

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

HEARING - 28 November 2011

The role of civil society in financial regulation

Resources, Competence, Access: Requirements for organised civil society to articulate their interests regarding financial regulation

Finance Watch would like to thank the European Economic and social Committee for its invitation to participate in this hearing.

The topic we are addressing today could not be timelier: society is still working on recovering from the previous financial crisis, legislators and regulators are working day and night to try to come up with a corpus of financial regulation that aims at ensuring that past mistakes are not repeated and we find ourselves, again, in the midst of a financial crisis which in some respect has patterns comparable to the previous one and in some respect is different.

Society in general is increasingly eager to get involved in the debate over financial regulation and it has strong reasons to do so: financial crises mean massive wealth destruction, increase of public debt and rise in unemployment. Financial crises have a major destructive impact on society and society wants to have a say in the debate, witness the current “Occupy Wall Street” movement running on both sides of the Atlantic which reveals a growing exasperation of “normal people” (the now famous “99%”) vis à vis the financial sector and the financial industry. It can be debated whether this exasperation is founded or not but the most important point, in my view, is that it is there and that if a number of fundamental issues are not addressed properly, the current situation could lead to very negative social and political consequences.

The need for civil society to get involved in the debate over financial regulation has never been greater.

How can civil society get involved in the debate over financial regulation?

What are the requirements for organised civil society to articulate interests regarding financial regulation?

There is an apparent paradox in the process leading to the involvement of civil society in the debate over financial regulation: on the one hand this involvement is indispensable and founded on the fact that financial activity has such a great impact on society and, on the other hand, it is difficult for society to get involved as the debate over financial matters requires specific knowledge in order to go beyond indiscriminate sweeping calls for change that may be socially and economically founded but have no chance of being implemented if they are not articulated in a format that can be used by policy makers.

Put another way, it is indispensable for civil society to get involved in the debate over financial regulation but, as this debate is by essence technical, this involvement must take the form of concrete and implementable proposals that policy makers can consider in the financial regulation elaboration process.

This is precisely what Finance Watch is about.

Finance Watch was founded after a call launched by Members of the European Parliament in June 2010 that said that in order to do their legislative work properly, they needed to hear the arguments coming from civil society as well as those from the financial industry in a normal game of checks and balances at the heart of any well functioning democratic process. As this is not what was happening, almost 200 elected officials from all political horizons throughout Europe ended up signing the “call for a finance watch” and Finance Watch was created here, in Brussels, exactly one year after the initial call.

Finance Watch is founded on the belief that capital allocation and financial services are essential for society and that they carry a strong public interest dimension. Its founding principles also state that the profitability of financial institutions is not only legitimate but also indispensable for their sustainability but that the pursuit of profit by financial institutions should not be done to the detriment of society.

In essence, the mission of Finance Watch is to promote the public interest dimension of financial activity in order to help elected officials and policy makers in charge of financial regulation to find the right balance between the public interest and private interests.

Finance Watch has two operational objectives: 1) to empower its members in their own advocacy over financial regulation and facilitate their work as much as possible by providing them relevant technical analysis and arguments; 2) to develop expertise and deploy a systematic advocacy targeting both the general public and policy makers (elected officials, regulators...).

Finance Watch's expertise production process is founded on work done in common by its members and its team of professionals with a view to producing positions that reflect the expertise and the priorities of its members and concrete proposals that can be taken into account by legislators and regulators.

Finance Watch has today 54 members who collectively represent almost 100 million European citizens. These members are trade unions, NGOs, consumer protection associations, social housing associations, academics, researchers, authors and former finance executives. Beyond their diversity, they all share a common conviction that the public interest dimension of finance is fundamental for society. Given the large number of new applications received, it is likely that Finance Watch's membership will grow significantly in the near future.

Finance Watch's team is composed today of seven professionals with a significant experience of finance, financial communication and public affairs. We are convinced that this hands-on experience is essential for Finance Watch to be able to contribute in a meaningful way. The team that has been recruited so far has an average relevant work experience of over 15 years. Under current development plans, Finance Watch's team will grow to a dozen professionals over the coming months.

Finance Watch will be working on financial regulation texts that are on the agenda of European Institutions and also on a number of proactive themes outside the legislative agenda to challenge some of the assumptions behind financial regulation. It will be producing many different types of documents, ranging from general positions papers to analysis of specific situations and to amendments proposals. It will also be organizing events to feed the public debate over financial regulation issues. All the expertise produced, positions taken and regulation proposals made by Finance Watch will be freely available on its web site (www.finance-watch.org) as they must be available for all citizens to use as they wish.

Last but not least, no organisation, and certainly not Finance Watch, can pretend to represent by itself civil society in the debate over financial regulation or to cover the full spectrum of expertise required. Organisations representing specific stake-holders and having detailed expertise in their own field (e.g. consumers' organisations, financial services users' organisations, retail investors' organisations, trade unions or other NGOs) are also fundamental to building the presence that civil society needs to have in order to intervene efficiently in the debate over financial regulation.

As a concluding remark, I will say that in the current economic and social environment, it is essential to build a constructive and responsible dialogue between policy makers, the financial industry and civil society as this is the only way not only to get out of the current financial crisis but, even more importantly, to reinforce the social foundations indispensable for democracies to prosper.

When he studied the decline of civilizations some fifty years ago, British historian Arnold Toynbee concluded in his book *"A Study of History"* that the collapse of 21 different civilisations could be explained by the combination of two factors:

1. Excessive concentration of wealth in the hands of a few.
2. The inability of societies to introduce significant changes in the face of shifting circumstances or an obvious failure of existing rules.

May the involvement of civil society in the debate over financial regulation be a stone that contributes to avoiding that our civilisation becomes n°22 on Arnold Toynbee's list.

Thank you.

Thierry Philipponnat

Secretary General of Finance Watch

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