively. Thanks to everyone who came for making it such a fun evening.





## JUNE

## Silicon Valley Bank; Signature Bank; any more to come? Mismanagement, bad luck or what else?

Founded in 1983, folded in two days. Silicon Valley Bank's collapse was the largest failure of a US financial institution since Washington Mutual in 2008. Just before its fall, almost \$42bn of deposits were withdrawn in a single day - a rate 20 times faster than any bank run in history.

In June, our expert panel - then Senior Warden, now Master, Angela Knight CBE, Junior, now Middle, Warden Tim Skeet, Court Assistant Jenny Knott and Freeman Sharmila Wheelan met to discuss the context and whether any lessons could be learned to stop history repeating itself. What ensued was a highly charged and engaging discussion leaving no stone unturned to understand the factors behind this latest banking failure.

It was agreed that whilst preventative actions such as circuit breakers and stress tests can mitigate risks, they can never fully eliminate them. Well-intended banking regulations are, by nature, backward looking and regulators will therefore need to continuously react to black swan events.

However, firms must shoulder their share of responsibility as weak corporate governance, porous risk management processes and business models with a lack of resilience baked in were highlighted as common factors in bank collapses. These were echoed by Andrew Tyrie's inquiry on banking standards which pushed for sanctions on senior staff as well as deferred remuneration to reduce the incentive for short term, bonus driven decision making. A common yet silent thread across both industry and regulator was the impact of group think which we have seen yet again with the collapse of FTX.

Silicon Valley Bank's demise was unique due to the amplification of its impending collapse by social media which accelerated withdrawals and this, combined with the evolution of artificial intelligence and algorithmic trading, will create new threats for distressed companies in banking and indeed beyond.

*Liveryman Aleem Wallani has worked for the UK Treasury and is an active investor.*

## SEPTEMBER

## Master and Consort's Weekend Away

Jason Van Praagh, our Master for 2022-23, started a new tradition, The Master's Weekend Away. Taking place at the Combe Abbey hotel in Warwickshire, we dined, conversed, almost solved a mystery murder, but above all had a memorable experience in great company.

## Special Tower of London Event

Jason had the privilege of hosting a special Master's reception for new Members and Freemen, their Sponsors, and new Liverymen of the Worshipful Company of International Bankers. With over 120 attending, guests enjoyed a private viewing of the Jewel Tower and an exclusive reception in the White Tower. It was a particular honour to welcome the Lord Mayor elect, and WCIB Hon. Freeman, Michael Mainelli. Fun and fellowship in action!



## OCTOBER

## Installation Dinner, Drapers' Hall

We were delighted to welcome the Governor of the Bank of England, Dr. Andrew Bailey, as our guest of honour and main speaker at the Installation Dinner, which commenced Angela Knight CBE's year in office as Master of the WCIB. See page 6-7.

## Is the City's fading glory being replaced by Jobs for the Bots?

With enjoyable networking drinks before and after, this event was chaired by the Master, Angela Knight CBE. More than 90 people attended what was a very lively event, with voting on the motion "Is the City's fading glory being replaced by Jobs for the Bots?" Those against were marginally ahead of those in favour. Speakers include Frances Coppola, financial economist, author and blogger; Ed Bowles, for many years the Global Director of Public Policy at Meta, Adam Afriyie MP, Chair of the Parliamentary Office of Science and Technology; and Helen Panzarino of the London Institute of Banking and Finance.

# The WCIB at the Lord Mayor's Show

MIDDLE WARDEN TIM SKEET REPORTS FROM THE FRONTLINE OF THE CITY EVENT OF THE YEAR

I can best be described as a complete Lord Mayor's parade novice. I had never been to one of these, in fact never even watched one. When asked to do my Wardenly duty and come along to do my bit, I had visions of a few stoic spectators, intermittent drizzle, a lot of bonhomie and a bad cold by the end of the day.

The multiple closed tube lines, threat of violent disorder at various political marches not far away and a long day ahead did not do much to help get me in the right mood. Nevertheless, dry blue skies, gathering crowds of excited people with their kids, and lines of exotic floats with an extraordinary array of exhibits offered the prospect of a much more interesting day.

Sore shoulders from excessive waving at the crowds and carrying a WCIB placard, some 17,000 steps (according to my Fitbit) and a pub lunch later, the day was done. It has been fun.

In fact, there was quite a buzz about the whole event. Wandering down the middle of otherwise traffic-laden City streets, alongside an antiquated bus, and a gaggle of Ward Street Club

friends in a variety of attires (high-viz jackets, bright blazer, cat costume, sheltering under bright umbrellas despite the obvious lack of rain), was quite an experience. The comparatively dowdy WCIB team dutifully marched and chatted, waved at sundry dignitaries, smiled at the excited crowds, greeted friends and had an altogether good day out.

To the uninitiated, one might well wonder what this parade was all about. It was a very British affair, but one in the spirit of the City, full of colourful international élan- Mongol hordes, Punjabi dancers, German marching band to name but three of the groups.

The parade, which dates back to the 13th century, as any Londoner knows, marks the arrival of a new Lord Mayor. In the current mayoral incarnation (number 695 as it happens) Alderman Professor Michael Mainelli is of course also a suitably multi-national member of the WCIB. And so, as we pounded the streets of London in this year's parade, we celebrated fellowship, an ancient tradition and the City's international panache. It didn't even rain....



## Donors to the Lord Mayor's Show fund

A huge thank you to all our members who donated to the Lord Mayor's Fund. Some members were particularly generous, with our Platinum donors giving more than £1,000, the Gold donors £500, the Silver donors £250 and Bronze donors contributed the rest. But whether you gave £1 or £1,000, thank you to you all and above you can get a taste of how it was spent. Angela Knight, Master.

### PLATINUM DONORS

Vladimirs Ivasjuta  
Tim Jones  
Erki Kilu  
Jason Van Praagh

### GOLD DONORS

Alistair Featherstone  
Robin Fox  
Angela A Knight  
Roy Leighton  
Syed Salman Mahdi  
Jane Platt  
William Purves

Mark Seligman  
Gerald Walker  
Martin Watkins

### SILVER DONORS

Maximus Asmelash  
Peter Capel  
Mark Dalton  
Michael Hintze  
John Hitchins  
Robert Merrett  
Eric Rijnders  
Antonello Russo  
Tim Skeet  
Christiane Wuillamie

### BRONZE DONORS

Charles Burrows  
Fionnuala Carvill  
Susan Clark  
Kenneth Foxcroft  
Keith Kanaga  
Charlton Krentz  
Leslie James Lester  
Gwyneth Macaulay  
Nigel Mattinson  
Thomas Newman  
Mark Sismey-Durrant  
Robert T Smith  
Lawrence Wood



Team WCIB (L to R): Ali Miraj, Peter Green, Carole Seawert, Tim Skeet, Angela Knight, Nick Garnish, James Nisbet, Kim Le, George Littlejohn, Jordan Buck (not shown Ali Griffiths, Robert Merrett)



## Deck the necks with boughs of...



**BOWTIE £20**



**CUFFLINKS £50**



**TIE £20**



**PEWTER BADGE £20**  
– CAN BE USED AS A  
BADGE OR PENDANT  
(chain not included)

Order and pay via the Shop in the Members Area of  
the WCIB website [www.internationalbankers.org.uk](http://www.internationalbankers.org.uk)

Prices for all items incl VAT but do not include P&P.



# Forthcoming events



28 NOVEMBER 2023

## **Heretical Times with Andrew Hilton**

Whatever became of Andrew Hilton, scourge of the woolly thinker in his decades as founder and director of the Centre for the Study of Financial Innovation (CSFI)? Until lockdown brought its roundtables to a (temporary) halt, CSFI delivered a twice or thrice weekly dose of incisive debate covering the whole financial waterfront. Well the good news is that he is alive and well and as feisty as ever, publishing an astonishing weekly commentary, Heretical Times, on Substack with some of the most penetrating (and controversial) analyses of global economics, markets and politics on the waterfront. Catch him on the WCIB's latest webcast, on 28 November and on our YouTube channel.



14 DECEMBER 2023

## **Carol Service at St Mary-le-Bow**

Join your fellow WCIB members and get in the festive spirit by coming to our annual carol service at St Mary-le-Bow on Cheapside on Thursday 14 December from 18.30 – 19.30. You can also enjoy an informal mince pie and fizz reception afterwards in the church. As usual, we will be joined by colleagues from other livery companies: the Arbitrators, the Scriveners and the City Solicitors. Tickets are £25 per person and we are strictly limited to 30 tickets per company. A waiting list will be in operation in case there are any cancellations. Book your tickets online on the WCIB site.



22 JANUARY 2024

## **The fast-changing world of pensions**

On Monday 22 January 2023, the Company will be leading a top-class evening event for our colleagues in the Financial Services Group of Livery Companies, focusing on changes coming this year as a result of the 2023 "Mansion House Accord," which aims to boost investment from UK pension funds into smaller businesses, regarded as prime sources of sustainable growth. The evening will begin with a keynote address by our Honorary Freeman Lord Mayor Michael Mainelli.



28 FEBRUARY 2024

## **Annual Banquet at the Mansion House**

John Glen, MP for Salisbury and South Wiltshire, will be our guest speaker at our ever-splendid Annual Banquet in the Mansion House on Wednesday 28 February 2024. John has ably served the City and the financial services community more generally since his first appointment to Treasury ministerial office five years ago. He was appointed Paymaster General and Minister for the Cabinet Office on 13 November 2023, and was previously Chief Secretary to the Treasury between October 2022 and November 2023. He was also Minister of State (Economic Secretary) from September 2021 and to July 2022. And he was City Minister between January 2018 and July 2022, as well as Economic Secretary from January 2018 to September 2021. Over those years, he has worked closely with many of our Masters and senior members, notably with the late Sir Roger Gifford, in whose development of sustainable finance in the City, and its world-leading role through the formation of the Green Finance Institute, he played a vital part.