In 2012, the World Economic Forum, with support from Oliver Wyman, launched a multistakeholder initiative to complement the on-going regulatory reform process, bringing together a wide range of senior stakeholders of the financial system, including financial institution leaders, financial policy-makers, leading economists and academics, executives of commercial firms that rely upon financial services and representatives of civil society including consumer advocates and unions. Together, we are seeking a common vision for the industry’s role in society and a strengthened bond between the financial services industry and society at large.

This document is the first explicit articulation of the role of Financial Services in society, proposed by representatives from its many different stakeholder groups. On their own, the ideas contained herein are neither new nor controversial – but we intend for this to be the beginning of a dialogue in which we will publicly scrutinize the industry’s ability to meet society’s needs and propose solutions to outstanding problems. We hope this will be an additional step on the difficult path to earning back society’s trust through the combined actions and decisions of everyone involved in the financial system.
Finance plays a critical role for society at large, serving individuals, families, businesses, governments and civic institutions. The financial sector performs indispensable functions such as enabling saving and investment, providing protection from risks and supporting the creation of new jobs and enterprises. It is critical that the sector operates to provide these functions for society in a stable, sustainable way.

Experiences of recent years have revealed a range of vulnerabilities of the financial system. Critiques include: the implicit subsidies for firms considered “too big to fail” that can allow financial institutions to enjoy privileged access to low-cost funding but protect creditors in the event of failure; the complex and often opaque web of interconnections that exists among large financial institutions and industry participants; poorly designed incentive systems; excessive leverage; insufficient liquidity; inadequate or unenforced fiduciary standards; and illegal or unethical activities from some market participants. These issues have been extremely costly to society and resulted in a significant loss of public trust and confidence in the financial system.

An enormous, multi-year effort by policy-makers and financial institutions is underway to make the financial system more resilient and enable it to sustainably contribute to economic growth and prosperity. The regulatory community has strengthened oversight and prudential requirements as part of a global effort to overhaul and improve financial regulation. The industry has also taken a range of steps to change the way it does business. These combined efforts have resulted in a significant reduction in leverage, an increase in reserves and improved capital adequacy. Changes have been made to the level and structure of compensation, including implementation of longer deferral periods and introduction of bonus-malus schemes and clawbacks, which are unique to financial services. Improvements have also been made to business practices such as training, whistleblowing, sales and product approvals, with increased penalties for breaching standards.

However, much work lies ahead to repair the bonds of trust between the industry, its clients, regulators, investors and society at large. As the sector continues to evolve, all stakeholders will need to work together to ensure that the financial system continues to fuel economic growth and job creation.

While recent consultation processes between the private sector and regulators have demonstrated a joint interest in collaborating to achieve these goals, the dialogue is also a microcosm for the range of obstacles hindering greater progress. Different stakeholders continue to operate within very different frames of reference and use divergent vocabulary to describe the purpose and activities of the sector. Participants often “talk past each other”, defending pre-defined positions and self-interests. This is resulting in too little useful dialogue to support mutual learning, too much focus on technical issues and insufficient attention to developing an overarching framework and vision of a stable and inclusive financial system that meets society’s needs.

We believe that a new kind of dialogue is needed to overcome these challenges.
What the Financial System should provide to Society

We have returned to first principles to articulate a collective view of what a financial system should provide to society. This is a normative expression of a financial system – in other words, an articulation of what any financial system should do for society. Importantly, it does not presuppose or prescribe particular business models, institution types or financial products and services that exist today. Nor does it assume that all societal needs can or should be fulfilled by every institution within the financial sector. Rather, it represents a view of what the financial system as a whole should provide to society. This common framework serves as a shared vocabulary to support discussions on the future of the financial system, as we focus on what financial firms and policy-makers should do, in addition to what they are required to do.
## Figure 1: What the Financial System should provide to Society

<table>
<thead>
<tr>
<th>Societal Need</th>
<th>Description of Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote financial and economic resilience</td>
<td>Mechanisms to reduce large shocks originating in the financial system and minimized amplification via the financial system of shocks that originate outside the system to limit financial contagion and costs to the real economy and society at large</td>
</tr>
<tr>
<td>Safeguard savings and the integrity of financial contracts</td>
<td>Broad access to a safe way to save, with minimal risk and easy access to funds; legal and operational reliability across all financial contracts, products and transactions</td>
</tr>
<tr>
<td>Facilitate efficient allocation of capital to support economic growth</td>
<td>Mechanisms to raise debt or equity for current and future needs, raise capital for new ventures/investments and finance growth projects yielding positive financial returns and benefits to the real economy</td>
</tr>
<tr>
<td>Provide broad access to financial services products and services</td>
<td>Broad access to financial services across the world, including disadvantaged and low-income segments, and education on financial management to reduce levels of unbanked and uninsured (or underbanked and underinsured) populations across the world</td>
</tr>
<tr>
<td>Enable smoothing of cash flows and consumption over time</td>
<td>Structures to balance consumption, investment and saving during the different phases of life and provide the ability to deploy savings/investments across a range of time horizons and risk profiles to balance access (liquidity), risk and economic returns</td>
</tr>
<tr>
<td>Enable payments</td>
<td>Safe, low-cost and reliable physical and electronic mechanisms to make payments for goods and services and to transfer money domestically and internationally</td>
</tr>
<tr>
<td>Provide financial protection, risk transfer and diversification</td>
<td>Ability to cover unexpected expenses from unforeseen events, share risks among groups to limit individual loss, transfer risks to those that are more able and willing to take them and undertake productive activities while managing risks and volatility</td>
</tr>
<tr>
<td>Collect, analyze and distribute information for better economic decision-making</td>
<td>Trusted and objective advice on how to best use financial products and information to meet personal objectives minimizing search costs and investment risks</td>
</tr>
<tr>
<td>Provide effective markets</td>
<td>Consistent access to a broad set of investment opportunities at fair, accurate and transparent market prices; reliable provision of liquidity for a wide range of assets and well-functioning transaction execution mechanisms</td>
</tr>
</tbody>
</table>
The Role of Financial Services in Society: A Multistakeholder Compact
Agreeing on the functions that society needs its financial sector to perform is only the first step. The challenging and necessary next step is identifying how the sector should continue to evolve to fulfill these needs more completely and effectively. Industry participants must continue to focus on redesigning business and operating models, ensuring that they are consistently acting in the best interests of all stakeholders of the financial system and society as a whole. They must continue the reform process in areas such as risk and control, performance management, product design, conduct standards, culture, ethics and values, among others. In doing so, they must ensure that the goals and incentives of financial institutions and individual practitioners are aligned with the needs of society.

Equally importantly, the official sector must renew its emphasis on the coordinated global overhaul of financial regulation. This includes developing regulation that is pragmatic, provides clarity and creates a level playing field. Policy-makers should recognize strength in the diversity of business models and ensure that the political discourse takes into account the value of appropriate international competition which is best served by common approaches to regulation. The regulatory framework should be designed to enable financial institutions to fulfill the societal needs described above.

We will use this Compact as our guide to continue to explore how we can best live up to our commitment to society and meet our collective goals of a stable and inclusive financial system. In the coming months and years, we will institutionalize periodic multistakeholder dialogues to evaluate the role of the financial services industry and publicly share our views on how the sector must evolve to achieve the commitments we have articulated.

We, the members of the Steering Committee, are committed to shaping the policies and actions of our organizations to best meet the needs of society that we have articulated.

This Compact is only the starting point of a multistakeholder dialogue on how the financial system must evolve.

We invite other stakeholders, including financial industry leaders, policy-makers, academics and representatives of civil society, to join us in making this commitment to ensure that the financial system can meet society’s needs today and in the future.
### Defining the Role of Financial Services in Society

The table below highlights the required activities by a financial system to meet the societal needs that we have articulated as well as indicators that a financial system is suitably fulfilling these needs.

<table>
<thead>
<tr>
<th>Societal Need</th>
<th>Examples of Needs</th>
<th>Required Financial System Activities</th>
<th>Indicators of Success</th>
</tr>
</thead>
</table>
| Promote financial and economic resilience | • Ways to reduce large shocks originating in the financial system  
• Ways to minimize amplification via the financial system of shocks that originate outside the system  
• Ways to manage trade-offs among the different functions of the financial system, and between those functions and the reliability of the system itself | • Develop robust mechanisms to contain financial contagion  
• Ensure the availability of safe ways to resolve failing financial institutions  
• Maintain sustainable levels of leverage across all parts of the financial system  
• Provide transparency into financial business activities, products and services  
• Align incentives to socially beneficial outcomes to limit moral hazard events  
• Institute suitable macro-prudential and micro-prudential requirements and conduct regulation to maximize sustainable long-term growth  
• Implement robust governance mechanisms and build strong cultures | • Ability of major financial firms to fail without major damage to the economy and losses borne by the public  
• Infrequent and local incidents of disorderly financial break-downs (e.g. bank runs and other financial panics)  
• Limited spill-over damage from financial shocks to the real economy  
• Stable markets able to withstand economic, financial or real world events, and continue to provide liquidity  
• Appropriate levels and volumes of financial services activity across the system  
• Minimized damage from the “popping” of asset bubbles |
| Safeguard savings and the integrity of financial contracts | • Ways to safely save money for future needs, with confidence that principal will be returned  
• Ways to withdraw savings and use saved funds to make payments  
• Ways to engage in financial relationships with confidence that contracts can and will be honored | • Create savings products that are liquid and have minimal risk  
• Design legal and operational processes to ensure that contracts are honored | • Absence of bank runs  
• Minimal disruptions to savers’ ability to access funds  
• Zero breaches of financial contract terms (e.g. segregation of client assets) |
| Facilitate efficient allocation of capital to support economic growth | • Ways to borrow money for current and future needs  
• Ways to raise money for a new venture (e.g. for a new plant or machinery or to finance day-to-day needs of a business)  
• Ways to finance large infrastructure projects such as bridges and railroads | • Extend credit by mobilizing savings from individuals, institutions and countries to productive investments to drive growth  
• Efficiently allocate capital to investments to optimize private and social returns (includes both prospective allocation to new projects and monitoring of prior investments)  
• Provide support for infrastructure and trade financing needs | • Positive financial returns, appropriately measured and accounting for risks  
• The real-economy success of the investments, as measured by increasing aggregate and/or per capita wealth and income |

CONTINUED
## Addendum: Defining the Role of Financial Services in Society

### Societal Needs

<table>
<thead>
<tr>
<th>Provide broad access to financial services products and services</th>
<th>Examples of Needs</th>
<th>Required Financial System Activities</th>
<th>Indicators of Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ways to provide access to financial services to populations across the world, including disadvantaged and low income segments</td>
<td>Ways to provide access to financial services to populations across the world, including disadvantaged and low income segments</td>
<td>Provide appropriate and affordable savings and credit products, payment and money transfer services and insurance for low-income segments</td>
<td>Financially viable business and operating models serving low-income segments and disadvantaged segments</td>
</tr>
<tr>
<td>Ways to educate the public on financial management</td>
<td></td>
<td>Expand distribution networks to reach unbanked/uninsured and underbanked/underinsured areas (physical and other technology-enabled networks)</td>
<td>Greater access to formal financial services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide financial education and training</td>
<td>Lower levels of unbanked/uninsured and underbanked/underinsured populations across the world</td>
</tr>
</tbody>
</table>

### Enable smoothing of cash flows and consumption over time

<table>
<thead>
<tr>
<th>Enable payments</th>
<th>Examples of Needs</th>
<th>Required Financial System Activities</th>
<th>Indicators of Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ways to balance spending and saving during the different phases of life, supporting individuals who typically</td>
<td>Ways to balance spending and saving during the different phases of life, supporting individuals who typically</td>
<td>Allow individuals and public or private institutions to borrow funds and pay them back from future earnings</td>
<td>Robust structures for maturity transformation and cash flow management</td>
</tr>
<tr>
<td>- Consume more than they earn while young adults and borrow for investments (e.g., to buy a home)</td>
<td>- Consume more than they earn while young adults and borrow for investments (e.g., to buy a home)</td>
<td>Deploy savings/investments across a range of time horizons and risk profiles to balance access (liquidity), risk and economic returns</td>
<td>Access to credit at reasonable cost for those individuals and institutions that can repay their borrowing</td>
</tr>
<tr>
<td>- Consume less than they earn while middle aged (e.g., to save for retirement)</td>
<td>- Consume less than they earn while middle aged (e.g., to save for retirement)</td>
<td></td>
<td>Access to equity capital for investments able to generate acceptable returns</td>
</tr>
<tr>
<td>- When older, again consume more than they earn</td>
<td>- When older, again consume more than they earn</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Enable payments

<table>
<thead>
<tr>
<th>Enable payments</th>
<th>Examples of Needs</th>
<th>Required Financial System Activities</th>
<th>Indicators of Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ways to make payments for goods and services</td>
<td>Ways to make payments for goods and services</td>
<td>Facilitate accurate and secure payments between counterparties for the exchange of goods and services</td>
<td>Low-cost, convenient and reliable payment methods</td>
</tr>
<tr>
<td>Ways to transfer money domestically and internationally</td>
<td>Ways to transfer money domestically and internationally</td>
<td>Provide retail and wholesale payments mechanisms (physical and electronic) to support domestic/international trade and economic activity</td>
<td>Minimal fraud</td>
</tr>
<tr>
<td>Ways to make payments without the risk of carrying large sums of cash or having to access physical funds</td>
<td>Ways to make payments without the risk of carrying large sums of cash or having to access physical funds</td>
<td>Provide non-cash payment methods to support economic activity (e.g., e-commerce)</td>
<td>Accurate recordkeeping</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Payment systems that use advances in technologies where appropriate (e.g., digitization)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Payments system stability during adverse events (e.g., financial panics, physical disruptions caused by disasters)</td>
</tr>
</tbody>
</table>

CONTINUED
<table>
<thead>
<tr>
<th>SOCIETAL NEED</th>
<th>EXAMPLES OF NEEDS</th>
<th>REQUIRED FINANCIAL SYSTEM ACTIVITIES</th>
<th>INDICATORS OF SUCCESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide financial protection, risk transfer and diversification</td>
<td>• Ways to cover unexpected expenses from unforeseen events (e.g. allow households to maintain consumption in the face of misfortunes, such as unemployment or property damage) • Ways to share risks among groups to limit individual loss • Ways to transfer risks to those that are more willing to take them • Ways to undertake productive activities while managing risks and volatility (e.g. airline companies providing transport hedge against rising oil prices)</td>
<td>• Provide financial protection from adverse events, support for recovery of losses and ability to sustain consumption or production after misfortune through insurance • Provide risk transfer and management to facilitate productive economic activity (e.g. insurance cover for international trade, payment guarantees, construction guarantees) • Transfer risks to those best able to manage and bear them, via insurance, derivatives, securitization or other structures • Absorb and pool different risks from individuals and institutions to realize economic benefits of diversification</td>
<td>• Clear and effective risk transfer, with contingent payments honored • Asset pooling structures that allow for both capable management and efficiently diversified portfolios for beneficial owners • No complexity introduced purely to take advantage of information asymmetry • Wide range of risks that can be economically insured, hedged or otherwise managed • Appropriate balance of transparency and confidentiality</td>
</tr>
<tr>
<td>Collect, analyze and distribute information for better economic decision-making</td>
<td>• Ways to obtain advice on how to best use financial products and information to meet personal objectives • Ways to obtain advice on how to raise capital • Ways to reduce search costs and risks of investing</td>
<td>• Offer households financial advice on saving, investment, retirement protection and major financial decisions • Offer firms and public entities advice and support on financing, risk management and restructuring • Disseminate public information to support de-centralized investment decisions (e.g. market prices) • Develop and use private information, specialized expertise and scale benefits (e.g. to perform credit assessments)</td>
<td>• Trusted and objective advice for economic agents • Appropriate balance of transparency and confidentiality</td>
</tr>
<tr>
<td>Provide effective markets</td>
<td>• Ways to consistently get access to a broad set of investment opportunities at fair and accurate market prices • Ways to access buyers and sellers for financial products</td>
<td>• Accurately indicate the supply of and demand for capital through prices to support the efficient allocation of capital and risk • Reliably provide liquidity, enabling a wide range of assets to be readily bought or sold without undue price change • Define market structures including provision of venues, definition of participants, mechanisms for price formation, rules and trading/execution practices</td>
<td>• Market-making that supports efficient functioning of formal and informal markets • Transparent markets with open access for appropriate participants and traceable activity • Well-functioning clearing and settlement mechanisms</td>
</tr>
</tbody>
</table>
Acknowledgements

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