

Nout Wellink: Wim Duisenberg, financial turmoil, fit and proper, need for financial education

Speech by Dr Nout Wellink, President of the Netherlands Bank and Chairman of the Basel Committee on Banking Supervision, at the Opening of Duisenberg School of Finance, Amsterdam, 15 September 2008.

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Introduction

Allow me to start with a short anecdote regarding Wim Duisenberg. As you know, Wim was professor in macro-economics at the University of Amsterdam. He obtained his PhD in 1965 on “The economic consequences of disarmament”. The evening before the promotion ceremony his friend Jan Pen called him. After having a general discussion on the topic, he pointed out that Wim had made a rather severe mistake on page so and so. As Pen had spotted the mistake, he informed Wim that he would question him during the day to come. Pen persisted and indeed, the next day, during the ceremony he pointed out the mistake to Wim and asked him what he was going to do about it. Wim was summoned to answer to this accusation – and calmly replied: “Thank you, we will take this into account in the next print”.

Wim Duisenberg

Wim was, as this story points out, a man of science AND of practicality. He cherished the high arts of financial theory as an IMF advisor, but simultaneously relished the speed and actions that the financial system demanded, as Minister of Finance and as Central Bank President.

It was in his position as President of De Nederlandsche Bank that Wim made clear statements on his ambition to combine theoretical knowledge with practical expertise. He adamantly supported the transfer of the Bank’s research department out of the dark and dusky vaults, shaping it into a more vibrant and policy oriented department. Wim wanted to have the best minds within the Bank at the disposition of those that had to take stands on practical policy decisions. The forged alliance could tackle any issue at hand.

This was few decades ago, but Wim was ahead of his time and quickly came to realize that having the best minds does not offer a single packet solution to financial institutions, including to De Nederlandsche Bank itself. Keeping your best people rooted in financial practice and education – one not without the other – was his core policy.

Current events & black swans

Wim was not on his own in wanting to have the best minds for his organisation. Nowadays, many companies keep stressing that they themselves have the “best and brightest”, taken from high class universities all over the world. Yet, the turmoil in financial markets spurs me to occasionally ask a board member of any of these institutions if they do not feel too big to be managed.

The general reply is that simply because the “best and brightest” are part of the company, there is no further need to enhance the management structure, or even look into additional safeguards. It is these companies that tend to ignore that knowledge needs to be applied sensibly. If anything, it is exactly the current turmoil which stresses not to single-handedly focus on those among us that excel in their financial, theoretical skills, if this implies that we fail to open our eyes to external developments. Developments such as risk management, corporate governance and social responsibility, all of which shape the way the financial system works on a day to day basis.

“Our blindness with respect to randomness”, as skilfully narrated by Taleb in his Black Swan, clearly underlines this point. As all of us tend to have limited to no knowledge at all of unexpected events, the proposition “we know” is an illusion. Science of risk management, for instance, adds knowledge, but does not uncover the full veil of the world and its events, which leaves us with Knightian uncertainty. As such, the value of experts can also be questioned, if this implies that experts do not take empirical evidence into account, but base themselves merely on their own, by nature limited, expertise. What a globalized world requires is continuous education, discussion and peer to peer stimulation to keep up with the pace of exactly these unexpected events.

Fit and proper

This emphasis on up-to-date financial knowledge is also reflected in our own focus on fit and proper requirements of financial institutions in the Netherlands. Starting at the top, knowledge and expertise at a board level is a prerequisite. The Bank as supervisor has the task to monitor and uphold these. To ensure the proper discharge of their responsibilities, it is important that board members have the skills to run the company. They should have personal qualities such as honesty, diligence, independent-mindedness and fairness, in order to ensure that the company is run ethically, in compliance with relevant legislation and in a manner that treats its customers fairly. “Propriety” requires that they are of good repute and integrity. “Fitness” requires that a person appointed as a director or manager has the necessary professional qualifications, knowledge and experience to enable sound and prudent management. In Dutch law regarding pension funds – Pension Fund Governance – further elaboration has led to extensive overviews from within the pension sector on specific fitness issues. The ability to manage an organisation is an obvious one, as is having knowledge of applicable laws and regulations.

Financial education

Having said that, even if at the board level these issues are tackled properly, this is not sufficient enough. It is throughout the organisation that adequate knowledge and expertise has to be available; the capacities of a board member on its own cannot be used to sign off for an organisation as a whole. Financial education provides the means to realize fitness and propriety on every essential level in financial organisations and having a clear understanding of risks involved, of the need of integrity, structure and governance.

Conclusion

Concluding, this brings me back to Wim Duisenberg. Wim was, as I mentioned, ahead of his time. His wish to combine financial theory and practice is reflected even more than ever in the current times, where uncertain events of differing magnitude force us to reconsider our own validation methods. The Duisenberg school of finance bares witness to that. Our partners, as we have seen and heard today, have given the clear commitment to invest in financial education, in future students and in a manner of education and research that outstretches the current limitations on financial knowledge.

I cannot imagine anyone more suited than Wim to lend his name to the institution that is officially opened here today.