Risk&Regulation

Magazine of the Centre for Analysis of Risk and Regulation

No 26 Winter 2013

EDITOR – MARTHA POON

carr
centre for analysis
of risk and regulation

LSE

Editorial

Were you there when finance married the concept of crisis? Economists, financial journalists, politicians, regulators, social activists and academics all bore witness to the nuptial. Alan Greenspan gave the bride away on 23 October 2008 when he admitted before US Congress that he'd found a flaw in his governing ideology. All financial crisis analyses pursue a single question – What went wrong in the financial system?

In her book *Anti-crisis* (Duke University Press, 2013) anthropologist **Janet Roitman** examines the stakes of thinking in terms of crisis. She points out that diagnosing "what went wrong" assumes strong basic knowledge of how things operate, in practice. And yet, when the markets seized up half a decade ago, we were shocked to find out how little we understood about the global system of finance. From no income no asset loans to collateralized derivative obligations, from Lehman's infamous Repo 105 to the mechanics of the shadow banking sector – it is only as a result of the global choke up that we discovered this incredible network of financial mechanisms.

There is no denying that crisis is a productive concept. If anything, that's Roitman's major observation. Her concern is that crisis-thinking might be a false friend to researchers because it neutralizes curiosity while percolating endless conversation. It seems to me this point is worth considering, especially in the field of risk and regulation. Everywhere we turn, the world seems to be in a state of exception. Is it possible we're saturated by a single concept? Could there be other ways of confronting discomforts in contemporary living? (I have had to learn that rain in London is not a crisis, even though it feels like one every time I get caught in a downpour!)

This issue of *Risk & Regulation* is dedicated to exploring non-crisis research on finance. After a brief preview of *Anti-crisis*, each essay examines a case where a financial mechanism develops from a positive project even if the reader disagrees with the way the innovation reconfigures social life. In the first essay, **Benjamin Lemoine** discusses why inflation-index sovereign bonds were developed and how they have affected countries like France since the late 1990s. We then move to the US, where **Natasha Dow Schüll** outlines the fiscal benefit accruing to state governments from increasingly addictive digital gaming technologies. **Claire Loussourn** follows by turning gambling on its head. She explains why consumers in the UK and elsewhere (but not the US) can take out spread betting contracts as a legitimate investment strategy.

Having explored how we came to live in world where governments self-discipline to please creditors and citizens gamble to support themselves and their communities, this issue then asks – What can we foresee for ourselves in the future? In the remaining essays, **Sabine Montagne** unravels the legal underpinning of our enduring trust in pension funds, while special contributor **Helaine Olen** reports on the growing gap between the expectations of American workers and the actual performance of their defined contribution plans. **Kim Soin** and **Christian Huber** remind us of an episode of pension mis-selling in the 1980s, in the UK.

Financial innovation changes the work life of financial professionals, just as it does social experience. Last but not least, you will find the executive summary of **Mike Power**, **Simon Ashby** and **Tommaso Palermo's** research report, *Risk culture in financial organisations*. The full 103-page document, available on CARR's website, examines the organisational position of the risk function inside financial institutions.

Martha Poon
Editor, R&R

CONTENTS

RISK&REGULATION: CARR REVIEW
NO 26 WINTER 2013

EDITOR: Martha Poon
ASSISTANT EDITOR: Lynsey Dickson
ENQUIRIES: Centre Administrator, Centre for Analysis of Risk and Regulation, The London School of Economics and Political Science, Houghton Street, London WC2A 2AE United Kingdom
Tel: +44 (0)20 7955 6577
Fax: +44 (0)20 7955 7420
Website: lse.ac.uk/CARR
Email: risk@lse.ac.uk
PUBLISHED BY:
Centre for Analysis of Risk and Regulation, The London School of Economics and Political Science, Houghton Street, London WC2A 2AE

The School seeks to ensure that people are treated equitably, regardless of age, disability, race, nationality, ethnic or national origin, gender, religion, sexual orientation or personal circumstances.

The information in this magazine can be made available in alternative formats. Please contact the Web and Publications Administrator.
Tel: +44 (0)20 7955 6278 Email: risk@lse.ac.uk

DESIGN AND ART DIRECTION: LSE Design Unit
PRINTED BY: Aquatint BSC
COVER IMAGE: Dreamstime
PHOTOGRAPHY: p 4-5: iStock, Dreamstime. p6-7: Dreamstime. p8-9: Dreamstime. p10-11: Dreamstime. p14-15: iStock, SXC. p18-19: iStock. p20-21: SXC.
ILLUSTRATION: Cover: Elizabeth Mosley, p 4-5: Elizabeth Mosley, p 6-7: Jonathan Ing, p 8-9: Claire Harrison, p 10-11: Ailsa Drake, p 12-13: Ailsa Drake, p 14-15: Bryan Darragh, p 16-17: Elizabeth Mosley, p 18-21: Bryan Darragh

ISSN 1473-6004
Online ISSN: 1473-6012

carr
centre for analysis of risk and regulation

Risk&Regulation is also published on CARR's website.
lse.ac.uk/riskAndRegulationMagazine
lse.ac.uk/CARR

CARRRESEARCH

ANTI-CRISIS

Anthropologist **Janet Roitman** explains the intellectual cost of calling everything a crisis.

In the social sciences and the popular press, crisis texts are a veritable industry. Crises are posited with such astonishing frequency that I recently felt compelled to investigate why so many authors are drawn to this argument.

Instead of debating whether it's appropriate to label this or that situation a crisis, I ask questions about the significance of crisis as a working concept. What is a crisis? What does crisis signify? What intellectual labour does it perform when it is invoked to tell a story? It seems to me that we should be more aware of the consequences of using crisis as a tool for thinking.

In my book, *Anti-crisis* (Duke University Press, 2013), I discuss how crisis narratives structure thought and shape political responses. After reviewing its long history, *Anti-crisis* concludes that the term "crisis" is a blind spot in social scientific thinking. What I have found is that crisis is not simply a way of naming events, it's a conceptual distinction or observation that generates meaning. Once we call a problem a crisis we begin to engage in a series of logically interconnected steps that unleashes a characteristic pattern of reasoning. The pattern is familiar and it can be comforting, but it is neither original nor is it innovative.

The point of departure for all crisis-based analyses is one basic question: *What went wrong?* From the get-go, the claim to crisis demands that we search for the origins and root causes of failure. And the answer to what went wrong is invariably that we have deviated from the proper course of action because of alleged distortions in what human beings know and the way they do things in practice.

This built-in relationship between crisis and distorted knowledge is very important. When analysts call something a crisis, they are claiming to observe a chasm between what people are doing, and what they should be doing to conform to reality or to ethical practice. This requires the observer to portray the events they are witnessing as a fictitious, erroneous or illogical *departure from reality*. A financial crisis, for example, signifies a gap between economic value grounded in material fact, and hypothetical judgments or misguided evaluations of risk levels or prices.

A crisis is also a statement embedded in a philosophy of time. Crisis accounts present a diagnostic of the present through which an analyst identifies a disjuncture between what we know and our ability to move forward according to a desired path. As the etymology of the Greek word *krisis* signifies, crisis is the moment when one must make a pivotal decision to change course. Therefore, when someone claims that we are in crisis, they are both demanding a moment of truth and demarcating an opportunity to revert to the proper course of history.

The collapse of credit markets is a prototypical example of how crisis thinking is deployed to explain the significance of human events. In 2008 it was revealed – or so it is alleged – that financial markets had been diverted or corrupted in pursuit of false value. Housing booms became speculative bubbles, structured products became toxic assets, risk pricing became a debacle of mispricing. Numerous commentators have argued that a correction, boosted perhaps by the appropriate interventions, offered hope of re-establishing or relocating some more genuine or fundamental value. A dizzying array of authors have enthusiastically pursued this premise, producing what US banking editor Tom Braithwaite at the *Financial Times* called a "canon of crisis analysis" (2011).

The resulting narratives are all structured as a quest for the "roots", "origins" or "causes" of what went wrong in credit markets. If you look closely at these accounts you will find that financial crisis advocates share a similar concern with unearthing a History from which we have become alienated because of some inadequacy in our own knowledge. In their own words, Michael Lewis seeks to reveal the "secret origin", Robert Skidelsky the "deeper causes", David Harvey the "underlying contradictions", and Bethany McLean and Joe Nocera the "hidden history", of how a seemingly more desirable development of capital markets became distorted.

I am confident you recognize the story of financial crisis. Now follow me closely while I show you its pitfalls.

Crisis is a term that operates by drawing a comparison. To posit a crisis we must ask – *Crisis as compared to what?* Crisis means that a judgement has been made by which the present is deemed to be at odds with an alternative and more normal situation. This alternative state is actually a preferred state of affairs because the idea of "normal" is a subjective evaluation. Every person, every community, and every polity does not refer to the same "norm". So although the word crisis does not indicate a definite direction of change, if crisis presumes the speaker can guarantee that one reality amongst an array of possibilities is indisputably better than the others, then it unwittingly implies a *telos* – an orientation towards a seemingly more natural and correct direction.

From a technical perspective, a crisis only exists if we can access a singular and outstanding normative course of action. The idea that we can and must choose this norm is built into the very foundations of the concept. This means the critique of the financial system fostered by crisis narratives assumes that we already know how categories like "the market" or "the financial system" *should* function – that we already know what the preferred state of affairs looks like. In effect, calling the meltdown of markets a crisis implies that we have all the solutions ready-made, as long as we listen to the people who can discover and channel them.

What I'm trying to point out is that crisis and critique are cognates. When someone posits "this is a crisis", they automatically claim to have access to the truth of history which lends them an unquestioned authority to speak. This is why crisis is such an appealing concept to social critics, even those who do not believe in the idea, long abandoned in most circles, that time is moving forward along a pre-inscribed trajectory. If you listen closely to Nouriel Roubini or Naomi Klein who are among the concept's most vocal handlers, you'll notice they're defending a normative state that is not observable in practice.

In a crisis account the norm is that which has failed to exist; it is, by definition, a political fiction. This is why crisis stories provide generic accounts that are fuzzy. What happened? What is happening? How are financial systems being engineered? Researchers ignore basic empirical questions when they speculate and debate how finance has gone wrong.

Financial markets are built by groups of human agents out of distinct designs, decisions, determinations, and contexts. Somebody is doing something somewhere over a period of time to make subprime loans, rate changes and waves of foreclosure happen. We need to know more about how quants design financial models or rating agencies develop new risk measures; how accounting boards set up standards and investment bankers do analyses. We need to observe how risk managers deploy scenarios and pundits debate possible outcomes; how central bankers conduct rate operations that get written into swaps agreements.

There are so many anti-crisis questions for which we need answers because I simply don't buy that mortgage rates reset themselves or that housing prices fall spontaneously. When were these extensive debt markets created and how did the banking system become so leveraged? At what point did we come to see a mundane occurrence like default as truly exceptional? When does a credit asset become a toxic asset and how do we distinguish the former from the latter? When does real estate equity become reconfigured as a debt burden?

The most elusive question of all of course is: why crisis now? When did crisis begin? How can we be certain a crisis has obtained?

My argument is that financial markets are not produced by some naturally unfolding history gone amok, nor are they the result corrupt practices that stray from fundamental economic or ethical value. And my concern is that calling crisis immediately over-determines the significance of events, while obscuring technically-anchored processes of social transformation. Crisis stories generate endless conjecture about how deviations from true markets were produced without engaging with the systems that produce value in the world.

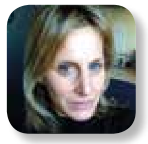
What is just as important – and this is where the issue of renewing politics comes in – by forcing us into the shadow of the implicit but poorly elaborated normative assumption, crisis analysis forecloses a direct discussion about quality of life within financial systems in-the-making.

Crisis is a blind spot because it prevents us from asking a whole universe of questions. And yet, especially since 2008, it has been the guiding concept of the social sciences.

We need to become conscious of how crisis blinds us in our apprehension of the world. What is at stake in this exercise are all the other stories about contemporary events we could tell if we tried. What is also at stake are all the worlds we could imagine and potentially build if we did not immediately assume a world in crisis.

References

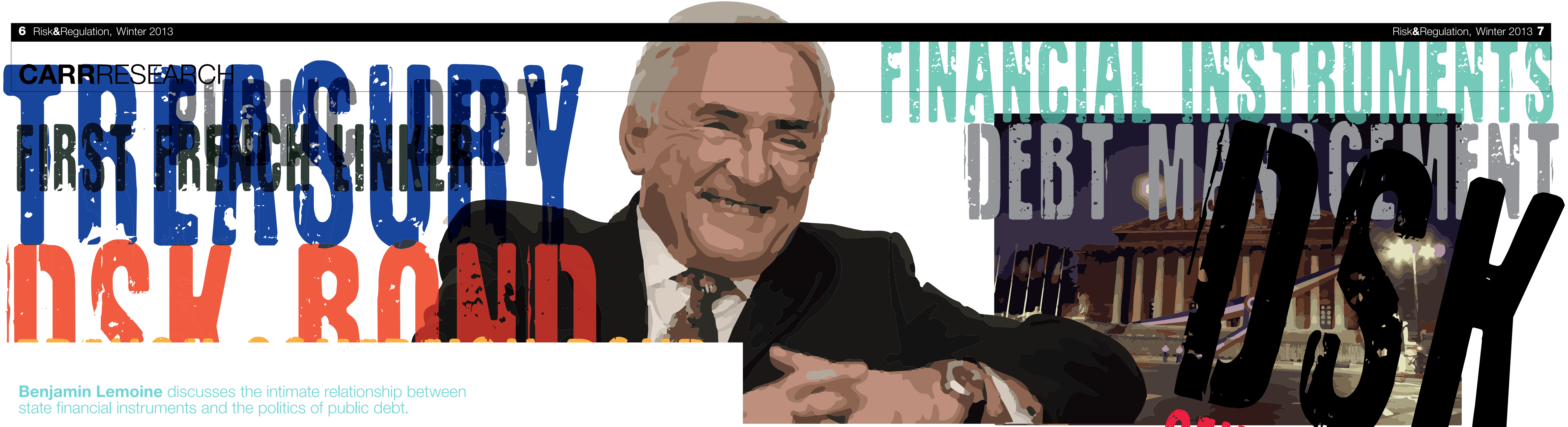
Braithwaite, T. (2011) "US panel's report reflects partisan rift". *Financial Times*, London, 30 July.



Janet Roitman is an associate professor of anthropology at the New School for Social Research in New York. Her book *Anti-Crisis* was published by Duke University Press in December 2013.

Adapted by **Martha Poon.**

CARRRESEARCH



Benjamin Lemoine discusses the intimate relationship between state financial instruments and the politics of public debt.

The political will to meet specific economic objectives which are attractive to capital investors is written into the bond itself.

DSK STANDS FOR SELF-DISCIPLINE

Before "DSK" was shorthand for scandal, it was the name of a French sovereign bond. The acronym was first used by the French newspaper *Le Monde* in December 1997 to report on a debt instrument named after Dominique Strauss-Kahn, then France's Minister of Economy and Finance. In the presence of an assembly of Paris Stock Market agents, Strauss-Kahn proudly announced the launch of this eponymous asset, the very first to be indexed to France's rate of inflation. In the UK, this category of bond is called a *linker* because the interest rate paid by the borrowing country is linked to inflation.

The DSK bond was tailored to meet the appetite of creditors – especially big institutional investors like life insurance companies, pension funds, savings and investment banks – for secure investments protected against inflation-risk, the possibility that cheaper money could be used in the future to repay debts taken out when a currency had a higher value. The bonds' promoters argued this category of government security offered a win-win arrangement for all parties. The borrowing government would pay a reduced inflation-risk premium which lowered its interest rate and generated savings in its debt repayment budget, while banks and creditors would see their investment protected from price increases.

According to conventional financial historians and public finance textbooks sophisticated government securities like the DSK bond are a "logical" and "necessary" step in a country's evolution because they permit governments to respond to natural competitive pressures in the capital markets. The authors of this financial innovation assumed that governments struggle to maintain price stability against inflation, so they invented a contract that concretely connects political interests to the interest rate. The political will to meet specific economic objectives which are attractive to capital investors is written into the bond itself. When a government issues an inflation-indexed bond it commits to keeping inflation low and to restricting money creation. The job of defending these goals is delegated to the national and later European central bank.

It is worth nothing that under the terms introduced by this new category of government security, elected officials have an incentive to not interfere in monetary policy, which effectively frees the central bank from the influence of the state treasury and neutralizes the role of democratic government in monetary affairs. Inflation-indexed bonds not only reward specific economic condition, they materialise the institutional conditions under which policy measure to achieve low inflationary conditions can be made. Linkers or inflation-indexed bonds are deliberately shaped by treasury officials as a signal that discipline will be exerted on public finance. They further signal that arrangements institutionalizing the economic policies that suit the preferences of market actors will be put in place.

Debt management practices can certainly neutralize governments, but my research suggests these practices are neither the result of a naturally evolving history nor of politically neutral options. The DSK is part of a long-term process in which governments are wilfully self-disciplining with regards to public spending, money creation and inflation-control in order to make their debt more attractive to global investors.

This process of self-disciplining began in France in the late 1960s when some agents of state financial administration broke with the practices inherited from the second world war reconstruction with its administered economy. In this period, France's treasury organisation functioned as a bank for the national economy. It gathered savings which made it possible to manage the treasury without selling debt to the markets. Politicians and civil servants called this system the *circuit du Trésor* (Treasury circuit). The circuit provided resources to the state for public spending, investing in the economy, and managing the treasury department.

When debt and treasuries were issued, mainly within the short term banking system, the prices were administratively determined through the legal provision of the so called *treasury bills threshold.* Starting in 1948, the Ministry of Finance required banks that were holding a current bond account exclusively composed of treasury bills at the Bank of France to retain 95 per cent of the bonds in their portfolio. Banks were further required to not fall below the amounts of treasury bills they were already holding. This threshold setting mechanism ensured that banks maintained their subscription and did not abandon government bills.

If the treasury bills threshold seems authoritarian, this is only because we are looking at it retrospectively. At that time, it was considered a legitimate instrument. In his lectures to the students of Sciences Po in 1948, François Bloch-Lainé, then French Treasury manager described the state treasury departments with specific characteristics that differentiated it from banks, in particular its direct contribution to the regulation of the money supply and credit allocation. "State and Public Treasury do not have the same concerns as the private or semi-public treasuries," he wrote. "Formerly, Treasury was operating more like a bank or a corporate business, ie, it was forecasting on a short term basis and was appealing to the market to the extent it needed […]. Today [in 1948], with its bond issuing constantly open, it picks up in a permanent way all availabilities that fuel its funds."

The threshold was an administrative device that performed multiple roles: it secured resources where the value was assigned by the state, and gave the central public administration the opportunity to directly control monetary supply and credit distribution. Reforms that occurred during 1960s were deliberately designed to neutralize the Treasury's role in monetary affairs, because its tools were accused of feeding inflation. According to Jean-Yves Haberer, a young technical advisor to the French minister of finance who directed the operationalization of these reforms, the main object was to "gradually force [the treasury department] to live as a borrower, that is to say, to ask itself questions of a borrower such as the cost of borrowing and the debt burden services".

To "put the debt in the market" was to force the state to live in a real market for funding.

Making the state manage debt like any other actor or organisation meant deconstructing and dismantling all powers, privileges and idiosyncratic devices the treasury department enjoyed in finance and in the economy of the time. This is why, since the end of 1960s, state engineers in France have increasingly focused on state financing activities instead of on the problems of credit allocation in the general economy. These engineers have built the system that opens the country to the international capital markets. As a result, France's creditworthiness has become contingent and dependent upon the politics and social or public policies that accommodate reimbursements for creditors. Such a process is self-reinforcing because competition between governments for financing creates an incentive for countries to promote more sophisticated and attractive innovations for creditors such as the DSK bonds of the late 1990s.

Strauss-Kahn's bonds were an important addition to the French strategy of managing debt through the market. Unlike an older generations of treasury and central bank officials who negotiated with unions in the middle of the 1980s to de-index wages from inflationary pressures, today's civil servants enthusiastically promote "modern" capital market sovereign bonds which deliberately connect remuneration to the rate of inflation as a means of improving France's creditworthiness in the eyes of creditors. In so doing, they reinforce the process of putting debt to the markets and the pressures that fall on other kinds of state payments. While financial products are nowadays linked to inflation and creditors are protected through their hold of solid bond contracts and products, social benefits, public spending and pensions are threatened by "default" or partial payment.

Indeed, one can observe during the European debt crisis, that states have to make a trade-off between all the public constituencies who depend upon their debt. This pits social beneficiaries that receive public spending and specific treatments against private creditors who hold the debt as an asset. For example, in 2000, the manager of the sovereign department at Moody's was already expecting almost "every industrialized nation to "default" on its pension promises". The agency concluded that "with few exceptions, it is nearly impossible for almost every major developed nation to meet the public sector pensions currently promised, including health care for seniors, without significant adjustments to future benefits". "Fortunately for governments," the rating agency seems to rejoice, "the public does not generally view pension "defaults" as seriously as a breach of promise by a government on its bond obligations. Why this is so appears to be simply societal conventions" (Truglia 2000).

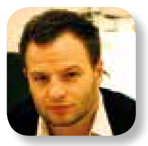
Since societal conventions appear to be more easily manipulated than contractual debt obligations, states are concretely disciplined on their social policies, public spending and monetary control by market techniques. It is somewhat ironic that high civil servants in the treasury who are supposed to fund state activities promote innovations like DSK bonds. Yet the budgetary cost-cutting measures endlessly discussed in the US debt-ceiling debate and the European and Greek debt crisis, barely scratch the surface of how deeply debt instruments reshape the agency of the state, impose constraints, reformat the state's goals, and reconfigure relationships between creditors, citizens and economic policies.

In sovereign debt markets, the letters DSK still stand for self-discipline.

Reference

Truglia, Vincent J. (2000) "Can industrialized countries afford their pension systems?". *Washington Quarterly* 23 (3): 201-11.

Haberer, Jean-Yves (1995) Interview with Laure Quennoüelle-Corre. In Archives orales du Comité pour l'histoire économique et financière de la France.



Benjamin Lemoine is a CNRS researcher scholar at the Institut de Recherche Interdisciplinaire en Sciences Sociales (IRISSO), Université Paris-Dauphine.

Adapted by **Martha Poon.**

Reeling in GAMBLING REVENUE

Natasha Dow Schüll explores the growing dependency between US state governments and digital slot machine technology.

State governments across the United States are scrambling to expand legalized gambling. In the past year, Massachusetts passed a bill allowing three casinos and a slot machine parlor, Ohio opened three new casinos, and Rhode Island, North Carolina, and Maryland all approved new gambling venues. This year promises fever-pitched campaigns to legalize gambling in New Hampshire, Georgia, Kentucky, Texas, and to expand gambling in Florida, Illinois, and Pennsylvania. In New York, Governor Cuomo hopes to establish seven Las-Vegas style casinos on non-Native American land.

Just as they did during the recession of the early 1990s, legislators in cash-strapped states are looking to commercial gambling as a way to raise revenue without raising taxes. Spurred by vigorous lobbying and the pressure of fiscal urgency, they are paying little attention to the potential human costs of partnering with gambling interests.

At a casino industry trade show I attended in 2008, a panelist approvingly told his audience: “States are responding to what other states are doing; there’s a lot of border anxiety. It’s an arms race.”

The most lucrative “arms” at stake in the race to raise revenue from gambling are modern slot machines. The devices – which typically feature video screens instead of mechanical reels, buttons instead of handles, and accept player loyalty cards instead of coins – have become familiar to gamblers around the world. Known as “video lottery terminals” in Canada, “pokies” in Australia, and “fruit machines” or “jackpot machines” in Britain, they have become the international cash cows of the gambling industry. In the US they generate upwards of three quarters of gambling revenue; even in so-called destination-resort casinos, they bring in twice as much as all other games put together.

But the machines are noteworthy for more than their extraordinary revenue performance.

Slots are commonly misperceived as an innocuous form of gambling because they offer relatively low stakes, are easy to play, have historically been popular among women and retirees, and outwardly resemble youth arcade games. In fact, the opposite is true. Studies by a Brown University psychiatrist, Robert Breen, have found that individuals who regularly play modern video slots become addicted three to four times faster (in one year, versus three and a half years) than those who participate in traditional forms of gambling like cards or sports betting. Breen calls these machines “the most virulent strain of gambling in the history of man.”

As I learned from interviews with hundreds of gambling addicts and game designers over nearly two decades of fieldwork on the US gambling industry, the particular addictiveness of modern slot machines has to do with the solitary, rapid, continuous wagering they enable. It is possible to complete a game every three to four seconds, with virtually no delay between one game and the next.

To my surprise, the vast majority of those I interviewed harbored no illusions of winning big; instead of playing for the jackpot, they played for what some call “the zone” – a trancelike state of absorption that can suspend the pressures and anxieties of everyday life. Some players become so caught up in the interaction with the gambling machine that their awareness of space, time, and monetary value fades.

“The consistency of the experience that’s described by my patients is that of numbness or escape,” Robert Hunter, clinical director of the Problem Gambling Center in Las Vegas, told me in an interview. “They don’t talk about competition or excitement – they talk about climbing into the screen and getting lost.”

“Time on device” is the the gambling industry’s term for a mode of machine gambling that is less about risk and euphoric thrill than about maintaining a hypnotic flow of action – a mode that is especially profitable for casinos.

“Our best customers are not interested in entertainment,” acknowledged a slot machine designer from a company now owned by International Gaming Technology (IGT), the nation’s largest slots supplier. “They want to be totally absorbed, get into a rhythm.”

So-called problem gamblers are known to contribute a grossly disproportionate percentage of slot machine revenues – 30 to 60 per cent, according to a number of government-commissioned studies in the United States, Canada, and Australia. But problem gamblers aren’t the only ones whose finances and well-being are at stake in the bid to expand machine gambling. “Over-spending and/or losing track of time or money occurs for the majority of regular players,” a 2011 Canadian report found. While casinos and governments may campaign for “responsible gaming,” the evidence suggests that the bulk of their gambling revenues derive from such overspending.

As the psychologist Mark Dickerson explains, the way that modern slot machines configure gambling activity “erodes the player’s ability to maintain a sequence of informed and rational choices about purchasing the next game offered.”

It’s time we asked of the modern gambling machine what is often asked of consumer products like cigarettes, guns, and junk food: Might the product and its design be partly to blame for the problem?

“How can they expect people to gamble responsibly,” commented a video poker addict following a Gamblers Anonymous meeting in Las Vegas, “when they build machines that make them behave irresponsibly?”

Surely, civic leaders looking to close budget gaps can find more ethical alternatives than capitalizing on such devices.

It’s time we asked of the modern gambling machine what is often asked of consumer products like cigarettes, guns, and junk food: Might the product and its design be partly to blame for the problem?

The American Gaming Association, the lobby group for the US gambling industry, says no: addiction resides in people, not inanimate machines. Yet industry members invest a great deal of their money and energy in the effort to influence consumers’ behavior through technology design. At trade conferences, they make no secret of their aims: How to turn casual gamblers into regular gamblers; how to keep them playing longer and spending more; how – to take the title of one panel at the 2005 industry trade show – to “Build a Better Mousetrap”.

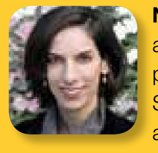
To this end, over the last decade slot designers have focused on developing low-denomination “dribble-feed” games that take gamblers’ money slowly and grant them a steady flow of small wins along the way – just the kind of design that can pull players into the zone that addicts describe. These “high hit frequency, low volatility” games allow players to bet on multiple paylines simultaneously such that they frequently “win” back a portion of their total bet; although they are steadily losing, the audiovisual feedback they receive from the machine is identical to that of winning. Kevin Harrigan and Mark Dixon at the University of Waterloo found that gamblers’ brains do not distinguish between actual wins and these “false wins”.

Despite the gambling industry’s oft-repeated claim to be the most highly regulated industry there is, the agencies around the world tasked with approving its new slot models perform no tests to determine how technological innovations like false wins might harmfully affect players. There are no consumer protection guidelines in place – in the US or elsewhere – to evaluate the addictiveness of game characteristics such as wagering speed, use of credit rather than coins, and the ability to play for extended periods without interruption. More often than not, regulatory agents describe themselves as working in partnership with industry innovators.

“It’s a very symbiotic, help-us-help-you kind of thing,” the director of the Pennsylvania Gaming Control Board’s gaming lab told a reporter in 2011.

“I don’t think serious regulation will ever be part of the conversation here in the States,” a veteran designer of gambling machines told me. “The industry is too entrenched, provides too large of a tax base, and the lobby is just too powerful. And if you do create a regulative loophole, guys like us will drive a truck through it.”

Legislators in any jurisdiction seeking to expand the availability of gambling machines as a way to bolster government budgets should be wary of inviting financial dependence on devices whose design is widely misunderstood, poorly regulated, and, for millions, addicting.



Natasha Dow Schüll is a cultural anthropologist and an associate professor in the Program in Science, Technology, and Society at the Massachusetts Institute of Technology. She is the author of *Addiction by Design: Machine Gambling in Las Vegas* (Princeton University Press, 2012).

CARRRESEARCH

SPREADBETTING101

Claire Loussouarn explains how a gambling instrument became a popular and mainstream investment product in the UK.

Spread betting is an unusual name for a financial product. A spread bet is a contract made between a trader and a spread betting company based on a prediction of how much a market in an index, currency pair, share or commodity will move up or down. If the market behaves in favour of the trader, the spread better can potentially win a much bigger sum of money than the one he or she originally invested. These winnings are not classified as capital gains so the investor owes nothing to the taxman. With or without expertise or professional connection to the City of London, anyone can spread bet from their own account on a digital device, from a location of their convenience, through the proprietary trading platforms offered online by spread betting companies.

Sounds easy? There is one common mistake the novice can make when they logon to the visually stimulating screen interface of an online spread betting platform. Constantly flashing real-time prices can fool spread betters into thinking they're taking a stake in the underlying assets they're betting on, when they are actually buying a product offered by the spread betting company that relates only to the movement of prices of those markets. When a spread bet is placed on the platform of a spread betting company, the company automatically becomes the counterparty of a bet. The business operates similarly to high-street bookmaking where the bookmaker takes the opposite side of fixed-odds bets on horse races, sports events and political elections, even though spread bet odds are not fixed. The relationship reflects a particular power dynamic where risk is sold as a consumer product on terms set by a profit seeking enterprise.

Spread betting is a mature market in the UK where it has been growing for almost 40 years. Based entirely in the UK, the industry has expanded worldwide since 2002 under the umbrella of a sister product called a Contract for Difference (CFD), with the exception of the US where both spread betting and CFDs remain illegal. The CFD functions in a similar manner to the spread bet without the embarrassment of the gambling reference, but also without the financial benefit of the full tax exemption. After 2000, when the industry started to operate through the internet, the UK saw an increase in the number of spread betting companies avid for a share of this technological boom. The risk appetite of betting firms, especially the smaller ones, increased as a result of competitive pressure.

Despite growing competition, IG, the oldest running and largest spread betting company in the world represents 44 per cent of the market shares, and serves as a yardstick of the industry's health. In May 2013, IG registered a net trading profit of £361.9 million, a slight slowdown from 2012 but still up £27.6 million from 11 years ago. Given the nature of the product it sells, the company's reported revenue is higher following periods of increased volatility as in 2008, 2009, and more recently June 2013. According to the *Financial Times*, over June, July and August, the FTSE 250 group reported sales of £94m, up from £82m in the same period a year earlier.

Widespread access to the internet and the rise of electronic trading systems have made it possible for firms to market spread betting contracts to pools of traders and wannabe traders that exist outside the closed network of financial professionals. But technology isn't the whole story behind the rapid rise of this industry in attracting investors' money. The emphasis on the democratizing powers of digital infrastructure overshadows the fact that spread betting was not always considered a legitimate form of investment which could be regulated by the Financial Conduct Authority (FCA). What really paved the way for investment capital to flood into this market was the industry's ability to take advantage of a series of regulatory opportunities.

The connection between the business model of spread betting and that of gambling runs deep. Spread betting really did start out as a bookmaking business in 1964, when Coral Index, spearheaded by stockbrokers and capitalised by bookmaker Joe Coral, was the first spread betting company registered under the 1960 Betting and Gaming Act. The act's relaxed legislation was meant to legalise betting outside the racecourse but its framework also provided attractive new business opportunities. In contrast to the higher cost of futures trading and the regulatory limitations imposed on the futures markets at the time, companies could now offer to trade on future prices within a more flexible regulatory framework. In the 1960s, spread betting was a clever device for trading futures-type contracts without the constraints of conventional financial regulation.

In its earliest days, spread betting was a risky business to operate. By taking the opposite side of the bet, Coral Index was literally betting against its punters. What would happen if many of its clients were right at the same time? Inevitably, Coral hit a bad run at some point losing all of its original capital. Despite having lost a lot of money and the financial backing of Joe Coral, the company carried on until 1981 when it was sold to Ladbrokes which was itself acquired by IG three years later.

IG's original business model was somewhat different. The company, started in 1974, offered spread bets on gold, but only when it could hedge the position it held against its customers in the market. It offset risky positions by buying or selling bullion with gold broker Mocatta and Goldsmith. Hedging with physical gold provided the business with a kind of insurance which created a less risky business model to spread betting. The use of hedging combined with little competition meant that profits would come mainly from the spread – commission fee – included in the buy and sell price of a spread bet. IG gradually diversified spread bets to other commodities, as well as indices like the FTSE as well as the Dow Jones, because it was able to hedge risky positions held in those assets in the relevant futures markets.

While the City of London adopted the hedging tools at hand to improve its business model, IG and its competitors – Ladbrokes Index which

The tax-free perk is one of the spread bet's unique selling point to investors, even though it only applies to UK tax-payers.

IG bought over in 1981 and City Index which started much later in 1983 – were still officially operating under betting legislation. The spread bet's status as a gambling product changed with the Big Bang (financial deregulation in the UK) in 1986. Eager to facilitate futures trading at the time, the Conservative government included a clause which would prevent a futures contract from being interpreted as a wager, unenforceable under the Gambling Act of 1845. This regulatory detail was a window of opportunity for spread betting companies.

City Index led the way. In a case known as *Leslie v. City Index*, the firm took one of its customers to court in 1991 for debts accrued after the 1986 financial crash. For City Index, litigation was a means to an end: it wanted the ruling by the courts to establish that spread betting qualified as an investment under the meaning of the 1986 Financial Services Act. City Index won the case and since then spread betting has been regulated as a financial product.

Although spread betting no longer falls under betting legislation it does retain one essential trait that marks its past as a betting product: the winnings remain free from capital gains tax. An important advantage against other taxable forms of financial investment, the tax-free perk is one of the spread bet's unique selling point to investors, even though it only applies to UK tax payers.

Critics like to accuse big financial institutions of engaging in unproductive gambling. The term "casino capitalism" has become a demonic metaphor for denouncing complex products like the infamous Credit Default Swaps (CDS). There is nothing new about this argument. Throughout the history of the City of London the relationship between gambling and finance has been repeatedly painted as one which is detrimental and unproductive for finance. But if the influence of gambling threatens the development of finance as critics suggest, then what are we to make of the profitability and growing popularity of the spread betting market that offers investors the chance to purchase contracts that have so much in common with gambling bets?

Ian Burke, the chief executive of Rank Group, a casino company, is eager to turn old stereotypes around. Last year he argued that the expression "casino capitalism" drew an unfair parallel between a strictly regulated and income tax-generating casino industry and the failings of investment banks (Blitz 2012). The story of spread betting certainly does suggest that gambling is not strictly unproductive and that it might offer a useful perspective for understanding how some financial products are being developed.

References

Blitz, R. (2012) "Casinos reject parallel to banking". *Financial Times*, London, 26 November.

Claire Loussouarn is a research fellow in social anthropology at Goldsmiths, University of London. Her research on spread betting is supported by a wider project funded by the European Research Council under the European Union's Seventh Framework Programme (FP/2007-2013) / ERC Grant Agreement n. 263443. (www.gold.ac.uk/gamblingineurope)

This article is a summary of Loussouarn, C. (2013) Spread betting and the City of London, in R. Cassidy, A. Pisac & C. Loussouarn (eds.) *Qualitative research in gambling: exploring the production and consumption of risk*, London: Routledge, 233-49.

OUR TRUST IN PENSION FUNDS

The trust is essentially a procedural guarantee. It is not in any way constructed to guarantee a substantial level of financial performance that would assure a certain quality of retirement.

Socio-economist **Sabine Montagne** examines our trust in the US model of financing retirement.

When Europeans decided to reform their retirement systems in the 1990s, they took the American model of retirement financing as their major point of reference. The defining feature of the American system is that financing is shared between a public federal regime, and a private complement in the form of a pension fund. Instituting this feature in continental Europe was the primary objective of reformers during the decade of stock market euphoria that marked the 1990s.

Curiously, the effectiveness of this model has not been questioned following the market crash of 2001 or 2007, despite a series of social and economic blows suffered in the United States. What is more, the model continues to relentlessly insinuate itself into the institutional make up of continental European countries.

How can we understand this persistent belief in the virtues of the pension funds? Since the advantages of this model have proved inconclusive from a number of economic of vantage points, I have felt compelled to search for the alternative reasons that make it an attractive configuration. What is it about pension funds that makes them so hard to resist?

Macro-economic constraints and institutional interests have no doubt nourished the wave of reform on how social protection is financed. These forces have created a groundswell that is not easy to stop, even when reformers are confronted with contradictory arguments grounded in compelling empirical evidence that new solutions aren't working.

But that's because there is something else at work beyond the convergence of constraints and interests that explains the fierce adherence to the American model. There is a force built into the model, an aura of seduction, that even the current institutional collapses are unable to shake off. We must, therefore, seek to understand the assumptions woven into the very fibre of pension funds that, so long as they remain taken for granted, inhibit an internal critique from developing.

That conviction in pension funds stems at least in part from the fact that the socio-economic beliefs they are built upon are fundamental to the American economy. What pension funds convey, in effect, is the peculiar American fable that social protection and speculation can be reconciled within a single frame of action. Behind this fable there resides perhaps an even more basic myth of the Anglo-Saxon social order: that weaker individuals (in this case, the beneficiaries of these funds who are potential victims of speculation) can be assured protection through privately managed, decentralized apparatuses within which constraints of justice are imposed on strong protagonists (in this case, the employers and financial managers who engage in speculative activity).

In order to unpack this fable I have examined how pension funds concretely function and looked into the mechanisms that ground their legitimacy. What type of sectorial organisation supports confidence in these apparatuses? Based on what kind of guarantee, economic or juridical, can these pension funds be considered adequate retirement support for the majority of salaried workers? And what means are put in place by the financial sector to prudently manage these considerable savings?

The thread that guides my exploration of the pension industry's "efficacy" is a juridical structure called "the trust", a special legal form that is as distinctive as the contract or the corporation. The trust is unique to Anglo-American culture and possesses no exact equivalent in other places such as France. Over the course of time, jurisprudence as engendered a corpus of juridical rules, and has also constructed a veritable model of financial comportment that regulates all relationships within the chain of investment. The trust, therefore, is not only a specific juridical status of Anglo-American law, but its demands permeate the everyday practices of the financial world surrounding it. The trust is key to understanding the contemporary organisation of the pension industry.

In privileging the trust as an entry point for my study, I have placed the question of pension funds' legitimacy within the history of juridical economics. The idea is that pension funds inherit from the trust, a type of economic organisation and certain guaranties of comportment that participate in their legitimacy. In its generic ancestral form, the trust is designed to assure the management of an inheritance by a guardian on behalf of a minor, it thus makes sense that it might be expected to protect inexperienced investors such as salaried workers in its financial form. What I have discovered is that this institutional heritage strongly shapes the nature of the protection offered by the pension fund industry.

The trust organizes management around two central questions: the primacy of the beneficiary's interests and safeguarding the assets under care. Its preoccupation however, is essentially defensive. It is geared towards protecting beneficiaries against potential abuses by managers such as conflicts of interest or a theft of assets deposited into the trust. To provide protection from these sorts of abuses, the trust is fixated upon the decision making processes of managers and demands that they employ appropriate organisational means. This constitutes a guarantee that the management of the assets will conform to an organisational standard established by a community of professionals. The trust is essentially a procedural guarantee. It is not in any way constructed to guarantee a substantial level of financial performance that would assure a certain quality of retirement.

Legal lineage does not fully explain the organisational orientation or symbolic efficiency of the pension industry. The US federal law, ERISA (Employee Retirement Income Security Act), passed in 1974, was conceived to govern private corporate pension funds and as the general source of inspiration for asset management, profoundly renewed the principles of law that found the trust. The current organisation of the pension industry still relies on a requirement that is at the heart of trust regulation: the obligation for the strong parties (trustees) to justify themselves with regard to the weak ones (beneficiaries) under the supervision of a judge. This principle of justice re-emerges today, among investment managers and trustees alike. It is expressed through the obligation to document decision making process, and to have an investment process that can be explained to a third party. Accountability, with reference to both the results and the process of obtaining them, has become the watchword.

ERISA aimed to increase the protection of pension-fund beneficiaries through the professionalization of financial management. But by imposing the condition of due care rather than a performance bond, the law pushes the trust's "mission impossible" – of ensuring the protection of the weak by requiring the strong to justify themselves – to the absolute limit. The constant display of procedure is a means of monitoring the powerful, who themselves remain individually subject to an even higher power, the financial community, which is not shielded from systemic risk. Yet the expected protection – a predefined retirement pension – has evaporated.

On the whole, the system of delegation structured into pension funds offers no guarantee of retirement benefits. It does not ensure financial performance but simply provides a guarantee of compliance with commonly accepted procedures. This limitation of responsibility, characteristic of "procedural delegation", is a recurring component of how finance functions. Look closely and you will see that the financial world is founded upon intermediaries who provide "non-binding advice" and whose fiduciary responsibility has been attenuated.

The analysis of the American case in my book, *Les Fonds de pension, Entre protection sociale et spéculation financière* (Odile Jacob, 2006) demonstrates how Anglo-American law gave an organisational form to the financial industry. At a decisive moment of the pension fund's history this organisational form was detached from the underlying structure of the trust, so this model of retirement financing could be exported internationally. New kinds of pension funds like 401(k)s were developed in the US in the 1980s, and US financial behaviours were exported to countries which had no previous experience working with trusts. So although the trust has left a distinct mark on finance, it is difficult to see the extent of its legacy.

I have retraced the process through which the tradition of the trust has been obscured in finance so that we can better understand the contemporary international expansion of pension funds and their weaknesses as a tool for securing the future. Retirees should understand the precise nature of the guarantee that underlies our trust in pension funds.

Sabine Montagne is a socio-economist and CNRS research scholar at Université Paris-Dauphine.

Translated by **Martha Poon.**

Risk&Regulation, Winter 2013 15

DO-IT-YOURSELF RETIREMENT

How are Americans faring with their 401(k)s?
Author **Helaine Olen** reports from New York.

"For retirement, the answer is 4-0-1-k," proclaimed Tyler Mathisen, then editor of Money magazine in 1996. "I feel sure that someday, like a financial Little-Engine-That-Could, it will pull me over the million-dollar mountain all by itself."

For this sentiment, and others like it, Mathisen was soon rewarded with an on-air position at financial news network CNBC, where he remains to this day.

As for the rest of us? We were had.

The United States is on the verge of a retirement meltdown. The culprit? That same thing Mathisen celebrated: the 401(k), along with the other instruments of do-it-yourself retirement. Not only did they not make us millionaires as self-appointed pundits like Mathisen promised, they left very many of us with very little at all.

For the first time in living memory, it seems likely that living standards for those over the age of 65 in the United States will begin to decline as compared to those who came before them – and that's without taking into account the possibility that Social Security benefits will be cut at some point in the future.

On their own, the amount of money Americans have put aside for their post-work lives sounds extraordinary. According to the Investment Company Institute, the lobbying arm of the mutual fund industry, Americanshad $20.8 trillion in retirement savings, divided between individual retirement accounts, defined contribution plans, defined benefit plans, government plans and annuity reserves.

But when broken down to the individual level, those numbers add up to nowhere near enough money. According to a recent report issued by the National Institute on Retirement Security, the median amount a family nearing retirement has saved for their post-work lives is $12,000.

As for the magical 401(k)? If a household where the earners are between the ages of 55 and 64 does have a retirement account, they barely hit the six-figure mark at $100,000 – a far cry from $1 million we're told we need.

No one less than John Bogle, the founder of the Vanguard Group, has come forward to declare the American way of retirement savings "a train wreck".

You might be tempted to ask, "What went wrong?", but a better question might be "why did we ever expect this to work at all?"

Well, for that you can blame the great bull market of the twentieth century.

Everyone Thought They Could Get Rich

What Americans think of today as the natural retirement landscape began as a few technical changes to the tax code in the late 1970s. These changes were meant to allow high earners to receive a greater chunk of their salary on a tax deferred basis. However, the Reagan administration decided that companies should be allowed to offer the new set-aside to all their workers. It didn't take the corporate bean counters long to figure out the new 401(k) was much cheaper than traditional pensions, and the race to the bottom was on.

Just as Americans were beginning to grapple self-funded retirement mechanisms, the Dow Jones Industrial Average took off. From a low in the 770s in August 1982, it rose above 10,000 in early 2000, only to fall briefly before resuming its climb and hitting 14,000 in the fall of 2007. As renowned consumer reporter Trudy Lieberman told me, "The stock market started to go up and everyone thought they could get rich."

Yet even as a massive advertising apparatus promoted the idea that ma and pa saver could invest their way to riches, we ignored warning of trouble. As early as 1986, Karen Ferguson who was then, as she is now, the head of the Pension Rights Center, warned in an op-ed published in the New York Times, "Rank-and-file workers have nothing to spare from their paychecks to put into a voluntary plan." In 1994, economist Teresa Ghilarducci, who is now at the New School, called the do-it-yourself retirement system an "an abyss" at a congressional hearing.

The voices of these critics were drowned out by the money and power of the financial services industry. Lack funds for your golden years? Well, you most likely either did not save enough money or invest it well. This, frankly, ignores reality. Salaries for the majority of us are, when translated into constant dollars, falling. The median household is earning 8 per cent less income adjusted for inflation today than it did in 2000. In the first quarter of 2013, wages fell by the greatest amount ever recorded.

At the same time, costs of things Americans can't do without continue to rise. College costs have tripled since the early 1980s. The amount of money students are borrowing to pay tuition bills all but doubled from 2005 to 2012 to $1.1 trillion. Healthcare costs have also soared and patients are increasingly responsible for ever greater amounts of their medical expenses – credit reporting agency Transunion recently claimed an astonishing 22 per cent rise in out-of-pocket hospital expenses over the past year.

People find it almost impossible to put money aside in this environment. The American savings rate hovered around 10 per cent in the late 1970s and early 1980s. Today, it is a little more than 2 per cent.

As a result, innovations that promise to improve our retirement situation never seem to work out quite as planned. Take a look at what happened when companies began to adopt automatic enrolment plans for 401(k)s, which forces people to opt-out of retirement plans instead of filling out papers to join up. Yes, the number of people contributing to deferred contribution accounts increased, but so too did what industry insiders call "the leakage" rate – that is, the number of people borrowing against or withdrawing the monies in their accounts. (If the money isn't repaid, the consumers must pay additional penalties for accessing it.)

The leakage rate is now close to 25 per cent.

The Gravy Train

So, why does this situation persist? Well, a train wreck for you and me is a gravy train for the financial services sector. In the United States, they are the only group that matters. Whether the stock market goes up, down or sideways, the financial services sector makes out when it comes to retirement accounts.

How much do they earn? Astonishingly, we don't know the answer. In 2008, Bloomberg magazine polled a group of pension consultants and came to the conclusion that 401(k) fees alone totalled $89.1 billion annually. More recently, Robert Hiltonsmith at the progressive think tank Demos came to the conclusion the average two-family household loses $155,000 in potential gains to fees over the course of their careers.

The industry gets away with this because it has what amounts to a captive audience. While there is some evidence that the recent US Department of Labor requirement to reveal 401(k) plan fees to participants has brought expenses down slightly, knowledge does not leave consumers in the driver's seat. Employees simply have to take what is given to them.

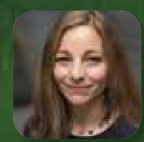
Moreover, the 50 per cent of the population that lacks access to 401(k)s and needs to invest for their post-work lives via Individual Retirement Accounts is in even worse shape.

Brokers not working in the best interests of their clients make the vast majority of IRA investment recommendations. Not only is this quite legal, the financial services industry is actively fighting attempts by the Department of Labor to change the situation, claiming it would not be able to afford to offer many low- and middle-income investors advice under an enhanced standard of care.

Think about this for a moment. The retirement industry is actually admitting it doesn't have a viable business model if it needs to put its customers first.

The truth is this: the concept of a do-it-yourself retirement can't work. To expect people to save up enough money to see themselves through a 20- or 30-year retirement is a dubious proposition in the best of circumstances. Yet, this is the system instituted in America which allows hustlers in the financial sector to prey on ordinary people with little knowledge of sophisticated financial instruments and schemes. And the mainstream US media, which increasingly relies on the advertising dollars of the personal finance and investment industries, perpetuates this expensive lie to an unsuspecting public.

When combined with stagnating salaries, rising expenses and a stock market that did not perform like Rumpelstilskin and spin straw into gold, do-it-yourself retirement is guaranteed to lead future generations of Americans into financial insecurity. It's unlikely to work any better for Europeans.



Helaine Olen is the author of *Pound Foolish: Exposing the dark side of the personal finance industry* (2013). This piece has been adapted from an article previous published on Alternet and Salon.com

CARRRESEARCH

Financial Scandal!! Regulation?

Kim Soin and **Christian Huber** remember the pensions mis-selling scandal of the 1980s.

The evolution of financial services regulation in the UK has repeatedly drawn on scandals as justification for regulatory change. However, the connection between scandals and regulation is not straight forward.

Through an in-depth analysis of policy documents, reports, media articles, professional statements and prior research from 1986 to 2012 (cf. Soin & Huber, 2013), we identify four phases of regulation in UK retail financial services. Each phase is characterised by the (co)existence of four competing approaches to regulation: the practitioner-based, the state-based, the market-based and the market-and risk-based approach. These approaches co-exist but in each phase, one prevails. We show how advocates of the different regulatory approaches, fuelled by scandals, engaged in fierce competition, and we explain how the perception of these failing approaches have led to financial regulation in its current form.

The Financial Services Act (1986) resulted in the implementation of a regulatory framework that had a largely self-regulatory element and consisted of a two-tier structure. Regulation of securities and investments was delegated to a lead regulator; the second tier consisted of a number of smaller organisations that were responsible for overseeing the major areas within the financial services sector. In the early stages of regulation (1986-1988), the dominant approach was "practitioner-based, statute-backed regulation". Practitioners, it seemed, had a better understanding of the markets than the regulator and state controls were seen as coercive, unnecessary and disruptive. At the same time however, advocates of state-based regulations were challenging practitioner understandings by suggesting the need for regulation in the name of investor protection.

The opportunity to contest the practitioner-based, self-regulatory approach came in the form of the pensions mis-selling scandal of the late 1980's. As part of the wider deregulation of the sector, and endorsed by the government of the day, retirement annuity plans were replaced by personal pension plans. Individuals could now choose whether (or not) to join or leave their company scheme (with employer contributions) or switch to a private scheme with only minimal contributions. While these new pensions provided more flexibility, they also created a situation where many people were persuaded by financial advisers to leave perfectly respectable occupational pension schemes and invest the lump sum into a personal pension.

The heart of the problem lay in the commission based reward system: Financial advisers were only paid when they sold, which induced hard selling in the industry and financial advisers saw this as an easy opportunity to maximise their commission income. However, regulatory investigations revealed that most people were likely to be worse off when they retired than they would have been if they had stayed in the company pension scheme. And, as events and investigations progressed, it became clear that nearly all companies had engaged in these mis-selling practices.

The perceived lack of a credible response from practitioners seriously damaged the dominance of practitioner-based regulation and self-regulation was deemed ineffective. This scandal proved to be a pivotal moment in the early incarnation of retail financial regulation in the UK. Actors who made sense of the pensions scandal as being tightly linked to overall financial regulation, reaching far beyond advice on pensions, quickly gained power. The scandal and the associated perception of the failure of regulation as such, started to cement itself in both the minds of actors and the general public. Although the structures didn't change, the way they operated did as a result of actors' making sense of the scandal. As it turned out, the pensions mis-selling scandal was not convincingly addressed until 1997.

In the second phase of regulation (1988 – 1993), the pendulum swung in favour of the champions of state intervention and a different approach to regulation emerged: a state-based approach to regulation which was characterised by "intervention" and "protection". During this phase, the pensions mis-selling scandal was still a hot topic: scandals, it appeared, were not exclusive to one group of actors and struggles emerged between the various regulatory bodies who offered competing assessments of the on-going pensions scandal.

Scandals do not speak for themselves but can be mobilized by various actors. In this case, the pension mis-selling scandal came back to haunt the advocates of the state-based logic. Supporters of the market-based approach to regulation turned their own arguments against them by connecting the scandal to deep-seated issues about the way in which financial products had been sold. By 1991, several of the regulatory agencies' views of what constitutes successful financial regulation faced dissent by other actors – like the government – and soon the market-based approach would become the prevalent way of thinking about financial services regulation.

The Large Report (1993) presented a new strategy to make sense of the world of financial regulation. The pensions mis-selling scandal was still being used as part of the social construction of regulation. Scandals were equated to the "failure" of financial regulation. And so a new version of regulation was proposed, one that was based on ideas around customer "choice" and "competition". This approach formed the foundations of the third phase of regulation – the market based approach (1993-1997). From 1997, the market-based approach was extended to incorporate the notion of risk. There was a commitment to maintaining cost-effective regulation as well as a dedication to maintaining consumer protection. The two-tier regulatory structure was abolished and replaced by a single super regulator – the Financial Services Authority (FSA).

The FSA started a campaign of "naming and shaming" companies who had not responded swiftly enough the pensions mis-selling crisis highlighted above. Again, the scandal was used to blame divergent practices, this time publicly. Ironically, the pensions mis-selling scandal which was first used to target practitioner-based understandings of regulation by advocates of the state-based approach was then used to undermine this very state-based logic and even some proponents of market-based versions of regulation. This era was characterised by a fear that "over-regulation" that would detract from the "positive impacts of market forces".

The market- and risk-based form of financial regulation enjoyed a relatively long tenure. We suggest this success was largely due to the absence of the successful mobilization of scandals in the early 2000s. Despite events like the mis-selling of mortgage endowments and the vast number of consumer complaints (70,000 complaints a year at its peak), these were not theorized as connected with faulty UK financial regulation – at least not by the most powerful actors in the field.

Events changed dramatically with the collapse of global financial markets in 2007. The complex reasons for these events – the paralysis of the regulatory agencies, the paralysis in the markets and the paralysis in inter-bank lending – meant that there were no quick fixes. However, the unravelling of these complexities and the instances of bad practices that subsequently emerged (eg, the fixing of LIBOR), resulted in another reconfiguration of the regulatory approach. Past events like the mortgage endowment mis-selling scandal and newer events like the collapse of Keydata in 2009, the payment protection insurance mis-selling scandal of 2011 and the mis-selling of interest rates swaps in 2012, were being re-constructed as failures of regulation that demanded a change in the regulatory approach and the structure of the regulator. The days of "light touch" regulation and "over deregulation" were over. As the FSA put it: "Since the events of the economic crisis unfolded, we have radically changed our regulatory approach". (FSA 2011, p.3)

Since 2012 there has been a return to a two-tier regulatory structure and in retail financial services, the pendulum has swung to an approach based on "heavy weight intervention" and "intrusion" at the product design stage (FSA 2011, p.3). What future financial regulation holds is unclear, but certainly there will be further changes; and future and past scandals will be used as a vehicle for these changes.

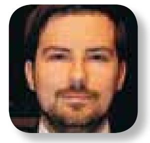
To conclude, we are not suggesting that scandals are not "scandalous" – frozen markets and bad advice on pensions do have very real consequences. However, scandals play a special role in financial regulation as they can be selectively drawn upon by actors to argue for new forms of regulation. But in order to work in anyone's favour, scandals need to be conceived of as important. As we argue elsewhere (Soin & Huber, 2013), the evocation of scandals is not the only catalyst for regulatory change. They are, however, a powerful means by which actors can mobilise their preferred changes in financial regulation.

References

Soin, K. and Huber, C. (2013) The Sedimentation of an Institution: Changing Governance in UK Financial Services. *Journal of Management Inquiry*, 22(3), 523-544.

FSA (2011) Discussion Paper 11/1: Product Intervention. www.fsa.gov.uk/pubs/discussion/dp11_01.pdf (access date: 26.09.2013)

Kim Soin is an associate professor of accounting and management at the University of Exeter Business School.



Christian Huber is a lecturer at the Helmut Schmidt University – University of the Federal Armed Forces in Hamburg, Germany.

Scandals play a special role in financial regulation as they can be selectively drawn upon by actors to argue for new forms of regulation.

CARRRESEARCH

RISK CULTURE IN FINANCIAL ORGANISATIONS

R&R presents the executive summary of **Michael Power**, **Simon Ashby** and **Tommaso Palermo's** report on a new managerial challenge facing CROs, CEOs and Boards.

It is widely agreed that failures of culture, which permitted excessive and uncontrolled risk-taking and a loss of focus on end clients, was at the heart of the financial crisis. Many official reports, analyses, commentaries and blogs go further to focus on the cultural dimensions of risk-taking and control in financial organisations, arguing that, for all the many formal frameworks and technical modelling expertise of modern financial risk management, there was an lack of understanding of the social dynamics of risk-taking within financial organisations, including a failure to fully appreciate the motivations and ethics of decision-makers.

From this point of view, we regard the explosion of interest in risk culture in financial organisations since 2008 as being symptomatic of a desire to reconnect risk-taking, and related management and governance processes, to a new moral narrative of organisational purpose.

The primary aim of our research, extending over 18 months and involving several banks and insurers in the United Kingdom, was to discover and analyse how the risk culture change agenda was taking shape inside different organisations. From this grounded and bottom-up point of view we decided not to define risk culture in advance but to observe and understand its manifestations within organisations. We interacted mainly, though not exclusively with personnel from the risk function. While this may be seen as limiting the generalisability of our results, it was clear to us at an early stage that risk culture change programmes were being led by risk functions and that the reshaping of the organisational footprint of risk management was at the centre of these programmes. We supplemented this approach with a formal survey of CII and CIMA members and also engaged, for comparative purposes, with personnel from two non-financial companies – an airline and a large industrial company.

Our desk research of academic and practitioner literature on risk management, management control, culture and safety issues suggested strongly that risk culture is a way of framing issues of risk and culture in organisations, and not a separate object. In addition, risk culture is itself a composite of a number of interrelated factors involving many trade-offs. We approached the research with a number of additional prior assumptions:

- Risk culture is not a static thing but a continuous process, or processes, which repeats and renews itself, but may be subject to shocks.
- Risk culture will be a mixture of formal and informal processes. The former are easy to observe; the latter are harder to observe since they involve a myriad of small behaviours and habits which in aggregate constitute the state of risk culture at any one point in time.
- We do not assume that an organisation necessarily has a single risk culture and we accept that risk cultures may be trans-organisational. Conceptually we would prefer to speak of "risk cultures" which may be unevenly distributed within organisations (eg, retail as compared with investment banking) or across the financial industry as a whole (eg, insurers as compared with banks).

The most fundamental issue at stake in the risk culture debate is an organisation's self-awareness of its balance between risk-taking and control. It is clear that many organisational actors prior to the financial crisis were either unaware of, or indifferent to, the actual trade-off or risk profile of the organisation as a whole. A combination of control functions being ignored or fragmented, and of revenue generating functions being given star status, rendered the actual trade-offs involved in this balance institutionally invisible, both internally and externally, until disaster struck.

For this reason, the prescriptions arising from our research essentially point towards recovering the organisational capability to make visible, as well as to understand and accept or change, the actual control-risk trade-off. Many practitioners now articulate this in terms of organisational clarity about the nature and enforcement of risk appetite and we observe that this plays a large part in many risk culture reform agendas.

Our research reveals that, underlying this fundamental question of balance, our participant organisations were also grappling with several other significant trade-offs as they sought to address risk culture. Unlike a number of consulting frameworks, we do not regard one side of these trade-offs as necessarily "healthier" than another. Rather they provide a conceptual framework, arising out of our data, which allows us to describe the variety of approaches by our participant organisations.

These trade-offs also provide a way of framing some challenges that CROs, CEOs and Boards need to consider.

The swing back to the centralisation of risk management

Our research suggests that the risk culture debate is symptomatic of a desire to make risk and risk management a more prominent feature of organisational decision-making and governance. The pendulum has swung towards an increase in the centralisation of risk management within financial organisations. This is understandable given the events of 2007-9. We observe three interrelated dimensions of this shift.

- Greater structural formalisation of a "three lines of defence" model
- The creation of new risk oversight units and capabilities
- Increased attention to risk information consolidation and aggregation

Underlying this general change in the regulatory and organisational climate are a number of specific trade-offs which define and are fundamental to the way organisations think about and seek to act upon their risk cultures. We have documented the variety of ways in which organisations have consciously and unconsciously addressed these six trade-offs, often mixing approaches. We outline some key challenges for CROs, CEOs and Boards arising from these trade-offs.

Business partner or independent advisor?

The authority of the risk function is a core attribute of risk culture. We observe two approaches to increasing the footprint of risk within organisations. Partnership builders sought to engage directly with the business, seeking to position themselves as trusted advisors. Partnering overseers looked to influence the business via risk training programmes and general awareness-raising activities. The former approach involves acting on the capabilities of the risk function and developing greater business fluency and credibility. The latter involves acting on the capabilities of the business itself. Both approaches, which are often mixed together, confront "Three Lines of Defence" (TLD) frameworks which value and promote the independence of the second line risk function. Managing this trade-off between business partnering and structural independence is one among several key challenges.

Risk culture challenges for CROs, CEOs and Boards

- How would you monitor changes in the internal authority of the risk function? If you don't want to do this, why?
- Is the current balance between informal relationship building and formal training of the business in risk understood and consciously chosen? Does the risk function have a role in the design and implementation of risk training programmes?
- Are you recruiting and training risk managers in the different languages of the business or is there still an underlying mono-culture within the risk function? In the latter case, have you ever discussed your perception of such culture with colleagues in the risk function?
- Do you generate stories of risk management success and value creation and ensure that they circulate within the organisation and with regulators? Considering the last year, how many of these success stories can you recall?

Informal network building or formal processes?

Regular interaction and "touch points" between risk functions and the business are widely agreed to be important, not only in financial services. We observed interaction enthusiasts and realists. The former are wary of formal tools on their own, and invest time and resources in building informal internal networks. Realists suggest that too much interaction can inhibit decision-making; they also support the role of technology in mediating interaction – as did our comparator airline. Realists have more respect for TLD models than enthusiasts who continually work across first and second lines. Despite accepting its salience, none of our participant organisations tried to measure risk-business interaction and there seemed to be little ambition to do so.

Risk culture challenges for CROs, CEOs and Boards

- Can you name one or two individuals doing risk culture relevant work in your organisation? If yes, where are they (eg, risk, audit, business)? How often have you talked to them? And do you feel you give them enough support?
- Would you be interested to know whether and how interaction between your risk function and the business is changing? If so, how could you find this out?
- Do you track how many times business functions approach Risk for advice and partnering? If not, why not?
- If you have implemented a TLD approach in your organisation, do you think this has made interaction between the business and Risk more or less likely?
- Are you worried about a lack of interaction between Risk and the business? If yes, why? Can you think of concrete examples of situations where more interaction would have helped to address business problems? Or examples where too much interaction has slowed decision-making?
- Do you consciously translate risk appetite issues into a language which business units can understand and own?

We regard the explosion of interest in risk culture in financial organisations since 2008 as being symptomatic of a desire to reconnect risk-taking, and related management and governance processes, to a new moral narrative of organisational purpose.

CARRRESEARCH

Between risk and control?
We observed that the clarity and enforcement of trading limits was regarded as a core feature of risk culture across all our participant organisations. However, we detected subtle differences in approach and attitude to limits. "Sandbox guardians" (a phrase we heard during our research) position limits as a means to an end and have a business decision facing approach to the enforcement of limits. In contrast, for what we call "gold-platers" (another term we heard used frequently), limits and related risk management policies and rules unintentionally become a system in their own right. Specific organisational inclinations one way or another were strongly influenced by their own histories and collective memories of bad practice. From the comparator airline, it also became apparent that the propensity to invest in knowledge of risk is a risk appetite and risk culture issue.

Risk culture challenges for CROs, CEOs and Boards

- How do you get assurance that the risk function is focused primarily on supporting business decisions?
- Do you know which areas of the business are "gold-plated" in terms of risk management and control? If not, how will you find this out and what will you do about it?
- When risk limits and tolerances are changed, is the risk function a leader or a follower in this decision?
- Do you understand the appetite for acquiring risk knowledge in your organisation?
- Have you ever discussed internally the implications for risk-taking and/or for your desired level of risk appetite of acquisition strategies, in particular if you plan to buy entire teams from other organisations?

Internal change or the use of advisors?
Under pressure to engage in some kind of risk culture change programme, many organisations have had to make decisions about whether to use advisors or not. We discerned a difference between consulting sceptics and enthusiasts. The former had a mixed set of attitudes: a recognition that change processes must be owned internally to be effective over time; scepticism about formal survey instruments in the market; and a feeling that advisors were primarily selling regulatory compliance. Enthusiasts were also mixed: some were driven by regulation, others sought leverage to develop new performance management systems with a risk component. And advisors themselves found risk culture a problematic consulting object. They were generally dissatisfied with existing approaches and recognised the need for a mix of skills. They were also searching for new ways to advise on decision-making processes.

Risk culture challenges for CROs, CEOs and Boards

- Does your organisation essentially have respect for advisors? Are you open to advisory propositions? How often have you been contacted by advisors in relation to risk culture in the last three months? And how often have you found their proposals of any interest or novel?
- Do you have processes to discuss the kind of expertise you may need, internally and externally, to progress risk culture change? Do you have an appetite for benchmarking with external entities? If yes, what have you done about it?
- Have you ever approached the topic of risk culture in meetings attended by people from both HR and Risk? If you are a member of Risk, do you have access to raw data from internal staff morale surveys? Or customer satisfaction surveys?
- Is your organisation open to exchanges with research organisations like universities? If not, are you sure of the reasons? If so, when was the last time there was such an exchange?

Own risk culture or regulatory culture?
Regulation has undoubtedly been a big driver of risk culture change programmes. Risk culture features in many regulatory speeches. We found that attitudes to regulation were mixed. Frustrated organisations talked about excessive documentary demands, how regulation was interfering with business decisions, and how it was crowding out attention to the softer dimensions of risk culture. Co-operatively disposed organisations accepted the new regulatory climate and sought to work with this more actively. A key issue is whether financial organisations understand the extent of the regulatory footprint on their business. The trade-off between their own approach to risk culture and that of the regulator is not even visible to many organisations. It also became apparent to us that there is a regulatory sub-culture in the sense of a network spanning parts of regulators, parts of financial organisations and parts of advisors who share common values. This network needs more research into its characteristics.

Risk culture challenges for CROs, CEOs and Boards

- Does your organisation genuinely respect the public objectives of the regulatory function? Do you have positive "regulation conversations" internally? How often? Who is participating in such conversation (eg, business, risk, compliance; senior or junior members of staff)?
- Do you push back and challenge the regulator? If not, do you know why not?
- If you think regulatory demands for documentary evidence are excessive, do you have a clear conception of what you would require in the absence of regulation?
- Do you have ways of tracking the extent to which regulation is "inside" your organisation? Do you have any processes to track the impact of regulation on work habits and internal attitudes to risk? Would you like to know?
- Do you know how compliance experts are regarded in your organisation? If so, do you want to change that? If not, do you want to know?

Levers on behaviour: ethics or incentives?
Behaviour modification is another key issue for risk culture change programmes. We noted two generically different approaches to behavioural risk. The first we call ethics or mission-based. It involves renewed corporate narratives for focusing on clients and respect for internal control processes. Interestingly, risk management is being re-positioned as a carrier of organisational ethics. In contrast, organisations also invest in disciplinary and incentives-based levers with greater short term purchase over behaviour in the form of risk metrics within the performance management system.

Risk culture challenges for CROs, CEOs and Boards

- Do you understand where in the organisation behavioural change is most necessary? If not, how will you get it?
- Which combination of levers is most likely to be effective in bringing about that change? Is such combination different in different parts of the organisation (eg, functional areas or hierarchical levels)?
- How are you monitoring and measuring "respect" for internal control and risk management?

Conclusions
Despite the apparent cynicism of the general public, our research demonstrates that financial services firms are engaged in extensive programmes of internal reform with a view to changing their culture of risk-taking and control.

The different trade-offs which emerge from our data are not mutually exclusive. Issues about the authority of risk expertise; the extent of interaction between risk and the business; the clarity of risk appetite; the use of advisors; the commitment to ethical change; and whether regulation casts a more significant shadow over risk culture than is commonly acknowledged are all connected. At the same time organisations implicitly choose a balance between longer term, organic processes of cultural change and shorter term, more engineered and visible levers over behaviour. Our report also suggests that the TLD model, which has been promoted as a solution to the financial crisis, should be looked at more carefully and critically for its side-effects.

Any research report is limited in time and space, by its methods and by data availability. It is part of the culture of financial organisations that they are not naturally open to external researchers and we have been unusually fortunate in our participant organisations for the access they have afforded us, for their trust in our processes, and for their candour in interacting with us. This report is very much by them for the public good.

We hope that our study will provide additional awareness of the complex challenges facing CROs, CEOs and Boards who genuinely wish to influence the cultural conditions under which risk-taking and control activity happens in their organisations. Our principal prescription is that there is a need for financial organisations to be aware of the many trade-offs we have identified – including what kind of relationship to have with the regulator – to monitor them, and to make explicit decisions about them where possible, rather than allowing them simply to happen to the organisation. When it comes to risk culture, our report suggests that it is not only the level of risk-taking which was deviant in many organisations. It was also the lack of this organisational self-knowledge and the authority to act upon it.

We have provided a number of questions arising from our work as a pathway to this awareness. But we have not sought to position our work as another advisory offering. The fact that the questions we pose are not easy to answer in a familiar practical way does not mean that they are not important. Indeed, we think they require the closest consideration.

The full report of Risk Culture in Financial Organisations is available here: www.lse.ac.uk/researchAndExpertise/units/CARR/pdf/Final-Risk-Culture-Report.pdf

Michael Power is Director of CARR and a professor of accounting at LSE.

Simon Ashby is an associate professor in Financial Services at University of Plymouth.

Tommaso Palermo is a lecturer in accounting at LSE.

CARRNEWS

CARR News

Madalina Busuioc's book, *European agencies: law and practices of accountability* (Oxford University Press, 2012) was referenced extensively by the Advocate General of the Court of Justice of the European Union, Niilo Jääskinen, in his formal opinion before the Court on case C-270/12 (12 September). The case is a UK challenge to the emergency powers of the European Securities and Markets Authority (ESMA), one of the EU's key financial services regulators, to intervene in the financial markets of the member states in order to regulate or prohibit short-selling.

Julien Etienne presented a paper titled "How regulators learn corporate bad news" at the Law & Society Association annual conference (30 May – 2 June) in Boston, US. Julien also submitted comments in response to the OECD consultations on Best Practice Principles for Improving Regulatory Enforcement and Inspections in August.

Bridget Hutter presented a paper with Sally Lloyd-Bostock on "The unfolding of disasters and crises" at a research workshop on Researching Events, at the Freie Universität Berlin (11-12 April). In May, she participated in a workshop held by the Chartered Institute of EHOs on "A food safety control system for the 21st century"; and in June, participated in an expert workshop on risk and regulation at the UK Department of Business, Innovation and Skills which was also attended by **Martin Lodge**. Professor Hutter spent August at RegNet Australian National University where she was a visiting professor. She was an invited speaker of the Australian Productivity Commission and presented a paper entitled "Has risk regulation gone too far? Regulating in an ambivalent environment" (28 August).

Martin Lodge has attended a number of conferences to present joint papers with CARR Research Associates. At the Political Studies Association meeting in Cardiff (25-27 March) he presented a paper with **Christel Koop** (KCL) on "Memorandums of (mis)-understanding? Assessing regulatory co-operation". At the Midwest Political Science Association in Chicago (11-14 April) he and **Kira Matus** (LSE) delivered a paper on "Science, badgers, politics: advocacy coalitions and British politics", and one with **Lindsay Stirton** (University of Sheffield) on "Bureaucratic dynamics and institutional determinants". In Bordeaux, at the ECPR Conference (5-7 September) Martin presented a paper with **Kai Wegrich** (Hertie School of Governance) on "Rational tools of government in a policy world of limited rationality", and another one with **Christel Koop** called "The co-ordination of economic regulation".

Martha Poon was invited to the Governing Algorithms Conference on Computation, Automation and Control at New York University (16-17 May) to respond to Tarleton Gillespie's paper "The relevance of algorithms" [vimeo.com/69641360]. She attended an ESRC sponsored workshop at Open University in Milton Keynes (20 June) where she presented a paper titled "We write in Financial Times". She also spoke on "Regulating through ratings" at the SASE Annual Meeting held at University of Milan (27-29 June).

Mike Power is now on the Advisory Board of ESRC Enterprise Research Centre. He participated at the Forbes & EY roundtable on the future of auditing (17 April). He also delivered a paper on "Searching for risk culture in financial organisations" at MARG, LSE (18 April). At a workshop on Valorising Dissonance, Wissenschaftszentrum, Berlin (27-28 June) he and **Andrea Mennicken** presented a paper on "Accounting and the plasticity of valuation".

Publications

Building European Union capacity to manage transboundary crises: Network or lead-agency model?
Arjen Boin, Madalina Busuioc and Martijn Groenleer, *Regulation & Governance* 2013, DOI: 10.1111/rego. 12035

Working for Europe? Socialization in the European Commission and Agencies of the European Union
Semin Suvarierol, Madalina Busuioc and Martijn Groenleer, *Public Administration* 2013, DOI: 10.1111/j.1467-9299.2012.02100.x

Risk, interest groups and the definition of crisis: the case of volcanic ash
Bridget Hutter and Sally Lloyd-Bostock, *British Journal of Sociology* 64: 383-404, 2013. http://onlinelibrary.wiley.com/doi/10.1111/1468-4446.12024/abstract

Political Science Research Methods in Action
Martin Lodge co-edited with Michael Bruter, Basingstoke: Palgrave, 2013

Crisis, Resources and the State: Executive Politics in the Age of the Depleted State
Martin Lodge, *Political Studies Review* 11(3): 378-90, 2013

CARR Seminars 2013

Prof Mike Power and Dr Tommaso Palermo, LSE
Date: 5 November 2013
Time: 1pm – 2.30pm
Venue: KSW.3.01
Risk culture in financial organisations

Prof Gerry McGivern, Warwick Business School
Date: 19 November 2013
Time: 1pm – 2.30pm
Venue: KSW.3.01
Reactivity and reactions to regulatory transparency in medicine, psychotherapy and counselling

Dr Jenny Andersson, Sciences Po
Date: 3 December 2013
TIme: 1pm – 2.30pm
Venue: KSW.3.01
Forging the future. The origins and spread of predictive expertise.

CARR Events

Mike Power and Tommaso Palermo presented final report of ESRC project "Risk Culture in Financial Organisations" with Simon Ashby (Plymouth) at the Old Library, Lloyds of London, before an audience of 150 (30 September).

Have you moved or changed jobs recently? Please keep us informed of any changes in your contact details so you can continue receiving *Risk&Regulation*. **Email: risk@lse.ac.uk or Tel: +44 (0)20 7955 6577**

CARRPEOPLE

CARR Directorate

Professor Michael Power
Director, CARR; Professor of Accounting, Accounting Department
Role of internal and external auditing; Risk reporting and communication; Financial accounting and auditing regulation.

Dr Martin Lodge
Deputy Director, CARR; Reader in Political Science and Public Policy, Government Department
Comparative regulation and public administration; Government and politics of the EU and of Germany

CARR Research Staff

Dr Julien Etienne
British Academy Postdoctoral Fellow
Regulatory compliance, Administrative errors, and Major accident hazard regulation.

CARR LSE Fellows

Dr Martha Poon
LSE Fellow in Risk and Regulation
History of consumer credit rating, Social studies of finance, Science and technology studies, Anthropology of financial markets

Dr Madalina Busuioc
LSE Fellow in Risk and Regulation
Multi-level (risk) regulation and governance, EU crisis management, Public accountability And EU agencification

CARR Senior Research Associates

Professor Bridget Hutter
Professor of Risk Regulation, Sociology Department
Sociology of regulation and risk management; Regulation of economic life; Corporate responses to state and non-state forms of regulation

Professor Peter Miller
Professor of Management Accounting, Accounting Department
Accounting and advanced manufacturing systems; Investment appraisal and capital budgeting; Accounting and the public sector; Social and institutional aspects of accounting.

CARR Research Associates

Professor Michael Barzelay – Professor of Public Management, LSE

Dr Matthias Benzer – Lecturer in Sociology, Department of Sociological Studies, University of Sheffield

Dr Daniel Beunza – Lecturer in Management, Management Department, LSE

Professor Gwyn Bevan – Professor of Management Science, LSE

Professor Julia Black – Professor of Law, LSE

Dr Adam Burgess – Reader in Social Risk Research, School of Social Policy, Sociology and Social Research, University of Kent

Dr Yasmine Chahed – Lecturer in Accounting, Accounting Department, LSE

Professor Damian Chalmers – Professor of European Union Law, LSE

Dr David Demortain – Research Fellow, IFRIS, University of Paris-Est

Dr Anneliese Dodds – Lecturer in Public Policy, Sociology and Public Policy Group, Aston University

Dr John Downer – Lecturer in Risk and Regulation, Research Collaborator, University of Bristol

Dr Terence Gourvish – Director, Business History Unit, LSE

Professor Michael Huber – Bielefeld University, Sociology of Regulation, Faculty of Sociology

Dr Will Jennings – Senior Lecturer in Politics and International Relations, University of Southampton

Dr Silvia Jordan – Assistant Professor in Accounting, Department of Accounting, Auditing and Taxation, University of Innsbruck

Professor Roger King – Visiting Professor at the School of Management, University of Bath

Dr Mathias Koenig-Archibugi – Senior Lecturer in Global Politics, Government Department, LSE

Dr Christel Koop – Lecturer in Political Economy, Department of Political Economy, King's College London

Dr Liisa Kurunmäki – Associate Professor in Accounting, Accounting Department, LSE

Dr Javier Lezaun – University Lecturer in Science and Technology Governance, James Martin Institute, Saïd Business School, University of Oxford

Professor Sally Lloyd-Bostock – Visiting Professor, Sociology Department, LSE

Professor Donald MacKenzie – Professor of Sociology, University of Edinburgh

Dr Carl Macrae – Senior Research Fellow in Improvement Science, Centre for Patient Safety and Service Quality, Imperial College London

Dr Kira Matus – Lecturer in Public Policy and Management, Government Department, LSE

Dr Linsey McGoey – Lecturer in Sociology, University of Essex

Dr Andrea Mennicken – Associate Professor in Accounting, Accounting Department, LSE

Professor Anette Mikes – Assistant Professor of Business Administration, Harvard Business School

Dr Yuval Millo – Professor of Social Studies of Finance and Management Accounting School of Management, University of Leicester

Professor Edward C Page – Sidney and Beatrice Webb Professor of Public Policy, LSE

Professor Nick Pidgeon – Professor of Environmental Psychology, Cardiff University

Professor Tony Prosser – Professor of Public Law, University of Bristol

Dr Henry Rothstein – Senior Lecturer in Risk Management, Department of Geography and King's Centre for Risk Management, King's College London

Dr Rita Samiolo – Lecturer in Accounting, Accounting Department, LSE

Professor Nick Sitter – Professor of Public Policy, Central European University

Dr Kim Soin – Associate Professor of Accounting and Management, University of Exeter Business School

Dr Lindsay Stirton – Senior Lecturer in Medical Law and Ethics, School of Law, University of Sheffield

Professor Brendon Swedlow – Associate Professor of Political Science, Northern Illinois University

Professor Peter Taylor-Gooby – Professor of Social Policy, University of Kent, Canterbury

Dr Zsuzsanna Vargha – Lecturer in Accounting and Organisation, School of Management, University of Leicester

Frank Vibert – Senior visiting fellow, LSE Government Department and Founder Director, European Policy Forum

Professor Kai Wegrich – Professor of Public Administration and Public Policy, Hertie School of Governance, Berlin

CARR Visiting Fellows

James Strachan – Visiting Senior Fellow
Ex-Chair of Audit Commission; Board member of a number of public and private sector organisations

Jeremy Lonsdale – Visiting Senior Fellow
National Audit Office

CARR Administration

Yvonne Guthrie – Centre Manager

Situ Diwan – Seminars

Lynsey Dickson – Web, Publications and Discussion Papers

Elizabeth Venning – Reception

carr
centre for analysis
of risk and regulation

Centre for Analysis of Risk and Regulation
The London School of Economics
and Political Science
Houghton Street
London WC2A 2AE
United Kingdom

Tel: + 44 (0)20 7955 6577

Fax: + 44 (0)20 7955 7420

Website: lse.ac.uk/CARR

Email: risk@lse.ac.uk

LSE