

The *yin yang* of financial disruption

Maxims for forging a path to financial stability and healthy financial innovation

How can we move from crisis to health to wealth? Even as nations take unprecedented measures to respond to the global financial-now-economic crisis, exacerbated structural tensions in the global financial system are yet to be resolved. But it cannot be done by any one institution or even one government. Rebuilding trust and moving from crisis, to health, to wealth will require committed, concerted effort from industry, government and individuals. Now is the time for us to work together, address the fundamentals and innovate.

When the initial “lightning bolt” effects of the subprime crisis amplified and rapidly spread, the degree of financial, operational and even systemic interdependency surprised many market participants. Less than 2 percent of executives interviewed told us they had predicted the magnitude of the crisis and contagion effects.¹ As the world searches for resolution in uncharted waters, many emergent industry themes appear to be shared by experts in both the private and public sectors. At the same time, some deep-rooted dichotomies exist and at multiple levels of the economy – not just at the organization levels, but also at the individual level – and across sectors and geographies.

The IBM Institute for Business Value (IBV) launched a study to the emerging tensions and go-forward implications of the financial crisis. As part of this and a broader effort, face-to-face interviews were conducted with 185 executives and government officials and over 2,700 financial executives, government officials, regulatory representatives and academics

were surveyed.² We also conducted consumer surveys with almost 8,000 individuals. Much like the collaboration that will be required of the financial ecosystem, this paper is a joint opinion piece between the IBV Financial Services Sector and the Public Sector teams.

In Chinese philosophy *yin* and *yang* represent seemingly opposing, but interconnected and interdependent, forces within a greater whole that both transform and balance one another. We are in the new “era of interdependence” in which the interconnectedness of the global financial system is at odds with its current design. Dichotomies in the marketplace are exacerbating a number of structural tensions that have thrown the global financial system into disequilibrium. We now stand at a unique inflexion point where the new era requires new maxims for progress – a shared approach to address the system’s imbalances and manage the overarching *yin yang* of financial stability and healthy innovation (see Figure 1).

If we are to move from crisis to health to wealth, all market participants can and must take immediate steps to adapt to the new environment:

Identify and begin developing the competencies to thrive in the new era. These must be considered in multiple levels – from country to government, from industry to organization, to individual.

Gain consensus on the maxims for the new era. Over time, they help create the climate for market participants to strike the right balance across the structural tensions.

Above all, work with other market participants across industry, government and civil society to develop proposals that manifest the maxims across the financial system. These include increased transparency, new incentive frameworks, smarter regulation and new business models.

With the impetus of current economic turmoil and the political will to address the current situation, speed is of the essence. It will be a long and sometimes painful journey, but since the “as was” alternative is unacceptable, now is the time for us to work together to address the fundamentals and innovate.

FIGURE 1.
New maxims for progress in the era of interdependence.



- 1 A shared frame of reference and aligned measures among market participants must form the basis of design for market stability and healthy innovation.
- 2 Incentives balancing “returns to society” and “returns to shareholders” are key – after all, people, firms and governments do what they are incented to do.
- 3 Leaders must internalize that progress in the new era is not a zero-sum game – only by collaborating to grow and innovate does the “whole” become stronger.
- 4 Transparency, systemic intelligence and proactive management at multiple levels across the system are *all* essential to improved risk management, informed decision making and agile responses.
- 5 Leaders must have the mindset, the insight and the means to move beyond today’s “herd mentality,” along with a commitment to clients’ and citizens’ interests and a sense of shared stewardship to chart a different course.
- 6 A rationalized oversight model, recognizing the global nature of the financial system, is required to allow for cohesive, streamlined, and relevant supervision and regulation.
- 7 Flexible models enabling innovation and progress towards orderly and transparent processing of distressed assets, crisis resolution, consumer protection and insurance are powerful instruments of confidence.

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References

- 1 Primary interviews of 150 market participants conducted between October and December 2008. IBM Institute for Business Value.
- 2 See related IBM Institute for Business Value report, “Toward transparency and sustainability – Building a new financial order.”