

ETHICS IN INTERNATIONAL BUSINESS AND FINANCE
(THE DUBLIN PROCESS)

Consultation jointly organized with Universidad Pontificia Comillas ICAI-ICADE and
BBVA Group

Madrid, 25-27 January, 2017

A Personal Summary by
Anna Bajo Sanjuan¹

ECONOMIC AND FINANCIAL ETHICS IN THE DIGITAL AGE

The current digital revolution is changing life both socially and economically. Technological developments have positive and negative consequences that should be analysed in order to understand how individuals and organizations need to adapt.

In the age of globalization where everything is interrelated, it is difficult for a cross-cutting issue such as technology not to have ramifications in nearly all socio-economic areas. This conference focused on the influence that digital transformation is having and may have on the future of work and the financial sector.

A. INTRODUCTION

1. CATHOLIC SOCIAL TEACHING IN THE CURRENT TURMOIL (Fr. Julio Martínez)

In spite of brilliant technical developments, the fact is that we do not know how to solve key human questions. Although more capital is being produced, it does not translate into higher salaries nor more jobs, and this implies a change in trends from the past.

Specialists in Catholic Social Thought must face the underlying anthropological question, following the invitation of *Laudato si'*: human beings are seen as co-creators of the world, as contributors to the Common Good with a special focus on economic development. One of the means for that contribution to society is through labour, an expression of the vocation to work. Work is a necessity, it gives meaning and dignity to human life.

Within this digitalization process, the technocratic paradigm should be questioned, as that process is threatening labour as we know it. We should not combat technology. But from an ethical perspective this does not mean that not everything that can be done should be done. New technologies are leading us to a new world that needs to be rethought. This requires a multidisciplinary conversation among workers, researchers, thinkers, civil society representatives, policy makers and business people.

Regarding this dialogue, the different agents are asked to review their role. The adaption is not going to be easy as many of them have traditionally known few changes and normally at a very slow rhythm – unions, governments, academic systems and so on. They need to find the way to defend their own position without being subordinated to the

¹ Ms Bajo Sanjuan was at the time professor at Universidad Comillas ICADE. Her report reflects her own understanding of the debate and has not been reviewed by the various rapporteurs and speakers. A consensus on possible conclusions has been circulated by the CAPP Foundation in a different document.

economy but at the same time, adding value to the Common Good, placing the person at the centre.

2. CULTURAL CHANGES RELATED TO DIGITALIZATION (Bishop Paul Tighe)

The way digitalization is transforming our culture and our people is disrupting the political discourse and the way we are doing business together.

Beyond optimism, the position of Catholic Social Teaching has to explore different ways of thinking about the future, to discern opportunities and dangers.

The depth of such a reflection requires time and proper information. One of the problems linked to the digital revolution is the saturation of information, threatening objectivity and disclosure. We need to trust the information we are accessing, but there is a new paradigm of judgement defined by programs and machines, without any moral subject. Therefore, the mix of information overload, an inadequate level of reasoning and the speed in making decisions is reducing the level of attention and reflection required to provoke a positive impact.

In this post-modern culture that we are building, the digital accelerator is leading us to thinking based on intellectual assumptions where there is no questioning of sources. There is just no time to do it. Hence, we need to make people aware of the way they organize their thoughts, for which the role of the academic community is key. We need a method that is conducive to human good, based on objective truth, made without imposition, but also without relativism - always a danger.

In this context, the prominent role of social media has also to be taken into account. We should question how social those networks are. Life experience is a determining element, just as much as the need to identify what I can learn from others, recognizing diversity and difference. It is more about dialogue, encouraging encounter and empathy to obtain closeness.

DEBATE

We need to give value to the benefits of technology. Digitalization is a non-stop process that can be predicted but not avoided nor stopped. The opportunities that can be obtained are undoubtable. Nevertheless, the difficulty lies in how to manage it as there is a strong impact on the cultural dimension.

Compared to the industrial revolution, this transformation process affects not just bodies, but also minds. The high speed at which changes occur are affecting individuals in their essence and the main danger is that information is transmitted at a rate that limits the analysis needed to think and contrast the impacts they trigger. There is not enough time to consider them unhurriedly.

In this new scenario, the concept 'humanity' should be reconsidered. Very often, individuals are seen as consumers and not as citizens, leading us to a post-democracy, more than post-truth.

The role of education to face this struggling situation is determinant. In such a world where the cognitive level is often left aside and reasons are outshined by emotions we have to promote a culture of encounter by reinforcing interpersonal relations. Digital culture is not going to destroy personal experience but it is true that as cognitive level is not promoted at least we have to encourage soft skills such as leadership and self-

knowledge to give individuals some capacity for reflecting about how to address their lives.

There are serious difficulties to introducing this innovation in learning. Teaching methodologies have to be more of a dialogue within a transdisciplinary approach. But the speed of change of digitalization cannot be followed accurately by education planning.

B. JOBS AND WAGES IN THE DIGITAL ERA (Alfredo Pastor)

In this disruptive digital revolution the labour market is being transformed. Once the process is completed we might have better jobs, but the transition is very painful for many people, especially those with more difficulties in adapting.

According to some reports, 47% of labour is going to be replaced, mainly those with lower qualifications where work can perfectly be substituted by machines. For those profiles there is a need to reconvert through training and education. What disappears are jobs, not people nor work. Therefore, people must be trained to acquire new skills.

It is important to remember that not all innovation is applied. Only that one with the capacity to improve productivity and only after a period of implementation during which the responsibility of employers, employees, authorities and educators is to adjust workforce to new requirements. When knowledge and skills are already adapted there is a movement in job mapping that pushes some relocation to new positions, leaving vacant some others called upon to disappear. Along with that change, there will be also a revision of wages, in many cases downwards.

This is not an immediate process. On average, the transformation of an innovation into totally integrated and standardized processes can take over eight years. During that period, workers have to be trained in those skills required for the positions better for their capacities and interests; because economy exists to help people, not to destroy them. Therefore education has to be reoriented to reinforce this change, without forgetting that its mission is not only to facilitate a professional career and to provide a job position but also to foster human development. Hence, a compassionate response must be given.

DISCUSSANTS

a) WALTER MAGNONI:

The fourth revolution we are living may have positive effects in the long term, but the loss of jobs implies an important danger for the immediate future.

In this context education is key and must integrate humanistic training, inviting to think. Because there is a problem of postmodern culture and the dominant technocratic paradigm, also criticised by the Pope Francis in *Laudato Si'*. There is a need for defending the interest of a person as a person, and locating that individual in the public place, as a recognition of community belonging.

b) OLIVER RÖTHIG:

Workers are not an object of the economy, but a subject. Digitalization is going to dramatically transform the way we understand jobs. Speed of change is faster than ever, implying a dramatic transformation that is also changing the role of trade unions. Governments, business and consumers are normally taken into account when coping with the challenges of digitalization. But workers are not considered, they are very often left

aside. This is a big mistake because they are key for the success of digital transformation, as without a decent salary it will be difficult that the agents involved obtain what they need.

Concretely talking about the financial sector, the crisis directly affected the trust on professionalism of workers in banking. Ordinary workers are not happy with the present situation and they are expressing their complaint by voting these new populist movements. People are overwhelmed.

c) JACQUES DARCY:

The analysis made to understand digitalization is being developed at a macro level. Experts, in general, are not questioning the real impact on each person, but on the economy and society as a whole. Only philosophers are introducing the micro analysis. This polarization is threatening because the inequality provoked by the new paradigm is too big and stability may suffer.

The neutrality of technology does not exist. Most new innovation comes from the defence industry, mainly from Europe and the US. Hence, a question that could be made is whether technology comes hand in hand with wars. If the impact of resources dedicated to digitalization in defence had been addressed to other areas, the results would have been different (for instance, improvements on cancer research...).

Technology is embedded, it is quite physical; but intellectual property is also an important concern, as can be noted from the existence of a huge lobby. There is an ethical question about who can be the owners of the data we use in digital world for making decisions. That discussion is key for providing solutions to the main dilemmas around digitalization, specially concerning the moral responsibility of decisions made by artificial intelligence.

d) JOSEP SALVATELLA could not attend the meeting, but his point of view was presented in writing:

Tech business introduces a positive approach to digitalization, bringing opportunities for companies. There is a gap between the knowledge required in digital economy (not being found) and capabilities available (which are not finding the proper jobs). Too often it is difficult to find the proper skills for this technical transformation.

Perhaps the main problems, regarding layoffs and unemployment, are not just because of digitalization. They also appear, and mainly, due to mismanagement.

DEBATE

The positive impact of digitalization cannot be ignored. Not everybody agrees on the support of war industry to technical development. Many think that in the long term the result of that process will be positive, but meanwhile there can be many side effects for which not all individuals, companies and leaders are ready; neither is academia.

Some participants agree on the idea that the entire society is not prepared for this present revolution: not everyone has the ability to adapt to changes, at least not at the adequate rate to live a full life. That lack of preparation is a challenge for Catholic Social Teaching.

Specifically discussing the effects of technological transformation on the labour market, the situation may seem dramatic, up to the point that we should consider the possibility of understanding jobs very differently from nowadays. Most statements we assume as

granted will have to be questioned and redefined. It may happen that jobs are not necessary anymore. This chance will lead us to reconsider the basic pillars of labour.

To start with, the role of unions in the relationship of corporations with workforce will have to be reinvented. Also the debate on private property will have to be examined. The effect of work on human realization has to be reinterpreted –in fact, there is a constant concern about how to integrate humanity, the social relationships or the family structures within the process -. The effects of digitalization on social and economic inequalities cannot be ignored and deserve a deeper study to analyse impacts on migration, population growth or distribution or wealth and design potential solutions.

Another aspect is the generational gap regarding technology. Young people are more elastic in acquiring digital skills but this is just one change, just there were many others in the past. The difference here, compared to the previous stages, is the rhythm of change. Higher speed is demanding lifelong learning, that will become a must in the near future.

All this human dimension is often missed when analysing the business models of entrepreneurs and innovators. The lack of moral responsibility when machines make decisions may become an important problem that is not being now considered, maybe on purpose. Venture capital specialists can bring some light to clarify the criteria applied, confirming or dismissing the absence of human considerations. In the latter case, we would have to consider that the system is failing.

In a nutshell, personal considerations, community engagement and politics are three levels that may be involved in giving response to the problems of labour adapting to the digital revolution.

C. DIGITAL IMPACT ON PAYMENTS, CREDIT AND FINANCIAL RISK MANAGEMENT: NEW ETHICAL QUESTIONS? (José Manuel González Páramo)

All the reflection made regarding digital transformation could be applied also to other sectors. Technology is introducing a new way of understanding relationships, mainly through the internet of things and mobile devices that allow access to internet at any time from anywhere. In this context algorithms are gaining huge importance for developing Big Data Analytics.

This innovative paradigm can open new opportunities to areas such as financial digital philanthropy, leading to financial inclusion. Furthermore, from the demand perspective, geographical, bureaucratic or literacy barriers have disappeared thanks to digitalization applied to finance. From the supply side, you know your clients better, it has reduced the costs of transaction and increased commercial proximity.

Competition from outside the financial sector has also grown, allowing other industries to offer related services. This also occurs when we talk about microfinance, accessible to a wider range of population thanks to technological platforms. Overall, there is higher access to finance and the possibility of storing big amounts of data brings us nearer to the possibility of using data for making faster and better decisions.

On the other side, great concerns are appearing on the arena. Protection of data, threats to privacy (which also threaten dignity), loss of trust (mainly due to data leaks)... Most people are not aware of what is going to be made with the data they produce. As already mentioned, there is an open debate about the right of users to control their data, especially when re-elaborated, where it is not clear who is the owner of that aggregated data. Here

the role of regulators has to be planned. They have to face an important challenge, and meanwhile there is a potential possibility of users and consumers to decide not to provide info so easily, at least until we clarify the purpose of that data release.

All that discussion is moving onwards. The debate is not anymore on the access to devices; now the key issue is education and literacy for making a proper use of internet. Then, values and an increase of awareness are aspects to be reinforced through education.

In this new context, cultural changes have to be observed and closely analysed. Young people's needs and desires do not match those of traditional banking clients. They have to be listened to and understood to make proper changes.

DISCUSSANTS

a) MALCOM BROWN:

There is an asymmetry between banks and customers with respect to the information they both manage, companies being the ones with more power and control. Trust in companies is being lost not because of the use of data, but for the trend of questioning the for-profit approach. The lack of transparency is at the centre of that questioning.

Big Data is an opportunity for improving lives (to help vulnerable people, or to reduce the gap of inequality, among other options), but we also have to question whether the end justifies the means and whether the answer to Big Data should be in proposals to 'detoxify' public and private life and at least partially disconnect.

b) DAVID LLEWELLYN:

Although in the analysis of changes that have occurred in the economy in the past we define four revolutions, there is a fifth one that is performing similarly in one way, but very differently in others. The main difference lies in the fact that the revolution is not being incremental but completely transformational. Some ethical considerations justify such a singularity: (i) Consumer protection issues (especially because consumers do not know who is having access to data); and (ii), trust and competence are more important in retail finance than in any other industry. This is because consumer financial operations do not occur often in one's life and consumers cannot learn from experience, while the risk is high.

There are two dimensions of trust and confidence: integrity and competence. Incompetence is provoking huge losses on investors, more than dishonest behaviour.

So, trust is important for decisions but we do not know why we trust some people nor what determines that trust. It is true that potential conflicts of interest go against trust. And so does also the moral hazard emerging from the incentives structures in the sector.

c) MARKUS SCHULTE:

In the financial sector, competitors are moving towards digitalization, pushing regulators to do the same. From the regulators' perspective the rules of free market and level playing field typical of analogic finance should apply to the digital finance too. Many of the rules refer more to principles, rather than to the way of doing things. So, there is not such a big change in the way of defining regulation.

The main concern is about how to apply regulation in such a dynamic context. As regulators we need normally more time than the one left by the pace digital transformation

is setting. Hence, regulation of digital activity will have sense only where it can be done appropriately. If not, it will be better to combine regulation with ethical principles and self-regulation.

d) ROBERT TANN:

All services and applications that are free for users allow companies to invade their privacy. Many examples can prove the cost of opportunity of releasing information without being conscious of the perils. Loss of privacy can be irreversible, even when promising anonymization.

We are here assuming some statements that could be questioned. The first one, it could be the case that the user agrees on giving permission consciously. Digital economy is being invasive in consumers' and users' life but "customer permission", willingly agreed by users, is leaving little space for protection from regulators.

The alternatives for not accepting these free services may be smaller than expected. As digitalization is reducing wages and labour opportunities, it is a compulsory goal for individuals to find opportunities in the market to reduce expenses. They can access to products and services at a better price by releasing their data, which, at a glance, could seem a worthy equation.

The trap is too complex and requires a lot of power to be implemented. Technological companies that can gather a lot of information about users, harvest it in a very profitable way. They are giants integrating different businesses to obtain, at the end of the day, a deep knowledge about consumers, their interests and their movements. This is very valuable information for the market, which helps to understand the high capital value these technological companies are achieving.

Sometimes users have no chance to decline the use of devices that can build a complete technological genoma of the person. The pressure may come from health diagnosis and treatments, job requirements, or loyalty programs promising bargains. The users themselves have free access to applications, through mobiles but also Smart TV or wearable sensors, that provide them new consumer experiences for which they are willing to pay with data.

The challenge for regulators is undoubtable but efforts could be addressed in different directions. Law can pursue the criminal use of data –if permission has not been given by users-, although the problem here collides with the conscious permission and the difficulty of tracking the responsibility in such a fragmented technological world.

Another option would be to demand companies to compose understandable disclosures for the signature of acceptance. But a very effective action would be to control monopolies and oligopolies to limit their power and the implicit systemic risk.

For the financial sector, all these threats and opportunities are reshaping the whole system. Not only because information gathering companies are becoming monopolies but because they are connecting different businesses for exploiting that data very subtly.

Financial institutions will have to establish new strategies to survive, as they have always done, probably moving from volume to fees, considerably reducing their business of intermediation.

DEBATE

Ethical standards should become a reference in business performance for the financial sector, as legal control is more difficult to be effective in such a global and digital world. More than increasing legislation, principles-based norms and self-regulation will have to be promoted, as individuals have to assume also their responsibility when releasing data. Obviously, regulation has to continue protecting users and consumers, mainly those more vulnerable –because they are less-educated or their personal situation is critical-, but some room for assuming their own responsibility has to be left. Special focus on B2C relationships is demanded because in that scenario there is an important asymmetry of power between agents involved.

In fact, the intrusion of banks in the privacy of users to obtain data is a reality but the same users have given permission for that, conscious or unconsciously. New generations probably are more aware about that release and even though they allow it because what they obtain in exchange is valuable for their interests. This is at least a justification used quite often, which shows the importance of training professionals and users to understand and revisit their cost-benefit analysis.

Trust in banks has been deeply damaged by bad practices during the recent crisis and the movements which happened afterwards. But in spite of that they continue to be reliable for most customers who prefer to transfer money through banks than through other systems, at least up to now.

Having said that, it is obvious that new generations are moving the market, as they demand the same service but for them it is very valuable to obtain also value through service experience. On that side, the competitive advantage of technology is unquestionable, and this is probably justifying the rise of fintech, along with other aspects. Considering those issues, there is uncertainty regarding the future evolution of disintermediation in banking.

Regarding training and education, there is also an adaptation required to integrate this ethical and normative demand into the literacy of professionals, customers and ‘prosumers’. Emotional intelligence should be present in the future educational system to respond to this new challenge, apart from the humanistic approach that is already being partially introduced and will have to be further and more deeply developed.

In any case, the discussion regarding how education, law, culture and economy must adapt to the technological changes, has to take place through sincere dialogue. More representatives of the different niches in which our society is being organized due to the possibilities provided by technology, will have to be included in a more addressed and focused debate. On that scenario the analysis of culture –how is it created and on which fundamentals it relies on- and its relation to education should be approached. Catholic Social Teaching can help in this process provided it assumes a critical and constructive role.