



Banking Standards Review Consultation Paper, February 2014

Response by the Community Investment Coalition

Background to response

The Parliamentary Commission for Banking Standards (PCBS), in its report 'Changing Banking for Good', stated:

'The Banks have failed in many respects. They have failed taxpayers who had to bail out a number of banks...with a cash outlay equivalent to more than £2,000 for every taxpayer in the UK...They have failed many retail customers...They have failed in their basic function to finance economic growth.' The report highlights the significant loss of trust in banking, the damage of this and the need to reform banking standards as 'essential to enable the industry to better serve the needs of the real economy'.

The Community Investment Coalition (CIC) welcomes the Banking Standards Review Consultation paper and its recommendations on the need to reform the culture of banks, significantly improve standards across the banking sector and for the industry to better understand its wider role in serving all of society, rather than employees and shareholders of banks.

CIC suggests attempts to improve banking standards should be driven by the following three principles:

- An acknowledgement that banks and building societies should serve all communities across the UK and understand their role in, impact on and contribution to the UK economy and wider society;
- The need for public transparency and accountability, which is critical to re-building trust; and
- The need for cultural change within banks and building societies so that work to raise standards is seen as positive for the industry rather than another exercise in compliance.

1. Do you agree with the objective to establish a new independent organisation with the aim of defining and raising standards of conduct and competence in banking?

CIC does agree with this objective and would welcome a new organisation to define and raise standards of conduct and competence. We would also like to highlight that improvements to the culture of banks and building societies are also critical. This culture needs to change so that banks and building societies not only demonstrate 'good behaviour' from a customers' perspective but from the perspective of broader society.

2. Do you agree that there is a case for a collective approach calling for the participation of all banks doing business in the UK?

Absolutely. The need for collective action to protect standards and reputation is acknowledged by a range of different industries, such as doctors, public relations professionals and lawyers. Increasingly people have careers within industry sectors rather than single organisations. This is particularly true in banking where, at a senior level, the movement of employees between banks and between banks and regulators is well documented. Collective action will ensure that a mobile workforce does not undermine attempts to raise standards.

The consultation paper is right to highlight that an over-reliance on regulation could reduce competition and build barriers to entry and innovation. Because of this, CIC accepts the need to find a balance between regulation and encouraging cultural change, as well as a collective approach to raising standards. The banks have a track record in meeting regulatory standards and following legislation according to the letter rather than the spirit of the law. The power of the banking lobby is well-documented as is its role in aggressively trying to weaken regulation and legislation. CIC believes that collective action in raising standards is critical in changing this culture but this action needs independent and external overview which is conducted transparently. This will help to ensure continual progress in raising standards and improving conduct. Transparency and public accountability will help to improve trust in and the reputation of the banks.

3. Do you agree with the proposed role of the new organisation to set standards of behaviour and competence for banks and building societies, and to define metrics against which they could benchmark?

The consultation document states that the role of the organisation will be ‘to set out what good practice looks like both in terms of conduct and competence, taking always the perspective of the customer’.

We believe that the role needs to be broader than this and to encompass the perspective of broader society, not just customers. As the PCBS stated in its final report: ‘An assessment of what has happened to cause concern about standards and culture in banking needs to consider the public experience. The public are customers of the banks. The public as taxpayers have bailed out the banks’. Given the broader role of banks and societies across society, for example in ensuring the effective functioning (or otherwise) of the broader economy, it is critical that they do not take a narrow view of what the ‘perspective of customers’ looks like.

4. Do you agree with the proposed scope of the new organisations to include all British banks and building societies and foreign banks doing business in the UK?

Yes, we believe it is essential that all British banks and building societies and foreign banks doing business in the UK are brought within the scope of the new organisation. The new organisation should agree timescales by which all banks and building societies have started to actively participate in programmes run by the new organisation and publically report progress against this. The organisation should consider early on a system of incentives to encourage membership and some measures to tackle those that either do not join or join but do not actively participate in improvements to conduct and standards.

5. Do these proposals go far enough to ensure the body has credibility?

There are two areas that the new organisation will need to get right to ensure that it has immediate and on-going credibility in improving conduct and standards. These are transparency of activity and operations and having a board that includes representatives from a board range of groups representing society who actively want to champion improved conduct and standards. It must not become a sinecure for retired bankers.

It is essential that the new organisation has a transparent and accessible public reporting regime that everyone (including individual members of the public) can easily access and understand both about its own operations as well as in terms of reporting on the progress of improvement of conduct and standards. As well as public reporting, the new organisation needs to consider reporting to Parliament and it is probably best that it does so by reporting to the Treasury Select Committee, which has the expertise to provide constructive challenge and advice.

The new organisation may wish to consider how it reports to the assemblies and parliaments of the devolved nations as they often have their own issues in relation to banks' behaviour. It would also demonstrate that the new organisation is inclusive in looking at all consumer needs.

It is important that the Board has expertise from those who have knowledge and understanding of the banking world, so having well regarded former bankers and regulators as members would be appropriate. But the Board also needs to have a strong counter weight of those representing not only consumer groups, but also broader civil society so that all those affected by the poor conduct and standards of banks can play a role in driving improvement. The organisation may also wish to have some input from those affected by new conduct and standards regimes, so perhaps a panel or advisory group made up of existing banking professionals at a middle management level who could feed in views about how the regime feels, what the impact is and what the barriers are to further improvement. It would be useful to know whether active participation in improving standards and conduct within banks is seen to advance or hold back employees' careers.

6. Do you agree that the new body should initially work with banks and building societies rather than individuals? What are the pros and cons of aspiring to build individual membership over time?

As highlighted in the consultation document, many professional bodies have individual members who have had some uniformity in terms of training before they enter their chosen profession. Membership of the relevant professional body is then a requirement for employment in that field. While there clearly are immediate issues for the new organisation of building individual membership, for example the number of people working in banks and the range of qualifications they may hold, it should still be an aspiration to achieve individual membership over time. The advantages of this would be to ensure that good conduct and high standards are widely entrenched across all banking activities and not seen as yet another form of organisational compliance. The new organisation could start by encouraging senior managers to become members and that those who 'graduate' through any training regime, authorised by the new organisation, in improved conducts and standards could automatically become members.

Another advantage of this is that membership fees would broaden organisational income.

We accept this would take time and support the view that the priority should be to get all banks and building societies based and operating in the UK to join. However the aspiration of having individual members should not be lost sight of. The new organisation should publically report on progress to achieve this.

7. In the section entitled 'Ethics' a case is made for a more proactive approach to managing ethical issues. Do you agree with this, and if so, how should it be done?

The consultation report states that 'the tone at the top of the big banks has changed significantly for the better in the recent past'. However there is still not much evidence that this tone is reflected in conduct and practice at every level. It is unclear whether having a conduct or ethics board or committee would help without a significant change of culture and standards. These types of internal committees can become quickly marginalised or overwhelmed. If a risk committee is well regarded and seen to have clout then it is probably better placed to take on these issues than a new committee with little internal profile and uncertain authority.

We would suggest that the focus should remain on improving standards and conduct. Public reporting and transparency about progress against a range of agreed measures might be more robust in terms of encouraging a proactive approach to ethical issues than prescribing internal mechanisms for how this might be achieved.

8. Do you agree with the proposal to build on best-practice as set out in the regulators guiding principles?

Yes, we do agree with this proposal, but would encourage the new organisation to consult on what will count as good practice with consumer groups to ensure that it reflects the customer experience, not just the banks' perspective. We would also recommend that any process for choosing and endorsing good practice includes some form of consumer endorsement. There needs to be outstanding transparency around the process for choosing and endorsing best practice if it is to have any credibility and play a role in improving banks reputation.

9. What would be best way of assessing implementation of a bank's code of conduct?

We would support the idea that the new organisation should take a proactive approach in ensuring codes of conduct are followed at every level of the workplace and that the codes are embedded into the appraisal, promotion and remuneration processes. Again, we would highlight the need for transparency with all codes available to the public. Consumer groups and other representatives of members of wider society should have an opportunity to feed into and comment on the relevance of any codes and the effectiveness of their implementation.

10. Do you agree with the agenda outlined in the 'standards of competence' section?

Yes.

11. Would you support the proposed relationship with the existing professional bodies?

Yes. However the new organisation should have an interest in ensuring that these bodies also have a proactive role in raising standards amongst their respective members. It will need a robust regime in ensuring that these bodies are equally committed to raising standards. Certainly having a validation process for their training, for example, would be important.

12. Is the proposal for assessing in-house training sensible and practical? Could the new organisation play a helpful role in the certification process?

The new organisation could play a useful role in assessing in-house training, highlighting good practice and weaknesses. We support the view that the starting point will be setting standards and accrediting essential training for target areas. However this could potentially become an overwhelming area of activity, so it will be important for the new organisation to remain focused on setting good practice standards and minimum requirements for training rather than getting sucked into trying to accredit a large number of different courses across all banks. One important perspective for all training courses should be the consumer and broader society perspective. This should be built into all courses where ever possible, with help from those representing consumers and other members of society.

13. Do you think a benchmarking exercise to help banks identify areas for improvement would be of value?

Yes we do, but, again, we would argue that it needs to be transparent and include some input from consumer groups and those representing broader societal interests.

14. Are the groups of metrics outlined in the section titled 'Benchmarking' the correct ones? Would you propose others?

We would suggest that an additional metric is added alongside 'outcomes for customers' – 'outcomes for broader society'.

15. Would it make sense for banks to adopt a set of standard questions to add to their existing staff surveys?

Yes. This would not only provide comparison between different banks on progress made but if the questions were consistent over time it would allow measurement of progress against improvement in standards and culture over time.

16. Is self-reporting appropriate? Might other results deliver better results?

Self-reporting is fine, so long as there are clear standards for how this is done and it is completed transparently. However, to ensure standards are maintained, we would also recommend some type of light touch auditing, so that there is accuracy of reporting and confidence in the process.

17. Are there non-bureaucratic alternatives to the approach outlined in the section 'Discipline' that might work better? Is there a role for kite-marking?

We would support the role outlined in this section. We would be dubious about the value of kite-marking, until considerable progress has been made towards improving conducts and standards. We would endorse the statement made that 'The overriding priority of the new organisation at all times would be to represent the public interest.' It is absolutely critical that the new organisation keeps this in focus at all times.

18. Do you agree with the proposition that the new body should aim to become, in time, a membership organisation for bankers to join?

Yes.

19. Should the new organisation aspire to a role as thought leader in banking, sharing best practice and helping to propose solutions to challenges that arise in the future?

Yes. The PCBs stated that ‘...there is now a massive opportunity to reform banking standards to strengthen the value of banking in the future and to reinforce the UK’s dominant position within the global financial services industry. A reformed banking industry with higher levels of standards has the potential, once again, to be a great asset to this country.’ The new organisation should aspire to set standards that are enviable across the world while also creating challenge within the UK financial services industry about what a successful banking sector could look like built on the highest standards and conduct.

For more information

For more information, please contact Jennifer Tankard, Director, Community Investment Coalition (CIC) on 07971510085 or jennifer.tankard@cdf.org.uk.