Trust and Integrity in the Global Economy, Thursday 19 July 2012

Talk by Lady Susan Rice: ‘Towards Restoring Trust in Banking Financial Services’

It's a great privilege to be part of such a unique gathering. When Michael Smith approached me last autumn, and I looked at the aims of the conference, I was struck by just how much each one resonated with me. Reshaping business around integrity, trust and core values - this is exactly my message today.

Leading change for a sustainable world, a strong focus again as part of Scotland’s leadership group on a low carbon future, and years spent working towards financial inclusion and economic development within disadvantaged communities. Exploring personal transformation, calling and authentic self-leadership authenticity, in particular, is so important. Finally, creating the seeds of a dynamic, continuously learning society, there’s probably nothing more enriching.

I hope that my comments about rebuilding trust in banking will resonate with all of you and with all of those goals, not least because the continuing strains in the economy and in banking, I believe, make such conversations all the more essential. My focus is banking in the UK, but what I say potentially has broader reach, and may even allow some good to come of the difficult times that we've all faced and continue to face.

Like many of you, I wear several hats at any one time – as a retail banker, a central banker, an advisor on matters of financial inclusion, and with a long history of supporting or creating social finance entities, some of them the first such models in the world.

Taken together – private, public and third sector perspectives on banking. And it’s with that broad brush that I intend to explore the theme of how bankers can rebuild trust. I'll first share my vision for banking in the future – not so much how the industry might be shaped, but rather, the way I think those of us in it should operate. What we do certainly matters but how we do it perhaps matters even more.

And that will take us to a discussion of a new initiative, led from within the banking industry, called the Chartered Banker: Professional Standards Board – or the PSB. Now I suspect most of you would agree that the last few years have demonstrated just how fundamental a stable banking system is to a healthy society. If we look back at the history of banks in the UK and elsewhere, it’s clear that bankers were once seen as trusted professionals. Indeed three words – trust, integrity and probity – formed part of the foundation of modern banking, over three hundred years ago.

I shall mention these and similar words later, because the way we talk – the words themselves that we choose to use – have a deep influence on what we think and how we act. In some respects, the financial crisis has profoundly changed the way we talk about the industry. And many of us who work in it, and who care about its long-term health feel the responsibility to help rebuild it to reclaim the language of care and trust. As we know, there’s been substantial focus over the last few years – within the G20 and here in Europe – on changes to banking structures. Also in the UK, where it comes from the Treasury and the regulators – often in response to lessons that we’ve been learning during the financial crisis.

The idea is to change the impact of banks through structural reform. But, is it enough only to change the nature of institutions, without also changing the behaviour of the individuals within them? I ask that because, much as new frameworks will be imposed on our industry as I've said, what matters every bit as much, and maybe even more, is how we do banking. Our behaviours, our mind-set, our approach, our
judgments. I believe we have to fill that gap – we have to crystallise proper behaviours and attitudes in the industry, as well as new structures.

I say that because, while the private sector is measured and rated on how good it is at driving the bottom line, at creating value. I wonder whether, alongside that rigorous focus on value, part of what went wrong is that we lost sight of our values – with an ‘s’. Values such as trust, integrity and probity. I think that the future of banking lies, in part, in recapturing those three words.

And let me be clear, it’s not that they don’t exist in banking today – I see them in many colleagues and counterparts every day. But they need to be universal and our customers and society as a whole need to see us live by these values day in and day out.

I believe that if we operate to high standards, to a set of values – with an ‘s’ – all the time, we’ll be more likely not only to create financial value but to create sustained value – for our customers as well as ourselves.

So how do we change things? Well, on the structural side, it’s through controls – new regulation, through a different approach to capital, through increased competition, and changes in compensation regimes as well. Controls, capital, competition, compensation – we might call them the four ‘C’s.

What sort of impact will each of them have? Let me give you a brief and simple view. Forced new competition will create more banks for the moment, or at least more brands, which it’s intended to do. However, banks don’t operate in isolation – what each one does has an impact on the whole system.

More competition is good, but if banks still all operate to roughly the same model at the same time, if they’re all in synchrony, they’re all interdependent, have we really fixed the underlying problem? If something goes wrong at one, then they’re all affected, because they’re all so linked.

Regulators understand now that they have to know what’s going on within individual institutions, but also what’s happening across the system and that’s good. But perhaps what we also need is not simply more banks, but different types of banks and other financial entities co-existing. That’s one view of competition.

Regarding capital, my second ‘C’ – banks need more and they need to maximise their capital during economic downturns, not the other way around. That much we now all agree. But retail banks also need to make every effort to ensure they attract as much capital as possible from the market, and not just from other financial institutions, or they won’t genuinely have the balance sheet resilience they would appear to have. Capital matters a lot, but it has to be the right kind of capital.

My third ‘C’ – compensation: regimes have been changing – which will have some effect, but not totally and not all the time. Simply because organisations – like individuals – arbitrage, we find a way around the rules.

And, finally, there are controls, regulation. New rules come about when the regulator decides banking should be done differently, in order to strengthen the system, to protect the consumer, or perhaps to avoid a chaotic situation. But the nature of the regulation matters greatly. We know that tick-box compliance isn’t sufficient. Nor is regulation that proscribes too much.

We can’t anticipate every possible situation which means there will always be a need for judgement, and we mustn’t stifle that by too many rules. Complexity in regulation can also be pernicious. Because that so easily attracts around it a growth industry – as banks work out what the regulatory requirements actually mean, and advisors jump in telling banks how to meet them. That kind of focus can inhibit the all-important focus on – what’s good for the customer, what’s right and fair.

We saw, over the last few years, how overly complex decision models and algorithms made it nigh on impossible for many bankers to exercise independent judgment whether about a transaction or a client. Complexity feeds on itself, takes on a life of its own and makes it hard for people to make their own judgements. But that’s the one thing we mustn’t take away from bankers; indeed, we have to restore it.
When you don’t exercise judgment, you don’t take responsibility – and surely that’s what we need more of, not less. Regulation prompts compliance, but it’s only good regulation that prompts responsibility as well. The four C’s are a form of engineering that will undoubtedly reshape the banks themselves for the future. But not necessarily the values, with an ‘s’ which I think must be at the core of who we are and what we do.

So something else is required something that works directly for two other all-important ‘C’ words – for customers and colleagues. Because the kind of approach to banking that many of us want to see dominate in the future is one where we work for customers through the cycle – in the good times and bad.

Where we set out to build long and lasting relationships to take the time to understand the future plans of an individual or a business. Where we give guidance and don’t just sell products. Because banking isn’t just about selling a product today it’s about knowing how it’ll be used over time. Banking isn’t just about profit or a deal today; it’s about those things but only if they’re delivered within a framework of responsibility and fair play.

If bankers genuinely understand their business, and support their customers and their markets, they will earn the attributes of trust, integrity and probity. So the way individual bankers do business matters greatly. Banking is about nothing if it’s not about trust, and it’s widely acknowledged just now that the industry as a whole needs to work very hard indeed to re-earn the trust that’s fundamental to its health.

This is a baton that’s been picked up by the Chartered Banker Institute in Scotland, the oldest institute of bankers in the world and the only one remaining in the UK. And it’s been embraced by nine UK banks conveniently under another ‘C’ word – in the Chartered Banker: Professional Standards Board initiative, which I have the honour to chair.

The PSB, as we call it, was launched last October with a formal Commitment to Professionalism, which was signed by the Chairman or Chief Executive of the nine founding banks. Their signatures are an important signal of intent, from the very top, about the changes we know need to take place. Our goal, quite simply, is to help restore confidence, trust and pride in the industry by re-casting it as an industry of professionals. And this goal has resonated widely and positively.

Meeting in Malaysia shortly after our launch, twelve of the world’s leading banking institutes began discussions that could, ultimately, lead to the establishment of a global standard-setting body for banking education, based loosely on our PSB model. The Secretary General of the European Banking Federation publicly expressed his desire to see a common ethical code and professional standards for European bankers again developed along the lines of our PSB model.

I’ve spoken about the PSB in the City of London and elsewhere – there’s a lot of interest in the UK. We’ve also engaged the Association of Foreign Banks in London and the Institute itself is reaching out across Europe as we design the Standards. Though the initiative right now is primarily UK-focussed, we want to share best practice. If we can inform and inspire others to follow our lead, that would indeed be welcome.

The PSB starts with a new Chartered Banker Code of Professional Conduct, which we developed last year and which the member banks have agreed. Underpinned by the Code, and for the first time ever in the UK and most anywhere else we’re now developing professional standards for bankers.

We’re doing this at three levels – Foundation, covering the basic standards of professional and technical competence and ethical behaviour required for all those who work in the industry. Intermediate - covering specialist roles, and Advanced level, for experienced and senior bankers committed to demonstrating ethical and professional leadership.

Taken together, these Standards will comprise a framework for ethical professionalism right across the banking industry. They’ll provide a platform for the development of responsibility and professional judgment – judgment which is so important.
Colleagues who achieve the standards, which can be via accreditation, education, experience, or a combination of these and who agree to be bound by the Code of Professional Conduct may be awarded a professional designation by the Chartered Banker Institute. Since the launch of the initiative last October, the member banks funded a professional standards team, ring-fenced within the Institute.

We’ve convened an external advisory panel to challenge our thinking on the standards. And I’m pleased to report that our first standard – The Foundation Standard for Professional Bankers – was published two weeks ago, on the 2nd of July. The Foundation Standard sets out the basic values, attitudes and behaviours, as well as skills and knowledge, that we expect anyone working in a bank to embody.

In terms of values and behaviours, we expect colleagues meeting this Standard to act in accordance with the seven-point Code of Professional Conduct. To identify and deal with ethical dilemmas and understand banks’ wider social responsibilities. In terms of knowledge, beyond legal and regulatory frameworks, we expect those meeting the Standard to be able to describe the purpose and function of a bank. And the economic and business environment in which we operate, understanding, for instance, the role of international financial centres.

Underpinning this is a level of understanding of what central banks do and how financial markets operate. However focused one’s job is, or however junior, every banker should have some grasp of the bigger picture and feel both proud and responsible to be delivering it. Now each member bank already has an internal focus on ethics or professionalism, but each of those is at a different stage.

And we didn’t want to detract from those internal initiatives, so the banks will develop their own plans for implementing the Standards but the Chartered Banker Institute will have full oversight of each. Banks are required to make the Standards available to staff, record and monitor successful achievement of the Standards, and report that to the Institute. Reporting, also, if someone has breached the Code of Professional Conduct, in which case their name could be struck off the list.

The Institute will accredit the processes and systems the banks each use to implement the Standards carry out periodic reviews or audits and maintain the list of individual bankers who have achieved the Standards.

Together, the PSB banks employ more than 350,000 individuals in the UK, and serve more than 70 million customers there. Our work will touch a very significant number of bankers, and a very substantial number of customers.

Why are we doing this? We care how staff feel about their work we all want customers to respect our industry. And we want to restore those values – of trust, integrity and probity – that were once so closely associated with banking and bankers.

We believe that trust is best restored through individuals, not simply through structural change. We want bankers to aspire to achieve the new professional standards and by doing so, to feel pride in the service they give and to help, one by one, to restore confidence in the work they do.

We want the public to see the work of the PSB as an unequivocal demonstration of the banking industry’s commitment to ethical professionalism. We want other banks to join us, with all of us leading from within our institutions to give our staff the tools, the focus and the aspiration to become professionals.

And perhaps that will move the discourse about banks beyond the current four Cs – capital, competition, compensation and controls – to a new, and what I think is a far more human, set of words altogether: Customer, Colleague, Community, Conscience and Care.