

## Remarks by Susan C. Keating, NFCC President and CEO

### *Trust Deficit: A Challenge We Must Face Even After Economy Grows Strong*

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Today, in America, we have a crisis of confidence. The crisis is marked by a general erosion of trust in almost every significant institution and in the quality of leadership in both business and government. And, this lack of trust – exemplified by outrage over bank bonuses, Tea Party political protests, and even questions about the President's place of birth – is shared widely in every part of the country, among every social and ethnic group, and across the income spectrum.

Americans see Wall Street as a closed cabal marked by runaway greed; they doubt that banks are either fair or honest; they believe insurance companies will risk their customers' health to secure profits; they watch businesses sabotage brand integrity for short-term gains; and they think political leaders lack the backbone to stand up to lobbyists or special interests.

When they look to their government for solutions, they see a Congress paralyzed in partisanship and a health care debate that one observer called a "bizarre bazaar" of vote trading in the Senate. Pollsters tell us that Scott Brown, the new Senator from Massachusetts, was elected in part because voters wanted to send a message. But many Americans even lack trust in the ballot. As one associate told me recently: *"I want to vote against all of the incumbents, but the opponents are even worse."*

Edie Weiner had it right earlier today when she said we are living in a complex and systemic dynamic of anti trust.

Even old catch phrases are suspect.

"It's like money in the bank" used to mean something was solid, safe, pretty much a sure thing. Say that today and people will wonder if you've been living under a rock. A 401k account used to mean financial security in retirement. Today, my friends tell me, it's just one more type of "funny money," and they'll believe it when they see it.

Objectively, some of these emotions are overreactions.

There are an awful lot of banks that didn't do anything wrong and continue to provide a safe place to put your money. We need to maintain historical perspective, remembering that not too long ago, most people were only too happy to enjoy the easy wealth created by the real estate bubble. I think the need for perspective is especially true for those of us in this room, because we have the unique opportunity to lead in a variety of venues and in a variety of ways.

On the other hand, those who played careless games with derivatives, took too much risk with financial assets, handed out mortgages on the street corner and big bonus checks on Wall Street have earned our distrust. The government officials, regulators, rating agencies, and Boards of Directors who are supposed to protect the rest of us, also have earned our skepticism.

Much of the anger has been directed at financial services. The sector's mistakes were major contributors to the economic meltdown that has hurt us all. Yet, the very people who caused the troubles continue to earn more in a single year than many people earn in a lifetime. There's widespread

anger because the same banks that got bailed out are still rolling in money and acting like nothing has changed. Even more galling, many in that sector act as if the big checks are an entitlement.

But it isn't just the banks. Almost across the board, we have been disappointed by institutions and individuals who have failed to meet their responsibilities and fallen short in their conduct.

The roll call of failure is long – Tiger Woods, John Edwards, Bernie Madoff to name a few; baseball players who've used steroids; the inability to make enough swine flu vaccine. Robert Rubin and Alan Greenspan, once celebrated for their wisdom, are now blamed as enablers who let the party run on too long. We're afraid to open emails because they might carry a virus, and are nervous about online banking because hackers might discover our password. Even late night television is a mess: What message does it send when NBC pays Conan \$32 million not to come to work?

Poll data confirms the disillusionment. For example, the General Social Survey shows that between 2000 and 2008, the percentage of Americans with a "great deal" of confidence fell from 30 percent to 19 percent for financial institutions, from 30 percent to 16 percent for major companies, and from 29 to 20 percent for organized religion. And, I won't even mention Congress or the news media.

The Gallup poll shows similar trends, with only the military and small business rising in public esteem.

To organize my thoughts for today, and as a double-check against my own distrust, I conducted an informal focus group of my friends and colleagues. I asked them how they felt about America's institutions. It turns out they are even more angry than I imagined.

One summed it up this way: *"I can't think of a single institution that I trust more today than I did 20 years ago."*

*"I am soured,"* said another.

They told me they had lost confidence in both government and the private sector. They said businesses had broken the social contract with employees and with customers. Some suggested that we all share the blame for an erosion in core values.

As one put it in an email:

*"As a society — are we off track? How could I answer any way but "yes?" Reality TV shows whose chief feature is people who have too many babies. Fellow citizens who are so desperate to be celebrities that they would lie about the safety of their children or an invitation to a state dinner in an effort to get their fifteen minutes of fame.. It feels like we've lost whatever moral compass we had."*

I know there are many businesses and individuals who still deserve our trust, but the many that fell short caused so much pain that distrust predominates.

Too many businesses aim only for maximum profits – no matter how they earn them. There is excessive focus on the short-term, and too little attention to long-term value creation. The customer is an afterthought, and apparently so is the firm's reputation. Respected brands have been tarnished and trampled in the pursuit of immediate gratification and financial gain.

In financial services, these attitudes gave us the twin horrors of bad practices and customer abuse.

Instead of good loans based on sound underwriting, providers emphasized volume. Risk management was an afterthought. Too many deals were based on the assumption that the good times would never end.

Bad loans aren't just a bad business practice; they're also a form of customer abuse that can ruin the customer's finances and credit, and sometimes their family life and health as well.

Banks forgot about matching customers with products that fit the customer's needs and budget. Instead, products were matched to fit the provider's business model. Too many institutions changed their revenue models from service to fees. Instead of earning money on good service to customers, they focused on the penalty fees and hidden charges they could extract. If the customers didn't understand the terms, so much the better. Some call it "gotcha banking."

The bonds of loyalty between company and worker also have eroded. Employers have developed a fondness for part-timers and temps who don't receive benefits. *BusinessWeek* recently wrote of "the disposable worker," who is expected to be let go. Nobody expects employers to guarantee jobs for life. But businesses do owe their employees a fair deal – respect, a living wage, a reasonable package of benefits, and common decency when workers are laid off.

As I noted earlier, we also have lost faith in our leaders' ability to lead. And, the Supreme Court's decision last week to allow more corporate money into politics will likely add to distrust. Whether the ruling is "good law" or not, seems beside the point to people who wonder how practices that have been banned for more than 60 years are suddenly okay.

Partisan bickering and surprising court decisions are *not* new, and institutions have never been perfect. But, in other crises of my life time, when one leader or institution failed, others stepped forward.

- When Watergate shattered confidence in the Presidency – the news media, the Congress, and the Courts stepped up.
- After the corporate scandals at Enron, WorldCom, and elsewhere – the cheaters went to jail and Congress passed tough new laws to restore accountability.
- During a half century of Cold War, Presidents of both parties pursued a consistent policy of containment with a minimum of partisanship.

Today, by contrast, we have pervasive failure and seem to lack the leaders we need.

How do we turn it around?

Part of the answer is specific reforms, including new regulations and better enforcement, especially for the financial services industry. Maybe the Massachusetts election will stimulate new cooperation in Congress to get this done – if only because incumbents will worry that unless they take action they will be the next in line to lose their jobs.

We also need individuals to step-up – one person and one organization at a time. Individual action matters -- because institutions are really nothing more – or less – than the collective actions of the people inside them.

Why can't a financial services firm commit itself to ethical leadership? Instead of racing to be the most profitable or battling for the largest market share, it could distinguish itself on the basis of integrity, fairness, and value for its customers. And, if they do that, I believe they will be rewarded by customers who are thirsting for integrity. What about:

- Business strategies based on sound underwriting, loans that are likely to be repaid, and products that are matched to fit the customer.
- Managing for the long-term and accounting for business risk.
- Treating customers with honesty and respect by delivering service and value, not hidden fees and penalties.
- Linking compensation to long-term performance and ethical behavior; paying less at the top end and more at the bottom.

But our challenge isn't just fixing one company, or one industry, or one institution. We need renewed leadership in every venue; leadership that breathes new life into institutions in every sector; and leadership that may also involve redefining success.

That leadership can start right here in this room.

We aren't just a random collection of people off the street. All of us here have accomplished great things. All of us have platforms for change at our disposal.

We can set the tone. We can be role models who advocate for long-term performance. We can build a legacy of value in our own organizations and in our communities. We can look past parochial interests to help identify the common good and work to achieve it.

We need to talk the talk AND walk the walk – every single day.

Though they have their place, I am not calling for grand gestures. What I am talking about is the quiet daily work of leading by example and doing things the right way. Instead of minimal compliance that violates the spirit of rules and throws real ethics out the window, let's make it clear that values aren't based on convenience, nor are they relative. Some things really *are* either right or wrong.

We all have moments when we doubt our ability and wonder whether anybody will listen to us. But I am convinced that small actions, joined together, *can* create a collective energy that brings about change. I think Margaret Mead had it right when she observed:

*“Never doubt that a small group of thoughtful, committed citizens can change the world; indeed it's the only thing that ever does.”*

I really believe that if we each do our share we can rebuild trust and revitalize our institutions so that one day, we will be able to say once again and with a straight face: “It's like money in the bank.”

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