Industry reflections: Dawid Konotey-Ahulu

Dawid Konotey-Ahulu is co-founder at Redington, Mallowstreet and 10000BlackInterns. He began his career as a barrister and then became an investment banker, before, in 2006, moving over to advising large institutional pension funds and insurance companies

In 1987, I qualified as a junior barrister of Lincoln's Inn. I was all set for a lifelong career at the bar, when the whole thing came to a juddering halt. Interviewing for tenancy (the bar's equivalent of a job) at a prestigious set of chambers in Middle Temple, the panel of high-flying lawyers informed me that although they thought I would fit in well enough, there was a tiny problem. They had just taken on a Black tenant and they simply didn't feel able to do so again. At least, not quite so soon. I walked up Chancery Lane, turn right and found myself in the City of London where they were less fussy about these things.

For a while, I worked as an in-house lawyer at various banks. In November 1991 and at the tender age of 29, I found at NatWest Capital Markets responsible for unravelling the fraudulent mess left by the media tycoon, Robert Maxwell, who had, in plain sight, plundered the Mirror Group's pension fund. Part of Maxwell's cunning plan for self-enrichment involved entering into derivative transactions, which were then transferred between a tangled network of his companies. It was all very complicated, but the net result was that NatWest found itself facing off to an insolvent Maxwell Group subsidiary with no recourse to the debt owed. Maxwell himself, of course, was by this point out of the picture having fallen off his yacht earlier that month.

By 1995, I was working as a fully-fledged investment banker structuring derivatives for corporates to help manage their borrowing costs. One afternoon, I received a call from the treasurer of a large manufacturing company. He had a clear view on the direction of US interest rates and he wanted to subsidise his borrowing costs using financial instruments to bet against market expectations. It was my role to provide such investment products and so I obliged. The way the transaction worked, the corporate would pay a much-reduced borrowing rate (per cent) unless the treasurer's market predictions turned out to be wrong – in which case they would pay a significantly higher rate than the market rate of 10 per cent. This was a commonplace transaction in the mid-90s and many run-of-the-mill corporations implemented them – with mixed results. As it turned out, the treasurer's view was completely wrong and he had to unwind the transaction a few months later at great expense. This possibility had been explained to him in great detail before the transaction, but he was insistent he knew something the market did not.

By 2003, I was at Merrill Lynch in the derivatives group. Back then, defined benefit pension funds didn't manage asset and liability volatility in any meaningful way. The traditional actuarial approach was to forecast asset returns which, if they turned out to be overly optimistic (they frequently were), could always be adjusted in subsequent years. There was no requirement for sponsoring corporates to hedge their liabilities or to make payments into the pension fund to repair the mark-to-market pension deficit. Then, in 2001, a new accounting rule came into force. FRS 17 required corporations to make good their pension deficits, often at the expense of other activities eg building a new factory or opening a new store. It seemed to me that pension funds needed to hedge their liabilities if they were to have any hope of managing the extreme volatility that plagued their assets and liabilities. In December 2003, the game changed with the first full hedge by a pension fund using derivatives. Now it's the norm; in 2003 it was revolutionary.

Thirty years after I started in this industry, there is a genuine desire to fix the problem of underrepresentation, not just for race but across the spectrum of people who don't have a seat at the table. Corporate treasurers no longer bet the farm on speculative views about the direction of interest rates, and pension funds, by and large, are in far better shape than they were. Every trustee of every defined benefit pension scheme knows what good looks like and has a grasp of the key principles of risk management and good governance.

None of it's perfect, but we've come a long way.