**Under embargo until 00:01 Friday 19 March 2010**

# Global survey reveals world's banking crisis was entirely avoidable

*Report calls for radical overhaul of culture, ethics and governance in financial services*

The 2008 banking crisis, estimated by the IMF to have cost $10 trillion, could have been avoided according to a new survey of global risk professionals published today. 99.5% of respondents disagree with Gordon Brown who said the most important cause of the crisis was "global economic circumstances beyond anyone's control." The survey reveals that most risk professionals believe the banking crisis was caused not so much by technical failures, as by failures in organisational culture and ethics.

*The causes and implications of the 2008 banking crisis* survey of risk managers was designed and conducted by Moore, Carter & Associates with Professor Andrew Kakabadse of Cranfield School of Management. The survey examines the causes of the banking crisis; and the extent to which failures of risk management and governance of risk and regulation; contributed to the crisis. It also looked at the nature of those failures and the need for internal and regulatory change.

Commenting on the results, Andrew Kakabadse, Professor of International Management Development, Cranfield School of Management said: "Our survey proves we cannot trust banking executives to govern themselves and that drastic action is still needed. The Walker Review on governance in financial institutions in the UK made interesting reading but it does not outline how strengthening of governance processes will be achieved. With major regulatory change happening in the US, the EU and throughout the world, this survey is intended to inform policy makers who are responsible for shaping future reforms. At the moment, what we are seeing is very little change. We have the same systems and political processes which are unwilling to change global financial structures."

The survey has very significant implications for improving the effectiveness of risk management and governance in financial services; and for the restructuring of the regulatory landscape that is under way. It concludes that nothing will really change without cultural change because the effectiveness of risk management, governance and internal controls depends heavily on the climate in which they take place. The report recommends that where they do not exist already, the tools and methodologies for assessing culture and ethics should be developed urgently.

Paul Moore, Senior Partner at Moore, Carter & Associates said: "This survey independently supports one of the most important points I made in my evidence to the Treasury Select Committee - that there is no doubt that you can have the best governance processes in the world but if they are carried out in a culture of greed, unethical behaviour and indisposition to challenge, they will fail. I would now propose mandatory ethics training for all senior managers and a system of monitoring the ethical considerations of key policy and strategy decisions within the supervised firms.

In my view, the only way to prevent a re-occurrence of a similar crisis is to create a genuine separation and balance of powers in the boardroom. Secondly, companies and regulators now need to focus their attention much more strongly on culture, ethics and effective internal risk management rather than other processes. We also clearly need to have a proper investigation into who did and did not do what. Gordon Brown and other politicians were wrong – the crisis was not caused by global circumstances beyond anyone's control and Sir David Walker's review of governance is not radical enough to create the separation of power in the boardroom required to overcome the current natural conflicts of interest which exist."

The report concludes that there should have been a detailed investigation into the crisis: 58% of respondents agreed that there should be an investigation to establish wrong- doing; and 68% agreed that there should be an investigation "on a truth and reconciliation basis" to inform future practice and policy development.

For a copy of the report, *The RiskMinds 2009 Risk Managers' Survey: The causes and implications of the 2008 banking crisis*, please contact Sheena Darby on T: +44 (0) 1234 751122.

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**Notes to editors**

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For more information or to arrange an interview with either Professor Andrew Kakabadse of Cranfield School of Management or Paul Moore of Moore, Carter & Associates, please contact: Emily Reed, Media Relations Office, Cranfield School of Management on: T: +44 (0) 1234 754348 or E: emily.reed@cranfield.ac.uk

*The RiskMinds 2009 Risk Managers' Survey: The causes and implications of the 2008 banking crisis* was conducted between 17 October – 30 November 2009. Key demographic breakdown of the 563 respondents was as follows (note: where responses were given):

- 47.1% had over ten years experience in risk management;
- 40% worked in banking; 22.4% in insurance; 18.3% in asset management; 30.2% in other sectors (percentages add up to >100 because respondents were asked to select all sectors that applied);
- 43.3% UK; 14.2% mainland EU; 10% Rest of the World; 9.9% US and Canada; 5.5% Far East; 2% Australia and New Zealand;
- 50.5% worked for organisations with over 1000 employees;
- 29.7% were senior managers (defined as executive or non- executive director, CRO or Partner in professional services firms) and 44.2% were middle management (one or two levels below senior management).