Bet your bottom dollar on trust

I don't think any CEO, or for that matter any layperson, would disagree with me if I were to say that being trusted is a powerful asset for a business. I'm quite certain, in fact, that they would vigorously agree. It makes good, logical sense. If you are in business, you would want your customers/clients to trust you, your stakeholders to trust you, the man in the street and media to trust you, rather than the other way around.

We can relate to trust because we exercise it all the time in our everyday lives. Think about our willingness to pay more for organic vegetables because we believe this specially grown produce is better for us. And in my case, my faith in the UK retailer Marks & Spencer (M&S) when I was a training countant in London many years ago, on its promise of no-questions-asked refunds for returned goods. But when it comes to their own bottom line, many business leaders struggle to place a value on being trusted that can be quantified or having a reservoir of trust. They might think that it is good to have, but practically impossible to measure. They more likely agree that it is but perhaps not urgent, especially not in a time of severe cost pressures, talent woes and depressed markets and consumers.

But what if I were to say that there is a way to measure trust — and it does bring quantifiable assets and even further value to your bottom line? I firmly believe trust can be a tangible asset to a business, and that this value is something that will see you through the difficult times.

Over the past few years, we at PwC have conducted research, run focus groups and talked to all leading experts as well as the everyday person on the topic of trust. Our question was: What makes up trust in a business? Can it be reduced to something measurable?

There are key elements that would indeed be measured. In the minds of people, trust really boils down to three key elements. When considering a company, they think of three things:

- Competence: Does the organisation do what it says it will do? People expect companies to rely on their expertise, to deliver, even during bad weather, a fast food company should say upfront that its delivery will be delayed. If it is expected to be a fast food company, you may not be able to eat the customer's order.

- Reliability: Is the service or product what they say it is? If you order a 3% capital and interest rate or a 1% variable rate, does the customer get what they think they are getting?

- Goodness: Are the company's actions good or bad? Do they have a responsible attitude towards the environment or do they contribute to pollution?

You know what you measured trust, and that it can be measured.

Interest rates can be lower

Rennicability stability important

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The current system of saving (SIR) — the amount banks are required to keep as reserves at the central bank — can be further trimmed if needed. This move, made concurrently with the BC's benchmark rate, is to be welcomed. As elucidated by global central bankers, the effectiveness of monetary policy is diminished. The theory that says “dropping money out of a helicopter” (as espoused by Milton Friedman and Ben Bernanke) helps to stimulate the economy through spending has raised more questions than answers in the current financial system.

For instance, cutting interest rates in theory, would incentivise banks to lend more money at a lower interest rate. But in the case of Malaysia, banks are already being very cautious in their lending practices, partly due to macroprudential measures implemented to address financial imbalances (including high household debt) and precautionary access to their balance sheets. From the bankers’ perspective, giving out money to those who may not be able to pay the debt is not the wisest thing to do if one is concerned about rising non-performing loans.

This is not to say that the recent cut in the SIR is uncalled for. As mentioned by Mr Md Nazri, the recent cut in the central bank's interest rate, liquidity concerns arose at the end of 2015 due to capital outflows and weak corporate earnings. The three-month interbank rates were on the uptrend and hit nearly 3.9% in December 2015 before easing to below 3% recently. Hence, the injection of liquidity into the banking system was needed to allay fears of a possible credit crunch.

But in the end, the argument centres on the issue of money in the banking system that does not end up in the pockets of individuals or businesses. This, then leads us to question the possible costs and benefits of interest rate reductions, for example how much the economy will benefit in terms of overall growth or prevention of a economic collapse, and how much we need to take on in terms of financial imbalances caused.

These are tough questions indeed. But if the economic slowdown in Malaysia is worse than expected, Malaysia could see negative volatility in its financial markets. And if the government is not willing to see this, there could be greater likelihood of monetary tools being used to control the slowdown. We just have to be very careful and see.

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Banking of banks, insurance companies and fund managers. Why should savers pay banks or fund managers 1% to 2% interme- diation costs when prospective returns on savings investments are 0? A system in which fi- nancial intermediaries can increase profits only by increasing leverage — sustainable only by increasing quantitative easing — is doomed to fail.

Indeed, in hindsight, it seems clear that financial engineers outperformed the real economy only with the support of super-fi- nancial engineers — that is, central banks. Initially, balance sheet expansion — US$5 trillion since 2008 — provided banks with the cheap funding they needed to avoid failure. But bank deleveraging (brought about by stricter regulatory requirements), together with negative interest rates, caused finan- cial institutions’ equity prices to fall, leading to further pro-cyclical destruction of value through price-deflation, increasing liquid- ity stress.

Past experience has taught China’s real engineers that the only way to escape defla- tion is through price-structural reforms — not easy money and competitive deval- uation. The question is whether the US and European central banks can work hand in hand to prevent the burden of maintaining global currency stability, through an agreement resembling the Bretton Woods system.

The euro is a complete failure, and major economies agreed to depreciate the US dol- lar against the Japanese yen and the German Deutschmark. Why and how could China not only learn from this experience, but also bring it closer to home in Malaysia. Yes, there is a deep desire in all of us to be able to put our faith in something. So, why can’t our business leaders stop compla- inent about the US dollar being a safe haven but savers in need of liquidity still lack an imitation leader of last resort. Depositing in reserve currencies at near-zero interest rates makes sense only if the bank is not funding finan- cial speculation against the depositor. But, as it stands, financial engineers have a lot of freedom; indeed, if they’re big enough, they can’t fail or, apparently, even go to jail.

China’s G20 presidency this year offers an important opportunity to emphasise that renminbi stability is important not only for China but also for the global financial system, as a whole. If the US dollars enters into another round of revaluation, the only winners will be financial engineers. — Project Syndicate

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