

The virtuous circle of ethics and sustainability

Getting used to the fluidity of social and economic contexts as part of the “new normal”, we are happy to celebrate the best essays of the 8th edition of the “Ethics & Trust in Finance for a Sustainable Future Prize”. The two-year cycle of the 8th edition started in early 2020 on-line, and - for obvious reasons. – and will also be closing on-line. After almost two years of Covid-induced lock-and slow-down, the Award Ceremony of the 7th edition hosted by OECD at its Paris headquarters is forcefully shining in our memories but seems almost unreal.

The 8th edition kicked off with an online event on the 2nd of June 2020 with three important moments: the keynote speech by Valdis Dombrovskis, Executive Vice-President of the European Commission and two round tables, one with former winners, and one with Jury members and partners. Both round tables were (overoptimistically) looking into the post-pandemic world and aimed at reflecting on the lessons and challenges of pandemics for ethics in finance.

Despite the lasting pandemic slow-down, the team of the Prize has been working hard to disseminate the information using new vectors and media. It managed to reach out globally to potential young authors and contributors in academia, in business and in public sector. These efforts have been leveraged by those of our partners who have channelled the information to their own constituencies.

This 8th (pandemic) edition would not have been possible without the whole-hearted support and cooperation of the Prize’s strategic partners: the CFA Institute, with Josina Kamerling (Co-chair of the Jury); Euroclear, with Stephane Bernard and Martin Gregson and, and SWIFT (Patrick Krekels and Sandrine Van Caster) together with SWIFT Institute (Peter Ware and Matt Loos) and Pictet Group Foundation (Charles Pictet and Stephany Malquarti). The support of the remaining partners has also been critical for the success of this edition. We are especially thankful to Association of Certified and Chartered Accountants (ACCA), with the support of Helen Brand and Cecile Bonino; the Polish Bank Association (ZBP) with Agnieszka Wicha; l’Ecole Supérieure de la Banque with René Desbiolles and Corinne Ianboukhtine the Weltehos-Institut (University of Tübingen) with Bernd Villhauer and the Organisation for Economic Cooperation and Development (OECD) with Mathilde Mesnard. We thank them for strong support and their deep commitment to this common endeavor.

Since the inception of the Prize in 2006, the Geneva-based Observatoire de la Finance is its operational hub. Three fantastically devoted and highly competent persons make-up the Prize team: Dr. Virgile Perret, Mrs. Hannah Soissons and Mrs. Nati Garcia. The success of the winners of the 8th edition is also – and once again – the success of this unique team working in close contact with Mr. Jean-Christophe Pernollet,

chairman of the Observatoire since 2020, the board members of the Foundation and its executive director Paul H. Dembinski.

The work of the Jury begins once the essays have been handed in. For this edition, 30th of May 2021 was the closing date and papers started to circulate among the Jury members immediately afterwards. The final Jury Meeting was held on the 15th of September 2021. This time the meeting was virtual which allowed for a very high attendance and animated discussion. Jury members generously devote much of their time which they find important, interesting – but also difficult as many papers deserve distinction. Out of the twelve nominated papers (all published here) the Jury had the difficult task to select and rank the winning papers and to allocate the money-checks accordingly.

For the 8th edition, new members have joined the Jury while others have left. Warm welcome to Dorothea Baur (independent consultant), Jean Laville (Swiss Sustainable Finance, Conser Invest), Marie Laure Salles and Nathan Sussman (Graduate

Institute of International and Development Studies), Kara Tan Bhala (President of Seven Pillars Institute for Global Finance and Ethics). Deep thanks to those that are leaving the Jury for their commitment and contributions: Philippa Forster-Back, who has been Jury member since the beginning, and Brett Scott former winner.

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Despite the pandemic, the 8th. edition of the Prize has achieved good visibility across the world which materialized

through about five hundred expressions of interest from over 90 countries (Asia 40%; 28% Africa & middle East; 22% Europe, 10 Americas). Finally, one out of 11 expressions of interest contributed an essay. In total authors from 25 countries took part in the competition.

One of the most interesting aspects of the Prize is that expressions of interest and essays originate both from the academic and research world (32% for this edition) and from the business economic/financial one (68%). Authors of essays are 41% female and 59% men.

In order to stress the complementarity between concerns for ethics and trust on one side, and those for the many dimensions of sustainability on the other, it was decided to make it explicit in the name of the Prize by adding “for a Sustainable Future”. This amendment explicitly underlines the fact that long term consequences are an important dimension of ethics, but also that ethics and trust do not boil down to sustainability. Sustainability is about a selected set of consequences of financial decisions, while ethics provides a holistic perspective on how and why the decisions are taken.

Regarding the long-term perspective, sustainability challenges many received financial activities which are – by nature – intertemporal. Indeed, one of the main jobs of finance consists of determining and pricing the value of time. Sustainability requires a change in weights – contradicting the well-established view – showing that neither discounting techniques nor discount rates are neutral. They all have an ethical dimension that needs to be debunked and properly understood. Some papers published here hint in this direction. We hope – in the next editions – to have more papers investigating from an ethical standpoint issues and problems where finance, accounting, insurance and actuary blend together sharing the same technical and conceptual tools.

The twelve papers published here – all nominated, i.e. discussed at the final Jury meeting – address three wide groups of ethics related issues. The first group of four papers – out of them three winners – address ethical questions raised by sustainable finance. Julie Segal (USA) – winner of the First Prize – argues that pricing-in of

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climate risk will increase the cost of capital for the weakest, and hence limit their chances for a successful transition. This is just the opposite to environmental justice requirements. In consequence, adequate instruments – as advocated also by Kelly Hamrick (USA, third, ex-aequo) – need to

be developed to tackle these deleterious effects. Alina Mika (Poland/UK), second, ex-aequo) is less enthusiastic about the present state of ESG finance because of lack of commitment of many players in finance industry (greenwashing). To make finance contribute to ESG goals, Mohamed Ahmed Shallo (Belgium) and Noah Sesi Nuzuki (Kenya/Belgium) look at payment industry and propose how to provide the ultimate customer of payment services with the tools to contribute directly to specific ESG goals.

The second group of papers relates to a classical – however still unsolved – problem of ethics in finance, namely the balance of power, risks and burdens in creditor/debtor relationship. Andrea Longton (USA, third, ex-aequo) begins by showing that access to financial institutions in the US is more difficult for “People of Colour than for Whites”. While not illegal, the shooting off segments of population from access to

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credit poses ethical problems. The author further shows how these asymmetries in access can be overcome with adequate credit assessment skills and tools. Felix Lockman (USA, second, ex-aequo) looks at the responsibilities of the lender and underlines – on ethical grounds – the necessity to monitor the risk devolution on the weakest debtors which may deepen in

times of tension and crisis, such as pandemics. Balint Dancsik (Hungary) follows this line of reasoning and, inspired by analogy with the tragedy of the commons, argues that for ethical reasons, lenders should consider putting a cap on their credits capacities, before these have reached technical or legal limits. Anazuo Salihu (Nigeria) turns to the macro-economic dimension of debt and proposes pathways to unburden, in name of ethics, Africa's sovereign debt.

The third group of papers deals with ethical questions that are embedded in broadly understood institutions. Four papers belong to that group. Joanna Pekala investigates (Poland/Denmark) the regulatory and legal moves that are required before the European Central bank can launch an asset purchase programme targeted at greenbonds. Louis de Diesbach (France/Belgium) looks at the apparent ethical neutrality of market infrastructures and shows how – on the contrary – they carry an embedded ethical dimension which needs to be made more explicit. Brian Collins

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Ocen (Uganda) discusses the ethical foundations and limits of banking secrecy in the perspective of balancing individual and communitarian interests. Finally, Bessie O'Dell (UK) looks at the world of virtual currencies and argues that they are neutral from the ethical perspective but concedes nevertheless that their construction and use increases ethical dilemmas.

Having read all these essays, the reader now easily understands how difficult was the task of the Jury to select, rank and award. The richness comes also from the emotional dimension as many of the papers have been triggered by real life experiences. This is exactly what the Prize aims at: stimulate young people to think out of their professional/academic silos while solving ethical dilemmas and making finance better serve the common good of humanity.

The publication of the nominated essays is the gateway for the authors to join the Alumni-Lab of the Prize. Alumni-Lab invites all the nominees of previous editions are part for an open-ended journey aimed at making finance better serving the needs of humanity.

Co-Presidents of the Jury

Prof. Paul H. Dembinski

Mrs Josina Kamerling