



The Purpose of Finance

A purposeful industry supporting purposeful companies

Why Finance Matters

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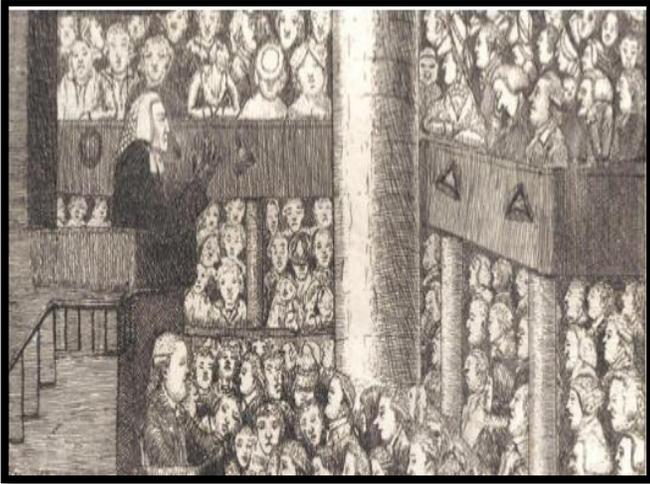
Why the timing couldn't be better in a post-covid world?

- The world is under going a reset of its existing norms.
- Finance isn't to blame for the recession, giving it room to not have to defend itself
- Workforces are questioning what they do
- Customers are questioning what they do
- Purpose is more than a buzzword

What is the purpose of the finance industry and does it fulfil that purpose well?

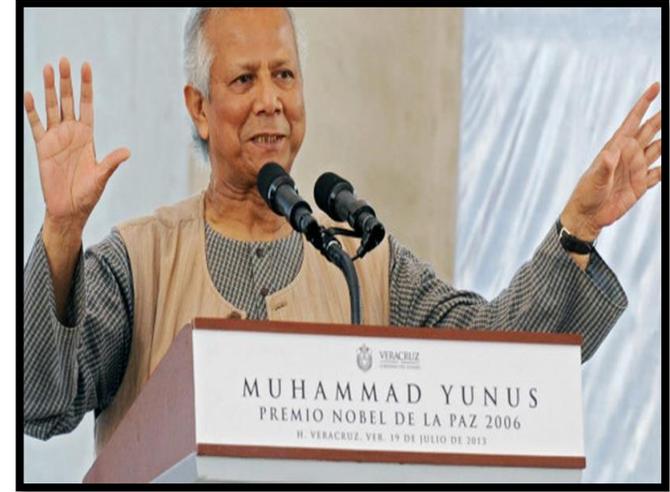
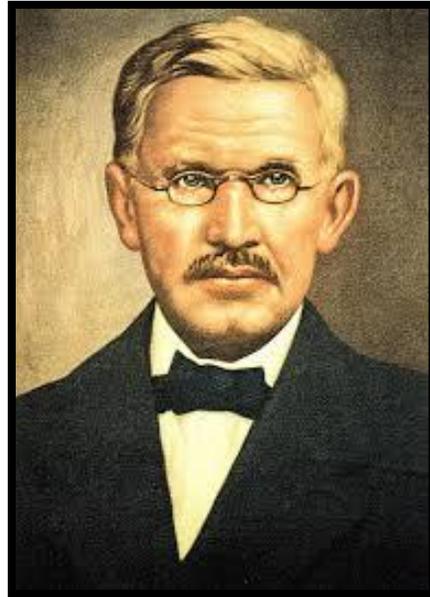
- General agreement the purpose is to serve the outside world.
- Little about specific functions.
 - Competition and markets will “cause the changes in institutional structure to evolve towards greater efficiency” [Merton]
 - Almost no academic literature on purpose and its fulfilment
- The key functions of finance are:-
 - The safe-keeping of assets
 - Providing an effective payment system
 - Pooling risk
 - Intermediation – matching the users and suppliers of money
- These are really important functions, and combined create valued products, (bank accounts, loans, pensions, permanent capita...), and justify the existence of our financial institutions. (Banks, insurers, fund managers, stock exchanges...)
- In order to perform these functions the finance industry is given **a pivotal role in corporate governance**

True Financial Pioneers?



Webster—First Pension

Raiffeisen—
Agricultural Banks



Yunus—Micro lending

Why might this be happening?

- Asymmetric Information. Exists in lots of industries.
- Under these circumstances, markets will not be welfare maximising
 - “Not socially useful” (Turner)– Financial innovation “vastly increased the rent” (Volker)
- It doesn’t require bad people for the system to fail
 - Compare to early medicine
- We can see “purposeless” activity in plain sight
 - High frequency trading
 - 50 times the trading on a stock exchange with fewer listed companies
 - Excessive investment fund proliferation—all trying to beat an index.

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What do we need to do?

- Establish purpose as a new lens through which to study finance
- A definition of the purposeful services that need provided—an hence the institutions needed to provide them
 - A pension which will last until the day you die (Holland)
 - A bank account for everyone (Bangladesh)
 - A statement of the cost of fund management
 - A clarity of **fiduciary duty through the chain**
- We then need measures which chart the delivery of purpose
 - High level (Philippon?)
 - Product specific (Pensions, bank accounts)
- And regulators charged with the delivery of purpose (Finance Innovation Lab)
- It is worth a lot
 - And some is already happening