WORTHY OF TRUST?
LAW, ETHICS AND CULTURE IN BANKING
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Thoughts on the theme...
In advance of the event, we asked interested parties to write on the theme ‘Worthy of trust? Law, ethics and culture in banking’

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BANKING STANDARDS BOARD

WORTHY OF TRUST? LAW, ETHICS AND CULTURE
IN BANKING BLOG SERIES

Professor Onora O’Neill

One of the most searching questions for any bank is ‘What are you for?’ or ‘What is your purpose?’. This question cannot be answered by listing the targets management have set, or by cribbing a line from neoclassical economics and claiming that the purpose of a bank is ‘to create shareholder value’. That, after all, could equally be said of any institution with shareholders: it is at most one among many purposes, and not the purpose of a bank. It is a purpose that many companies that are not banks share, and one that mutuals which provide banking services do not share.

Banks have many purposes, but they always include both corporate and public purposes. The corporate purposes of banks vary. For example, some make it their corporate purpose to provide retail banking services to a particular community or region; others are investment banks with multiple commercial purposes in many jurisdictions; others aim to provide specialised or ethically distinctive financial services. However, banks also have public purposes, such as enabling commercial life, providing capital for commercial and other purposes, or enabling long-term saving. These public purposes are the reason why governments, and ultimately taxpayers, give banks quite remarkable protections and privileges.

Banks (like other companies) are protected by limited liability: commercial life was very different before the days of limited liability, when an individual’s entire assets would be at stake and lost in the event of failure. Banks and their depositors also (unlike other companies and their customers) benefit from additional taxpayer-funded protection from the costs of failure. Public support protects depositors from the impact of bank failure (up to a certain level). Even more strikingly, publicly funded interventions protect banks themselves from some of the worst consequences of failure – even where that failure is in large measure caused by the action of banks and inflicts widespread damage. These publicly funded guarantees are hugely valuable protections. In return banks have duties to the public, who will bear much of the cost in the event of bank failure.

Some of these duties are spelled out in complex regulatory demands, but others go beyond duties of regulatory compliance, which other companies and institutions also carry. The quid pro quo of the distinctive protections given to banks demand more than compliance with the letter of the law and the fine print of regulation. They demand respect for the terms of a broader social licence to operate that banks must respect in return for the special protections they receive. This license demands that banks not take a caveat emptor approach to customers, or assume that it is up to customers to understand the minutiae of terms and conditions, or the risks created by complex financial products. The asymmetry of knowledge and capacity that is typical of relations between banks and their customers requires banking cultures that do not take advantage, but rather see themselves as carrying fiduciary duties to depositors, to borrowers, and to the public. These duties are a fair counterpart to the distinctive protections that societies and their tax-payers provide for banks.

Professor Onora O’Neill
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

Alison Cottrell, Chief Executive Officer Banking Standards Board

‘It is not’, as Richard Breeden, a former SEC Chairman, once observed, ‘an adequate ethical standard to aspire to get through the day without being indicted’.

Compliance with regulation and legislation is, of course, a core responsibility of every bank and building society. Possession of a banking licence implies, however, a wider set of ethical and professional responsibilities and duties than those associated just with compliance (or indeed with avoiding indictment). A culture in which anything not explicitly prohibited or mandated is regarded as fair game, is not one that many would wish to see in the bank or building society they deal with (or indeed work for). And regulation itself, however prescriptive and wide-ranging, cannot determine ex ante every judgement an employee has to make or keep up with every social or technological change, or with human inventiveness.

If being worthy of trust requires more than compliance, it is also not to be confused with being trusted. Trust, whether of customers or clients in individual firms or of the public in the banking sector as a whole, may vary over time and with the way in which the question is asked, and be influenced by factors unrelated to the firm itself. It may also prove, in retrospect, to have been justified, insufficient or entirely misplaced. This is not to say that the level of trust does not matter. Trust in the banking system is fundamental to its operation, and a loss of trust in an individual firm can have wide-ranging consequences. But while trust is given, sometimes only after a considerable period of time, trustworthiness is a state or quality that is entirely in the hands of the firm itself.

Being worthy of trust requires, as a firm, each person to take responsibility not only for complying with regulation but also for serving their customers or clients honestly, reliably and competently.

This is an environment in which minimum standards are the floor rather than the ceiling, with the latter determined by what ‘good’ looks like. It demands, of course, clear accountabilities, skilled risk management and consequences for wrong-doing; but it also needs employees who are able and ready to exercise professional judgement, processes that align recognition and reward with the firm’s espoused values, and a culture in which mistakes are remedied and learned from rather than ignored or associated with blame.

If the legal and regulatory structure, and a firm’s ethics and culture, are not consistent – if, in other words, motives are not aligned with actions – regulation will be gamed; and whenever this happens, policy makers and regulators will be called on to act in order to prevent a reoccurrence. Sector-level regulation will fill space that is perceived to have been vacated by ethics and culture, and each time this happens there will be more talented potential employees or non-executive directors who will decide to work in a sector other than banking. For banks and building societies, trustworthiness has both an individual and a collective dimension; a failure at the firm level has sectoral ramifications, and each firm shares responsibility for the sector of which it is a part.

Issues around demonstrating trustworthiness are not, of course, confined to banking, or indeed to the UK or the 21st century. The consequences of a poor ethical climate and culture in banking are, however, extraordinarily far-reaching, affecting the economy and society as a whole. For the UK banking sector, raising standards of behaviour and competence is not simply a challenge. It is a responsibility, and one that needs to be owned by every bank and building society today.

1 The three elements of trustworthiness as identified by Onora O’Neill

Alison Cottrell, Chief Executive Officer Banking Standards Board
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

Michael Held, Federal Reserve Bank of New York

Note: What follows are my own views and not necessarily those of the Federal Reserve Bank of New York or the Federal Reserve System.

‘Where were the lawyers!?!’

If you’re not asking that question when you read about a corporate scandal, you should be. Public companies – banks included – are well-staffed with lawyers. But are they well-served?

Why do companies – again, banks included – get into trouble when lawyers are there explicitly to keep them out of trouble?

Maybe what lawyers actually do is not what I think they’re supposed to do. Let’s stay with banks, since that’s what I spend my days thinking about. I worry that lawyers in banks are too often asked by clients, in effect, ‘How close to the legal line can I get?’ Or maybe they’re instructed, ‘Just tell me if this is legal or illegal, not what I should do’.

Worse, I worry that lawyers, intentionally or not, enable this kind of thinking.

How’s that?

In a word, culture. Culture comprises the shared norms that any group of people will develop over time. These are the unwritten—and perhaps unspoken—rules that are communicated largely through behavior. To some extent, each of us takes our cues from our peers and supervisors. By observing others, we discover what is important to the group. We gauge the difference between what is right and what is wrong, between what is successful and unsuccessful.

Sometimes this very basic, human tendency to ‘fit in’ goes too far. It leads to a dangerous level of adherence and lack of questioning. Lawyers in any organisation can get caught up in the same dynamics that can ensnare their clients. We’re not immune from our surroundings.

But that doesn’t have to be the case.

Lawyers can – and should – occupy a role that is both insider and outsider, to borrow a term from Gillian Tett. We should offer our clients both insight and independence.

Insight comes from access to many divisions of large organizations and opportunities to build trusted relationships with a client over time.

Independence comes, in part, from a lawyer’s training, independent code of ethics, and reporting responsibilities that ultimately go up to the board of directors.

In short, lawyers have to understand what happens within a firm and question whether decisions are both legal and ethical. We have to tell clients not only if they may do something. We should also counsel them about whether they should do it.

I do not mean to imply that a lawyer must serve as a priest, a rabbi, or a psychologist. (Although if you are, so much the better!) A lawyer’s advice on culture should always be grounded in law. We must be cautious in venturing too far afield. But in light of recent history, I’d say that lawyers could benefit from some wanderlust.

It is terrific that the Bank of England’s panel on bank culture includes a lawyer—and not just any lawyer. The Lord Chief Justice probably has some things to say on the role of law and lawyers in improving conduct and culture in financial services. I’ll be there, paying close attention.

Michael Held, Federal Reserve Bank of New York
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

David Roberts, Chairman Nationwide Building Society

Trust is at the very heart of financial services, so it’s nothing short of a tragedy that an industry so reliant on trust should have lost so much of the public’s confidence. We are not alone in this. In January, for the first time, the Edelman Trust barometer recorded a simultaneous decline in trust across all four of its constituencies – governments, business, media and NGOs.

In past eras, building societies were created by people who knew each other and met socially, providing that essential glue of trust. Meanwhile, large banks built giant edifices to reassure customers they wouldn’t abscond with their money. But there has always been scepticism about the motives of bankers, right back to the money lenders in ancient times. Today it’s commonplace to believe that financial services has not been run for the greater good, but for the benefit of a narrow “elite” who escape censure and justice when things go wrong.

And yet, financial services are a vital part of our economy, with the capacity to improve the life chances and wellbeing of individuals and of the country. With the advent of a digital revolution which will change dramatically the industry’s business model and upend the competitive landscape, regaining trust is mission critical for all market participants. So how can the sector become a respected contributor to the social and economic good once again and regain its legitimacy in the eyes of society?

At Nationwide, we believe this fundamentally starts with purpose, ethos and values. As a building society, we were born of a social, not a commercial purpose, and this alignment of interest between the Society, it members and the communities we serve is fundamental to how we think and make decisions. Of course, regulation plays a necessary and important role, through rules and principles, but it is not sufficient. Voluntary initiatives including, importantly, the Banking Standards Board are valuable; they maintain scrutiny on firms, and work in partnership with leaders of financial organisations. However, they can only be an enabler.

Regaining the trust of society starts and finishes with the Board, the leaders and the colleagues within firms, and a clear and concrete commitment to ensuring the interests of customers and wider society are placed on an equal footing with the interests of the owners. In other words, it’s about the culture and values of the organisation.

Culture is not about putting words on walls, running programmes or making big, bold pronouncements. Rather, it is about providing a clear sense of how we expect everyone in the Society to approach the decisions, big and small, that we face every day, and how we wish to balance the interests of the various stakeholders we have the privilege to serve.

Therefore, at Nationwide, alongside rules and best practice, we take a values-based approach. Put simply, it is our values that determine how we instinctively behave and provide the “polar north” that shapes the decisions we take every day...

Values mirror and are inseparable from the culture of an organisation. At Nationwide, we believe that our mutual ethos has produced an ethic of care and a norm of doing the right thing by our members. This golden thread, explicitly encapsulated for the last 15 years in our five “PRIDE” values, flows right back to our roots, when our founding fathers established that ‘borrowers should be treated as... customers... as though the society was established for them...’.

This ethos has shaped our behaviour through many challenging times. For example, during the Second World War when homes were being bombed, loans were extended and deferred, and managers were told to deal with customers with ‘simplicity, sympathy and speed’. In other words, empathy and values were considered alongside the rules.
I am not arguing that mutuality by itself guarantees good practice; many companies also have strong values and culture. These will be essential to repairing trust in our industry and allowing it to play its valuable role in people’s lives. Rules, regulations and best practice play an important role, but ultimately, it will be the culture of our organisations and the way the culture translates into actions which will determine whether our industry can become a respected contributor to the social and economic good again.

David Roberts, Chairman, Nationwide Building Society
Can bankers be trusted? It’s a glib question, though a legitimate one. When I tell people that a lot of my work focuses on improving integrity in the financial sector, the most common response I get (outside of laughter) is the rhetorical question, ‘Isn’t that an oxymoron?’

After a decade teaching literally thousands of financial services professionals, I know first-hand that ethics in banking is not a paradox. I know how honourable and upstanding the majority of professionals in the financial industry are. And as a professor, I can guarantee you that academics are no way immune to the same types of problematic behaviour (greed, dishonesty) that bankers are often accused of.

However, there are aspects of the financial services industry that make it more difficult to consistently resist greed, selfishness, or dishonesty in the course of one’s professional obligations compared to some other industries.

A major one is that is that the inputs, processes, and outputs of the financial services industry are ‘money’. Research shows that priming people with money makes them less helpful, less interpersonally attuned, and more likely to engage in unethical behaviour.

A second one is that many professionals in financial services are highly motivated to meet quantitative targets. Unrealistic or ‘stretch’ quantitative targets often lead to unethical behaviour, as scandals at Barclays, Lloyd’s and Wells Fargo testify.

Worse, these problematic tendencies are core to the professional identity bankers’ associate with their profession. In a clever study, the behavioural economists Alain Cohn, Ernst Fehr and Michel André Maréchal asked a group of investment bankers to play a game where they were asked to toss a coin privately ten times. They were paid for the number of times they reported having tossed “heads”. However, before they did so, half the bankers answered a series of questions designed to make their identity as a banker more salient (such as, “What is your function at this bank?”). The other half did not. Those who were thinking about themselves as a banker when they went to flip the coins reporting tossing substantially more “heads” than chance—suggesting they were being dishonest in their reporting. They also tossed substantially more “heads” than those who weren’t thinking of themselves as bankers.

How do we change this culture? Just because the financial industry has some elements working it doesn’t mean that positive change isn’t possible. Many of the solutions traditionally proposed, such as limiting bankers’ pay, have been discussed at length by those on both sides of the pond (like here or here), but meaningful reform or regulation in this domain seems an uphill battle to say the least.

In writing this blog, I was asked to offer a new or different voice in this conversation. So below I offer some food for thought, using ideas derived from social science, of interventions that could support a culture of integrity in the UK financial services industry.

One thing to think about is how to humanise the work that financial services professionals do. It is difficult to keep in mind that at the end of the fancy trades and complex transactions that many banks engage in are customers – from university students trying to keep out of overdraft, to pensioners whose fixed incomes depend on the quality and risk profile of the deals those bankers make. It can be hard to remember that when one’s job consists of staring all day at screens covered in spreadsheets. It might be easier to remember the end client if the traders who worked on those transactions had to meet them. Decades of research confirms that negative behaviour is exacerbated when we neglect or avoid thinking about the humanity of those whom our actions effect. Though less research has focused on the positive consequences of attending to the humanity of those whom our actions effect, I would bet that risky trading would be curbed if those making the trades were regularly required to take a group of pensioners affected by those trades out to tea.
Another thing worth thinking about is how to move beyond quantitative targets for performance. Organisations tend to resist moving away from hard targets, as they appear clear and objective, and have delivered performance in the past. However, we need to think more creatively about how to motivate and incentivise the behaviour we want to see. This might involve more qualitative assessments of customer satisfaction, focusing on client retention and referrals rather than sales, or creating cultures more tolerant of mistakes.

Finally, research shows that being moral, and appearing moral to oneself, is important to nearly everyone. You know how, when people are admitting their failures or mistakes, they often say, “But that’s not who I am”? Making individuals’ own personal identities relevant to the decisions they make in the course of their job will almost certainly raise the quality of the behaviour we see in any organisation.

In short, there are lots of evidence-based ways we know would be likely to improve behaviour in financial services. We just need to be courageous and creative enough to try them.

Celia Moore
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

Clare Woodman, Morgan Stanley

Over the past several years, regulators and the banking industry have worked extensively to restore financial stability through a series of mechanisms and rules which establish appropriate levels of capital, liquidity and leverage. These actions have been immensely effective in improving the safety, soundness and resiliency of firms. However, post-crisis episodes have presented challenges to cultural behaviours and demanded a second wave of reform – addressing less tangible and less easily identifiable structures of trust.

Risk, credit, duty and trust have always formed central pillars to commercial progress. Understanding how an organisation may earn and manage trust is an important business imperative both to operate and to succeed. Absent trust, business slows and becomes more costly. Heightened trust can drive the economy, and an individual firm’s performance. Trust underpins relationships, attitudes and behaviours. It allows a company to attract the best and the brightest people, to foster multi-decade growth and to retain a loyal client base.

Trust in banking is especially important. Financial organisations must not only safeguard the interests of their clients, shareholders and employers, but also share a higher responsibility to support and enrich societal growth. Banks are vital to the functioning of the broader economy. Greater trust in the banking industry brings greater commerce, culture and community.

Trust cannot be bought. It is hard won, easily lost and must be earned by demonstrating trustworthiness. Echoing my fellow Board Member Onora O’Neill’s recent remarks, simply to lobby for greater trust in banking is not sufficient. We must instead ‘aim to have more trust in the trustworthy’.

How do we become more trustworthy? Like anything, behaviour is an imprint of repeated patterns of practice. If we are prescriptive in our organisational design, we can manage cultures of trust and, in turn, become more trustworthy.

- **Leadership:** Leaders must be transparent and articulate a strategy clearly anchored to values. There must be alignment between visions espoused and those enacted. Values should be both deep-set and easily explained. Role models should authentically set the tone from the top, celebrate success, amplify best practice, and champion reform.

- **Governance:** Architecture of policies, practices and procedures can either stifle or encourage behaviours. Prudent governance should define operational parameters, set minimum standards and be tested periodically.

- **Accountability:** To engender trust, you must demonstrate accountability. Intellectual rigour, challenge and diversity of thought form the core foundation to any successful business. Operating within increasing realms of change and complexity, it has never been more important for individuals to be tooled to make informed and ethical decisions. All employees are equal standard bearers and guardians of a company’s brand.

Warren Buffett famously explained, ‘In looking for people to hire, look for three qualities: integrity, intelligence, and energy. And if they don’t have the first, the other two will kill you’. Integrity is everything. Do the right thing and all else will fall into place.

Clare Woodman, Global Chief Operating Office, Institutional Securities, Morgan Stanley International
Are banks any different from other companies? Many bankers would probably answer ‘yes’ because of their role in financing the economy, the power and responsibility that it gives them, the special skills they need to do their job and what they would like to think of as the status this confers. Most regulators would answer “yes” because of the banks’ essential role in the payments system, the public dependency on their services and the high degree of leverage with which they operate.

So banks are seen as different because of the nature of their activity and because they are heavily regulated. Yet they also share with other companies a need for embedded purpose and values which sustain their business and secure its long term prospects.

Not long ago I was treated to some quite aggressive pushback when presenting this point of view to a group of bankers. The problems which gave rise to the crisis, I was told, were dealt with because bankers were now required by regulation to consider whether the product they were selling was suitable to the customer. So everything was now OK.

I replied that it was not OK because the public at large might reasonably expect banks to want to sell them a product that met their customers’ needs, not that they would do so purely because they were required to, by their regulator. As long as bankers are only constrained by rules from selling unsuitable products, the crisis could easily recur. Some people, after all, only regard rules as being made to be broken.

This is why banks need to move beyond obsession with compliance and take a look at what actually drives behaviour in their businesses. They will find the same principles, which apply to other businesses, apply to them as well. First, all businesses must have a sense of purpose which includes delivering something which society really wants and needs. Businesses which want to survive and thrive must deliver genuine value to their customers, not extract value from them.

Second the core ethical values which underpin durable businesses apply to banks as well. Such values include reliability, honesty, openness and respect for stakeholders, which means society from whom the social licence to operate is derived. Companies which can articulate a clear purpose and embed their values will tend to be worthy of trust. Those which do not may succeed for a while but will always be at risk.

Admittedly the task of building a good culture is harder for banks because it has to be carried out in parallel with a focus on compliance that consumes so much energy. Also, large banks are complex businesses with many silos with different characters and different motivations. Money market dealers rarely have much in common with provincial branch managers. Can we really expect them to have a shared loyalty to each other and to the organisation they all represent?

Perhaps we can if we can persuade them to converge around a common sense of what the business is there for. Perhaps those silos which do not fit the common purpose need to be abandoned and the structure simplified. Whatever they conclude, bank boards and managements need to keep reminding themselves that only by making themselves trustworthy can they hope to lift the burden of regulation.

Peter Montagnon, Associate Director, Institute of Business Ethics
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

Amyn Fazal, Penrith Building Society

I have worked in the mutual financial services sector for all of my working life. Specifically, this career spanning some 37 years has been spent with UK building societies, who are often collectively cited as being the paragons of mutual financial services.

During my time in which I started as a graduate management trainee, continued through various departments and leadership roles in the UK’s largest building society, and now to leading the smallest building society, I have been struck by the high level of trust and loyalty which are so evident between providers and the members who are the recipients of our products and services. This has often made me seek to understand why that should be so.

The legal definition of a mutual, that it is owned and run for the benefit of its members rather than a separate group of shareholders who seek to derive a profit, is often given as the reason that mutuals gain so much trust from their member customers. Perhaps this ownership model is the main reason for that built-up trust. However, in survey after survey, it is also clear that members do not really understand the difference between shareholder-owned businesses and mutuals.

Perhaps then the answer to the question of trust lies in the people that are drawn to working for us. Building societies grew out of people’s desire to own their own homes and were local or community focused. The community pooled their savings and these savings were lent out in mortgages to borrowers to build or buy their own homes. The needs of savers and borrowers have diverged over time but the sense of community and looking after your own is very much still alive. I often remind my team that they are not engaged in ‘making widgets’. Instead, they are deeply entwined in the lives of the people they serve. Savings, homes, family and family protection – it doesn’t get much closer to life than that. It is clear then that the ownership structure and the desire of our people to help their fellow human beings in their communities promotes a culture of trust and great behaviour. This can be fostered and spread and the role of leadership in this process is incredibly important. A recent Banking Standards Board (BSB) staff culture survey in which our organisation took part saw us achieving the highest ratings for employee understanding and engagement with our corporate vision and values.

Being a member of the BSB gives me the opportunity to spread best practice as well as to learn from others. Regulation can go so far in promoting good ethics and culture in banking, but this is not enough to build a trust culture. Developing and engendering trust and values takes a very long time, but this can so easily be destroyed and so we must cherish and celebrate what mutual building societies have built up over nearly two centuries.

Amyn Fazal, Chief Executive, Penrith Building Society
Law creates the framework within banking operates, it provides banks with the protections they need to flourish in a modern mercantile environment. Society benefits from this, the social purpose of banking enhances the society we live in, allowing businesses to thrive and individuals to prosper.

However, the law by itself will not always be effective in affecting the behaviour of bankers, and indeed we do not want our bankers simply to follow the letter of the law. We want our bankers to be professionals who take wise, prudent decisions.

In terms of ethics, what do we hope for from our bankers – I would reiterate that if we simply expect them to follow rules and guidelines then we will never succeed in creating a culture where thoughtful stewardship lies at the forefront of a banker’s mind. Rather we will create an environment whereby we have bankers who strive to follow rules, but will not develop ways of ethical thinking, and ethical awareness. They will simply wait until a legal issue hits them, or perhaps deal with other ethical challenges from the perspective of risk management.

Culture cannot simply be viewed as a feature of one organisation. For the culture of an organisation is formed in part by the society and world in which we all live. We do, therefore, to a certain extent, get the cultures which we desire. We may think otherwise, but it is our demands and requirements as a society which drive the behaviours in banks and other organisations. We need to be thoughtful as consumers, investors, regulators and stakeholders as to what behaviours we are really driving. Are our actions likely to create the organisational cultures we really want.

So what is the solution? We need bankers who are thoughtful professionals, who work within the framework of law, regulation and codes of conduct. We also need bankers to feel proud of their professional approach, and their contribution to a socially purposeful industry – to their profession. Critically, however, they must be knowledgeable professionals who bring their professional judgement to bear on ethical dilemmas. Only then will they be able to deliver trustworthy ethical banking with a social purpose. Without knowledge, ethics and professionalism a banker is not be worthy of our trust.

I would argue that it is integrity that pulls all this together – integrity reflects a notion of wholeness, that we are consistent in our actions and ethics whether at home or at work; in our private life or our public life. If we start developing different codes for ourselves in different spheres then we have to ask whether we are acting with integrity. Of course the behaviours need to vary – but the ethics which drive those behaviours do not – so the way I may show compassion to my child will be very different from the way I demonstrate compassion to a colleague- but the ethical value of compassion will remain unchanged.

Trust is given to those who show integrity; and it is integrity that leads us to support a healthy culture and a respect for the law, alongside a virtuous approach to ethics.

Giles Cuthbert, Managing Director, Chartered Banker Institute
I’ll admit it: I’m a sceptic. I have doubts about whether a focus on ‘ethics’ and ‘culture’ will generate trust in banking – not, at least, based on the way those words are often used. They certainly sound reassuring, and if we were to chart growing discussion of ethics and culture in the financial services sector over the past decade we would probably see that only the proliferation of new rules has been faster. But is this evidence of lasting change or do we, perhaps, find ourselves in need of that reassurance?

What do we really mean when we talk about ethics and culture? Is there a consensus, or do the words simply draw a veil over difficult questions about ourselves, our institutions and the way we structure our common life? Grapple with the substance and it can put us on the path to greater trust in banking and beyond (since problems that have afflicted the sector are not confined to it). Default to using ‘ethics and culture’ as a talismanic incantation and we flunk it.

When we approach ethics and culture thoughtfully, what we are really asking is, what is ‘good’ – what sort of people we want to be and what sort of community we want to live in. Things that are consistently good inspire trust. This may seem like an enormous leap from the day-to-day business of financial institutions, but only because we are operating under a series of misapprehensions.

Let’s take a couple that need challenging.

First, that there are areas of life – financial transactions among them – that are in some sense morally neutral; a bizarre notion but one that is surprisingly deeply embedded. I remember a discussion with a leading European regulator who claimed he had no ‘moral’ mandate for his work in regulating financial markets. How can that possibly be? If morality is to do with a conception of what is good, and he was pursuing what society had defined via legislation as good outcomes, how could this not involve some form of moral mandate?

We need not stop there. Even a simple financial transaction involves a sophisticated web of moral assumptions that relate to the essence of the transaction, what is a good outcome and the right treatment of the parties to it. Yet talk to many and you might get the impression that the only relevant values are financial, and that these somehow exist outside a moral sphere. An equally facile approach is sometimes encountered in legal processes, when the critical objective of impartiality is confused with being somehow morally neutral (as if being ‘morally neutral’ did not itself imply a moral stance). Enough said.

Secondly, we should challenge the idea that the way we engage with our world – in the financial sector or otherwise – is consciously referenced to ethical or legal and regulatory standards, and that our behaviour is generally the result of mental deliberation that takes account of these things. Largely, it isn’t. Quite the opposite. Think of your breakfast routine or your journey into work this morning. Much of it runs on autopilot, reduced to effort-saving habit so as to free your conscious to deal with the issues that apparently really demand its attention. But how were those embedded patterns of behaviour laid down? In part, through conditioning by reference to some form of desired good – be it in terms of money, power, value, respect or otherwise. If much of our behaviour is driven by our previously formed non-conscious, that has important implications for what might need to happen if aspects of it turn out to be ‘sub-optimal’. It might, for example, affect the way we use law and regulation to direct more clearly towards ends we agree are good, to habituate behaviour by reference to those ends and to raise practices to consciousness where they can be more readily addressed.
Put these two misapprehensions together, and a huge chunk of our behaviour – our existence – is largely excluded from all our talk of culture and ethics. Challenge them, and individual and corporate life becomes a much richer and potentially fulfilling environment – one in which greater attentiveness to the nature of our desires and their formative influence can take us on a journey not so much of regulatory reform (with ethics and culture being apparently instrumentalised to that end), but of re-formation by reference to the good. That way trustworthiness lies.

David Rouch, Partner, Freshfields Bruckhaus Deringer LLP
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

Costanza Russo, Queen Mary University of London

Reflecting upon the relationship between law, ethics and culture, a first thought that intuitively occurs is in the form of a simple syllogism: law is concerned with what is ‘right’ and what is ‘wrong’, ethics is concerned with the ‘right’ behaviour; therefore law is concerned with ethics. But, in that simple reasoning there is no mention of the word culture. And this is where I would like to start. If we want to include ‘culture’ in our reflection we should link it to ‘ethics’ with the preposition: of. Culture may indicate any set of behaviour and it carries no positive meaning per se. Think at the expressions ‘a culture of greed’, or ‘a culture of impunity’ which we have read and heard countless recently. Therefore, it is (the creation of) a culture of ethics that we should be concerned with. So the question now becomes whether there is a relationship between law and a culture of ethics. And here is where our simple syllogism becomes slightly more complicated (and philosophers can finally forgive me!). To pierce that veil of simplicity implies asking whether law is in fact concerned with ethics in the first place. To answer this question we would need to define what ethics means. However, this is a Herculean task which I cannot endeavour to explore in full here. I will therefore only select those aspects that are relevant to my reasoning (..as lawyers typically do!)

Even though we may debate whether ethics differs from morality, we could all settle on the existence of a linkage between ethics and moral behaviour. Here a question arises whether law is concerned with moral behaviour and the answer is undoubtedly positive. Think of the role attributed to duress or good/bad faith in contract law. Or to intentions in criminal law. In fact, law is so versed into regulating subjective feelings that is able to attribute different degrees of culpability (think of aggravating and extenuating circumstances in criminal law). But ethics has also a strong public component and as such, law has an interest in ethical behaviour. Think of the consequences for society of collective unethical behaviour, as recently happened with banking organisations.

So, having recognised that law is and should be indeed thoroughly concerned with ethics, we can now investigate the relationship between law and a culture of ethics. We are also ready to finally refine our question and to ask whether the law has any role to play in the creation of a culture of ethics in companies. And here the answer is less clear than before in that the law has only a limited role to play. The law will provide regulators and regulatees with a set goal and often will identify the minimum set of organisational requirements that need to be put in place. The law will also give prosecutors powers to punish a breach. However, the law will not enter into the domain of business decisions, nor will give interested parties a detailed handbook. This role should be played by regulation, by self-regulation and by those private bodies that sit in between the public and the private domain. And in the banking sector, I believe this is the space that the BSB has the potential to fill.

Our very last question though relates to the how and the what. The BSB does not need to walk on a tightrope to avoid stepping on existing private and public bodies’ toes. It should work with them towards that common goal. In fact, this is in the interest of these bodies too. But it should also exploit its unique position to make sure that a culture of ethics is embedded in banks daily business activities, which is something other bodies may not be able to do. For instance, work can be done on banks corporate governance, in particular on the creation of governance mechanisms that would ensure ethical considerations are constantly taken into account. This would be of the utmost utility also considering the recent public policies on the matter that allow corporations some degrees of freedom. Freedom which a critical friend may be able to channel towards the achievement of that longed public good.

Costanza Russo, Senior Lecturer in International Banking Law and Business Ethics, Queen Mary University of London
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

James Bardrick, Citi UK

Trust has been lost across many stakeholders’ relationships post financial crisis across the banking industry, at Citi and in many large corporations in other sectors. All stakeholders’ relationships must be sustainable, valuable and productive and be based on trust, not just reliant on formal contracts. However, we cannot demand to be trusted or even deem ourselves trustworthy, we have to earn it in the eyes of others. You can call that developing a good reputation!

We need to communicate clearly, consistently and authentically what we are doing and why and how we do it, to all our stakeholders internally and externally; we must link the why, what and how to our Purpose and Values.

Citi’s mission is to serve as a trusted partner to our clients and to enable growth and economic progress. Our mission requires us to serve all our key stakeholders; our clients AND economies and markets, regulators, past, present and future employees, governments and all in society who are participants in, and impacted by the financial eco systems. Our Purpose is to safeguard our client’s assets, lend money, make and receive payments, access capital markets for clients to manage risk and raise capital, and more generally to connect investors with companies, governments and citizens to enable their individual and collective economic progress. That is the what.

The how focuses on the transparency of our purpose, striving to perform safely, reliably and effectively to deliver our obligations, commitments and our responsibilities and be true to our Purpose and Values to work for better outcomes. To hold us true to our Purpose and Values: Responsible Finance, Shared Purpose, Ingenuity and Leadership, for every important business decision that we make, we ask our colleagues to ensure that their decisions pass three tests:

- Is it in our client’s interest?
- Does it create economic value?
- And is it always systematically responsible?

Moreover, we encourage all of our individual and team objectives to be aligned to and measured against our six Leadership Standards:

- Develops our people
- Drives value for clients
- Delivers results
- Champions progress
- Works as a partner
- Lives our values

We are committed to go ‘Beyond Compliance’, to incentivise and reward good behaviours, client value, innovation, citizenship and to create good outcomes as well as just preventing bad stuff. We are becoming a simpler, safer and stronger organisation. To help us do that, we must embed, practice, measure and reward people consistently based on this culture change framework. We must and do ask our stakeholders to give us honest external assessment to ensure we are on track.

I know that trust will be at the front of our thinking and actions in our on-going efforts to serve as a trustworthy partner to all of our stakeholders in the pursuit of much improved reputations.

James Bardrick, Head of Citi UK
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

Andy Haldane, Bank of England

Most people were shocked at the behaviour exhibited by some of those world’s largest and most prestigious banks, both in the run-up to the global financial crisis and subsequent to it. Instances of manipulation of markets and mis-selling of products have come all too frequently. They have prompted a slew of industry initiatives and regulatory reforms and hefty fines have been levied on those found responsible. The aim of these initiatives has been, simultaneously, to encourage better behaviour in future and punish past misdeeds at source.

But how did these unethical behaviours arise in the first place, particularly on so systemic a scale? These behaviours were deeply puzzling, as they were apparently out of keeping with the character of many of the individuals involved. Assuming the individuals themselves knew these acts were wrong, what drove so many of them to act in this way? This is more than an academic question. Answering it may hold the key to preventing it being repeated.

In 1971, sociologist Henry Tajfel conducted a set of experiments with groups of individuals. These unearthed evidence of strong ‘in-group’ behaviour among the individuals in these groups. That is to say, their decisions were often shaped by what was collectively acceptable to the group rather than what was sensible for them as individuals. In group situations, people often quickly adopted a social, as well as an individual, identity which dominated their decision-making. So-called ‘social identity theory’ was born.

This theory has since been found in a wide variety of real-world settings and has been used to account for a wide range of behaviours which, when looked at from an individual perspective, are otherwise difficult to explain. For example, a now-famous US study looked at the poor academic performance of Afro-Caribbean boys in US schools, relative to their ability. The explanation was found to lie in social identities. In particular, a desire not to be seen to be ‘acting white’ by succeeding academically was found to be driving these boys to under-perform relative to their potential. This was despite the adverse personal consequences of these actions for the boys themselves, in terms of worsened income and job prospects.

The theory has also been applied to banking. An experimental study in 2014 looked at the incidence of cheating in different groups. It found not only that bankers were more likely to cheat than other professions, but that this cheating was more prevalent when bankers were reminded of their social identity. That prompted them to ‘act banker’. Unlike the Afro-Caribbean boy students, however, the bankers could often act in this way without risk of seriously adverse personal consequences for their future income and job prospects.

If this is the explanation, or part of it, for systemically unethical behaviour in financial services, the question then becomes what could be done to change the social identity of banking? Measures which encourage individual, as well as collective, decision-making and responsibility are one means of breaking down social identities. The Senior Managers and Certification Regime, introduced in the UK around a year ago, aims to do just that. It requires bankers in senior decision-making roles to act responsibly or face individual sanction.

Not so long ago, it was socially acceptable to drink and drive or to smoke in public places. But personal sanctions on both activities have, with time, acted to change fundamentally social perceptions of these two activities to the point where today both are effectively self-policing and self-sustaining. This is the journey banking needs to be on. Individual sanctions are a means of generating a different social identity for banking, one which is self-policing and self-sustaining. It is too early to tell how the measures that have been so far taken will shift the social identity of banking. But it is clear what success looks like. This is about changing what ‘acting banker’ connotes.

Andy Haldane, Chief Economist, Bank of England
WORTHY OF TRUST? LAW, ETHICS AND CULTURE
IN BANKING BLOG SERIES

Andrew Hall, CISI

Note: The views expressed in this blog are the personal views of the author and not necessarily those of the CISI.

Why should we trust our banks? Do we actually trust even our own bank, or banks generally? How deep is that trust; has it been earned or is it rather grudgingly given, accompanied by the feeling that it has not actually been earned? I rather suspect the latter, which is quite dispiriting. So how serious are our banks in seeking to remedy this and are they likely to be successful anytime soon?

That question of how long it will take to restore trust in banks is one which the CISI has asked audiences at our events regularly since the global financial crisis and the answer has always been ‘at least ten years’. From that, one might deduce that this is a long-term project and it is unrealistic to expect overnight success. But it is now some time since the worst years of the financial crisis. which leads to the question ‘what will success look like?’.

One answer might be when respected surveys of Trust such as the annual Edelman Trust Barometer or ‘Which?’ surveys show a sustained improvement in levels of trust markedly beyond their current level of approximately 50% of respondents trusting banks. Or more prosaically, when we are prepared to recommend our banks to one another as trustworthy or ‘good’ organisations. What, beyond our day to day interactions with our own bank, might influence our response if asked whether we trust banks(ers)?

Since most of us do not have any direct business interaction with actual or apparent interest rate fixers, we are dependent upon being told by the media how wicked they are, or how egregious their offences, without really having any idea or necessarily caring what they have actually done, or what impact it has, if any, on our lives. My point is not to downplay what they have done or its impact, but rather to suggest that our views are possibly being formed by someone else. In most instances, the court cases that are now happening cover events that took place several years ago and banks can argue that they do not represent today’s culture in these organisations. But then how do we know? Why should we take their word for it? Why should we trust them?

And then there is PPI, a subject that must have knocked on every door in the land and where bankers may argue that with the value and number of claims of mis-selling having been paid out, a degree of scepticism on the part of banks over the ongoing level of claims is not surprising. On the other hand claimants and potential claimants have no sympathy for them and such is the absence of trust, consider banks to be ‘fair game’. Billions of pounds of repayments and reparations have not served to restore trust. We use banks because we have to, not necessarily because we want to, or because we trust them again.

As I said earlier, this is a long-term project and banks and the banking industry must accept it, even to the extent that they may feel that ‘ethics fatigue’ has set in. Bob Diamond’s ‘time for remorse and apology is over’ has not yet been accepted by the public.

Andrew Hall, Head of Professional Standards & Integrity, Chartered Institute for Securities & Investment
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

Nicholas Morris and David Vines

This short opinion piece is based on a longer article we published last year in the European Journal of Finance, 'Changing the Culture of Finance: Regulation, Self-Regulation and Corporate Governance'

Three years ago we edited a book called Capital Failure: Rebuilding Trust in Financial Services (Morris and Vines, 2014), which included contributions from philosophers, lawyers, historians and industry practitioners. All of the authors of that book share our belief that firms in the financial services industry need to behave in a more trustworthy manner.

We believe this principally because trust is important to almost all commercial transactions, because contracts are mostly incomplete in some way or other, especially when – as often happens in finance – one party has more information and expertise than the other. But trust is especially important in finance because so many financial transactions last for a great number of years. Those who save often do so for many years – for example for their pensions – and many investments only pay off a long time into the future. As a result there needs to be a continuing relationship of trust between those who save and invest, and those who provide the services of financial intermediation which connect them.

In Capital Failure we explored in some detail what makes people behave in an untrustworthy manner. Commercial arrangements necessarily involve seeking a financial return, without which there would be insufficient incentive to participate or – indeed – an ability to be helpful to others. But inappropriate exploitation of superior knowledge or monopoly power can easily end up meaning that returns are apportioned between the parties in an unfair, and unsustainable, manner. This clearly has damaging effects on the individuals who have saved and invested, on the reputations of the firms who provide the financial intermediation, and on the outcomes for society as a whole. The challenge is to ensure an outcome in which such bad behaviour does not eventuate, in the ways that it clearly did in the years running up to global financial crisis, and in the many ways which have continued to become evident since then.

In our work for the Capital Failure book, and in our subsequent investigations, we have tried to draw conclusions about the best way forward. In very broad terms we have learned that reliance on markets, coupled with light-handed regulation, is an ineffective way of encouraging trustworthy behaviour. But so too is resort to heavy-handed, imposed, regulation: firms usually find a way of arbitraging around such regulation. As a result, it is clear that some form of self-regulation by the firms themselves is an essential part of the solution. This needs co-ordination, encouragement and guidance.

In Capital Failure we developed a four-part framework intended to provide such guidance to regulators, to policymakers and to the industry itself. We think the following components are essential:

• an appropriate specification of obligations;
• an identification of corresponding responsibilities;
• the creation of mechanisms by which these responsibilities can be carried out; and
• the holding to account of those involved, in an appropriate manner.

Who should do what is the key question which this framework can help us to understand. How much can the industry do for itself – by changing its own culture – and how much needs to be imposed by regulatory enforcement? Effective self-regulation is the ideal, both at the level of the firm and the industry, but is unlikely to be completely adequate. Regulatory control and guidance, and legal restraint and sanctions will always remain important.
It is helpful to use the following spectrum to think about how the legal and regulatory system might best contribute. This who-should-do-what question raises challenges at all levels: for the legal and regulatory system, for the self-regulatory process, for the corporate governance of individual firms, and for the individuals who work for these firms.

**Implementing the Four Step Framework**

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<thead>
<tr>
<th>Obligations</th>
<th>Responsibilities</th>
<th>Mechanisms</th>
<th>Holding to Account</th>
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<tbody>
<tr>
<td>Providing Guidance (through legal text, judgements, comments, legislation)</td>
<td>Establishing Duties, including for fiduciaries, directors, trustees</td>
<td>Cultural Guidance, including ‘Tone at the Top’</td>
<td>Setting and enabling incentives</td>
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<tr>
<td>Regulation of price, return, risk, disclosure, compliance etc.</td>
<td>Prohibition of certain actions, eg theft, insider trading, usury</td>
<td>Shame and Recognition, including exclusion, withdrawal of licences, honours</td>
<td>Imposing penalties, including fines and imprisonment</td>
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It is apparent that the legal and regulatory system has several roles to play in encouraging trustworthy behaviour. It is clearly important that the legal system provide an ever-present threat of punishment for those who step over the line and behave in an unacceptable manner. But the legal system also has a broader role to play. In their judgements, judges are able to make clear the norms of behaviour which are expected of market participants. And some legal activity consists explicitly of the writing of rules, and the development of standards, which the regulatory system can then enforce. These additional roles are crucial, and they extend much further than many intelligent commentators have previously realised.

Nicholas Morris and David Vines
Post the financial crisis across the banking industry the behaviour and culture of the banks and bankers have been under intense scrutiny, and questions have been asked such as: How did this happen? How can we ensure that this never happens again? Jim Wallis, the public theologian and international commentator on ethics in public life, said at the World Economic Forum in January 2009 that the question we should ask of the world’s political and business leaders is ‘How will this crisis change us?’ This has inspired me and shaped my thinking about the role of faith in restoring trust within the financial industry.

As a multifaith chaplaincy team we are committed to offer assistance in promoting the role and value of wisdom from a faith perspective, as it helps to bring a more integrated approach and give a wider context to values and ethics. In the long term, helping employees to take joint responsibility for decisions and actions benefits the company, its core business and the wider community.

As chaplains, we understand from our experience as members of faith communities that human beings are relational and flourish more fully in a community than in isolation, and from within a community where wisdom is shared and behaviour can be learnt. Global banks are much more than a system or faceless structure; within them is a diverse community of people working together to deliver all the core activities. So when senior business leaders talk of changing the banking culture within their organizations, they are recreating an internal culture to ensure that their employees participate as responsible members of the community, living out their espoused values and ethical standards in the way they deliver all their bank’s core activities. For these to take root, it must be a communal activity and their employees’ importance for the business and the wider community must be made clear. Each employee has a part to play.

Often when referring to an individual’s values and ethics, the term ‘moral compass’ is used, which the Cambridge Dictionary defines as a natural feeling that makes people know what is right and wrong and how they should behave. As a chaplain, I want to suggest that it is more than a ‘feeling’ that is natural but is rooted in something deeper, a conscience that is shaped by background, upbringing, education, nationality and, for some, religious belief. The values and ethics expected of us within the workplace should not be seen in isolation from the rest of a person’s life but should provide the magnetic ‘pull’ of their ‘moral compass’ and be intrinsically linked with how they live within a community – in this context the local workplace community – and its relationship with the global community.

Moral and spiritual questions are important and can assist with the consideration for the wider and maybe long-term implications of an action or decision. They also can be helpful for dealing with genuine human mistakes or misjudgements, encouraging a positive atmosphere for people to own up or seek help to sort out issues and move forward before things become catastrophic. It is important that asking moral and spiritual questions is seen as strength and not weakness and that it is understood that they contribute to the collective wisdom within any team.

Revd Dr Fiona Stewart-Darling, Canary Wharf Multifaith Chaplaincy
From my experience the key to establishing a culture that has integrity and becomes engrained throughout the whole organization starts with the Board displaying a passion and ownership and determination for having a culture respecting the requirements of the Law and Regulation but going beyond that in “doing the right thing” for its employees and customers. It is however significantly reliant on the CEO and the Senior Team relating to that ambition and continually demonstrating those behaviours required in the day to day operations of the Company.

There need be no conflict between a High Performing culture and an embedded ethical approach. I have found that where an ethical culture is encouraged based on clear objectives, clear values, mutual respect and trust for and from the leadership, that business success invariably follows.

Culture is a complex mix of collective and individual attitudes and behaviours and requires a comprehensive oversight. The overlapping moral codes between ingrained principles, social conscience and strict adherence to rules all need to be recognised. Strong negative contributors can have an undue influence on individuals and localized teams particularly when this is allied to positional power. Sub cultures can easily arise as a result.

Having a set of key Corporate values and operative beliefs that everyone in the organization can recognize and expect others to work to will restrict the opportunity for this to occur but there is still a need for reinforcement through visible leadership and formal and informal policies and intervention is required when dissonance is evident.

To avoid rupture of the culture during periods of Company stress the purpose and strategy need aligning to the expected Corporate behaviours from the outset as its easy to de-prioritise it when financial underperformance dictates more urgent issues to address. Equally when performance is good attention to maintaining a focus on cultural coherence and identity may be deemed a low priority as it might be seen as a “soft” attribute.

To keep momentum Board and Senior Management need access to a wide variety of measures and actions both internal and external and these should to be integrated into formal Board reports. This will enable the Board to spot inconsistencies.

These measures and actions can be broken down into three categories.

Affirming key values, such as ad hoc visits/coffee mornings by NEDs with a range of staff without Executive presence, Internal Audit comments on positivity of staff to support their work, incentives aligned to behavioural objectives.

Consistent Behaviours, such as adherence to Risk Appetite, Customer feedback, staff surveys, supplier surveys.

Reinforcing strategies, such as behavioural recognition schemes, treatment of customer complaints, analysis of absenteeism and leavers.

Through the SMR, Chairs and CEOs have specific responsibility for the Cultures that are created. Highly cost effective anonymous staff surveys through the BSB are exceptionally valuable to enable benchmarking across the industry and identify specific areas for further analysis. At the Buckinghamshire we fully intend to continue with these as it showed we currently have a set of values that our staff strongly relate to, it will give us trends over time to enable intervention where necessary, and it will demonstrate whether our culture is giving us a competitive edge.
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

Lady (Susan) Rice CBE

A three-legged stool – that’s how I see the relationship between law, ethics and culture in an organisation.

Wearing two hats, one as chair of the Chartered Banker: Professional Standards Board (CB:PSB) and the other as a Board member of the Banking Standards Board, I think a great deal about trust in banking. With the CB:PSB, we’ve developed standards of broad knowledge and professional behaviour that we should expect of every banker. In the BSB, we’re prompting conversations at the highest levels in member banks about the culture of their organisations, about how things are actually done.

These initiatives matter because trust can’t be regulated. It isn’t something we can add to online training for colleagues. We can’t neatly slot it into a business plan. Trust can only be bestowed by others, it has to be earned.

I’m often asked how long it will take to restore trust in banking, or when the culture in banks will change for the better. These questions are important and complex, begging a short treatise by way of response. Since I’m not about to write a treatise, however, this is where the three-legged stool comes in.

Typically we’ve judged banks based on short-term financial performance – quarterly capitalism – sometimes even on spot numbers. In other words, we measure outputs. And link ongoing performance to capital or a similar financial surrogate for longevity. One leg of a stool.

We also take comfort from what’s called the tone at the top – the executives who are the voice of the bank both with investors and more widely. Can they claim that the bank is well-regulated, that they’re acting ethically, doing the right things? The second leg of the stool.

Not a comfortable place to sit for long, however, because it’s a two-legged stool.

So what else matters if the numbers add up at the end of the day, the bank successfully operates within regulation – within the law – and it’s on message? When things go well, we describe it in numbers; however, when they go badly we blame behaviors. I believe it’s the behaviours, the judgements, the decisions of every colleague in every bank that create genuine value and earn trust.

So if colleagues’ actions matter, could we place a value on ethical lapses, customer detriment, percent of bankers qualified and percent achieving their professional standards, and more?

In business, and especially banking, value should be determined beyond today’s outputs and yesterday’s numbers. We can make a business or transaction or product commercial by factoring in future benefits to the customer, to society, to our own business. A kind of net present value that accounts for more than financial performance.

Doing that will keep us focused on our purpose as a bank, a purpose which goes beyond just numbers, which is societal at its heart. Doing it also starts with what the customer needs. If we deliver that fairly, openly and simply, we reduce future risk and create value instead. Indeed, I believe we only create real value if the numbers, the outputs, are derived from a set of values, values with an ‘s’.

If our purpose is societal, we have to face into what society thinks. Call it behaviours, culture, professionalism – it’s this that comprises the third leg of the stool – and makes it a seat you can trust.

Lady (Susan) Rice CBE, Chair of the Chartered Banker: Professional Standards Board, BSB Board member
One intriguing development among large City banks is the recent growth in the use of models and metrics for the purpose of compliance. While models have traditionally been put to work in the realm of trading and risk management, the use of quantitative techniques has now expanded to the problem of ensuring that employees adhere to organisational norms.

In one London-based bank that I observed, this process started with the identification of the values that the organisation wanted to promote (‘integrity’, ‘leadership’ etc.). This first step was then followed by a detailed listing of observable behaviours. These behaviours, in turn, were then linked to a series of tangible outcomes or results. Many of these outcomes were translated into and measured in a survey.

This new trend is in many ways a reaction to the global financial crisis. The challenge for banks, as a sociologist would put it, calls for increasing cultural cohesion around shared values as well as increasing normative conformity, while preserving their profitability.

The banks, however, have responded to this new challenge with innovation. Traditionally, as the celebrated City historian Philip Augar argued in The Death of Gentlemanly Capitalism, the secret sauce that made the old City merchant banks responsible were decidedly social. These included internal careers, joint liability, shared public school background and other forms of demographic similarity that culminated in self-regulation. Unfortunately, these traits were based on small firm size and social closure, rather than diverse, meritocratic multinationals that the large City banks have become. But in the post-crisis era of the 2010s, and faced with the challenge of cultural and ethical scrutiny, the large City banks have turned to something they know well: numbers. Hence compliance metrics.

Will it work? Two academic debates shed light on this initiative. The first relates to the ability of companies to manage their culture. Can it really be done? Since the 1980s, and as management theorist Gideon Kunda documented in Engineering Culture, organisational theorists have debated the concept of normative control, that is, the instrumental shaping of a company’s culture through seminars, training, etc., to compete more effectively. Today, technology companies like Google are at the forefront of this trend. But as management theorist Daniel Denison concluded in an extensive survey of this literature, the empirical evidence for its effectiveness is mixed. It seems, in other words, that some phenomena are more easily measured than managed, a paradox that speaks to the problems encountered by the risk management function, aptly described by Michael Power in Organized Uncertainty.

A related debate concerns the expanding realm of quantification, that is, the use of numbers. In parallel to the rise of smartphones, social media and big data, movements such as the ‘quantified self’ have brought the use of figures from the realm of science and business to the sphere of the personal. But numbers, as Wendy Espeland and Michael Sauder document in Engines of Anxiety, often come with unintended consequences. Their study of American law schools concluded that the widespread use of rankings in admissions and career services ‘create and reinforce a rigid hierarchy that penalises lower-tier schools that do not conform to the restrictive standards used in the rankings’.

In sum, the new adoption of metrics, measures and quantitative indicators in the compliance functions of City banks is a significant new trend with far-reaching and yet unknown consequences. This ambitious experiment comes with a big promise: to bring back the positive aspects of old-school capitalism, in a plus-size format that our giant banks can implement, and without the elitism of the now-defunct merchant banks. The academic literatures on normative control and quantification offer grounds for caution, but if successful, the City of London will have demonstrated once again its ability to reinvent itself so as to remain successful through different moments in history.
1 Daniel R. Dension. ‘What is the Difference between Organizational Culture and Organizational Climate? A Native’s Point of View on a Decade of Paradigm Wars.’ The Academy of Management Review, Vol. 21, No. 3 (Jul., 1996), pp. 619-654

Daniel Beunza, Assistant Professor, Dept of Management, London School of Economics
**WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES**

Chris Megone, University of Leeds

Do I trust my bank? Well, I have been a customer/client of X Bank for more than forty years. I suppose that reflects a level of trust in an organisation, even though my trust in banks and building societies has not been unaffected by the crisis of 2008/9.

Notice – the question was about my attitude to my bank, but this response mentions my attitude to banks and building societies as a group. Actually there are three questions here: ‘do I trust my bank/building society?’; ‘do I trust the bank/building society sector?’; and, ‘do I trust individual bank employees’? I shall suggest that these issues are subtly connected.

Let me begin with a story. When I came to Yorkshire in 1983 I joined a cricket club. In that club was a good fast bowler. Bill was a competitive cricketer but a man of good demeanour, reliable, honest, well-grounded, a good judge of people and situations. He was not a saint (can any fast bowler be a saint?), but in human terms a person of virtuous character. And, as it transpired, Bill was the local manager of my bank.

Bill was what I expected of a bank manager – a trustworthy individual. But he also confirmed my view, and expectation, of all bank managers. I did not think it was because he worked for X bank rather than Y bank that he was trustworthy. I expected the class of bank managers (and other bank employees) to be trustworthy. And I expected that he, as a bank manager, would help to spread trustworthy behaviour across the organisation and that the organisation would support him in both remaining trustworthy himself and helping his employees to be trustworthy.

I had these expectations of bank managers in general, even though the banks and building societies which employ them are in competition with one another. In other areas of professional life, accountancy and the law, for example, firms compete for business, but there are certain key features of character which are expected of every member of the profession, and trustworthiness is one of them.

Used to thinking competitively, banks and building societies have responded to the financial crisis to some extent as individual organisations. What is important to them is that their organisation is trusted. Distinct banks and building societies each proudly display their own distinctive values, often seen as part of a competitive brand.

But trustworthiness is something that banks and building societies need to address collectively. As one of our interviewees, a senior member of a very large bank, put it: ‘[it is important to recognise] that a good ethical and cultural baseline is not necessarily a competitive advantage at all. It’s a good thing for the industry to have’.

My own experience also suggests that if customers do have trust it is typically at once more general and more specific than trust in a particular organisation. Customers trust an organisation’s employees, particularly those whom they know personally, or they trust the industry in general. People understand that organisations compete with each other, but they expect the industry as a whole to be trustworthy, and if one organisation, or some individuals, turn out not to be trustworthy, this affects how much they trust the whole industry.

Why is it that PwC can compete with KPMG, Freshfields Bruckhaus Deringer with Linklaters, but it is crucial for every accountant and lawyer, (and every doctor and teacher), to be trustworthy? This is because in all these professional fields there are common fiduciary purposes, with respect to the client’s finances, legal needs, health and education, which make a common baseline of trustworthiness required. And it seems clear that banking has a common fiduciary purpose with respect to client finances which makes trustworthiness necessary as a common standard here too.
And as the etymology of the word ‘member’ (membrum) makes clear, individual professionals are the limbs of a professional body, or of a firm, and thus their trustworthiness affects, and is affected by, the trustworthiness of the wider body (the other members). Or, as Aristotle put it, we are gregarious beings, so with respect to trust we flourish or fall, as individuals and groups/firms, together.

One way to pursue a collective response is to regulate. But trust depends on the character of individual bankers, and whilst regulation may affect character development it is certainly not sufficient to produce good character. First, those who simply rely on regulation remain at a very early stage of character development, obeying rules without knowing why. And second, character is shaped by more than regulation, notably by the culture of the firm and professional body to which the individual belongs.

Chris Megone, Professor of Inter-Disciplinary Applied Ethics, University of Leeds
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

Charles Bowman, PwC

The global financial crisis and the events that followed shook people’s trust in organisations – and in light of this last summer’s Brexit vote, it is clear that trust is more important than ever. There is much to be done to restore trust – creating better businesses that are trusted by society.

The recently published 2017 Edelman Trust Barometer reports the largest ever decline in trust across the institutions of government, media, NGOs and business. The report concludes that:

‘Business finds itself on the brink of distrust,....and, perhaps most concerning for business is the perceived role the public sees business playing in stoking their fears.’

And, so why is trust so important?

Because we live in a world of increased connectivity and public scrutiny and in this new world, trust is the glue and the lifeblood of any organisation...the critical asset in ensuring any institution’s long term survival and success.

And, why is trust so important to the City of London specifically?

Because if London is to remain pre-eminent as the global financial services and banking hub, (1) we must demonstrate, internationally, that London continues to be the trusted cluster of choice and (2) at a national level, we have a responsibility to better communicate our story and our value to the society that we are here to serve.

There is no single silver bullet, trust can neither be demanded nor built, it must be earned – and that takes time. As the old Dutch proverb says, trust arrives walking and leaves on a galloping horse.

The re-earning of trust in Banking and financial services will therefore take time. But it must be done and it is this agenda that I intend to focus on over the next year.

Charles Bowman, Partner, PwC
In recent years there has been a lot of talk about how to rebuild trust in the banking industry. That this discussion is going on is a good thing. But there comes a point where there has been enough talk. There’s a risk that we keep agreeing with each other about how important it is to do something, while customers continue to struggle with a service that doesn’t give them a fair deal.

Last year Citizens Advice helped 2.7 million people face to face, over the phone and through webchat, on a whole range of issues. Over 350,0000 of our clients had issues with debts and financial services. And beyond that, countless numbers of the other issues we help with – from benefits and tax credits, to employment issues and consumer problems, will have involved interactions with financial services.

Day in, day out, we see the impact of banks’ behaviour on our clients’ lives. And we see the corrosion of trust with every failure – when the phones are busy, and branch staff ill informed; when services are difficult to navigate, and the small print impossible to understand; when customers are directed to products that aren’t right for them, and not signposted to the ones they need.

It is very welcome that the industry has taken the first steps to engage more closely with their customers. To better understand the complexity of vulnerability. To develop strategies for changing culture and building trust. But more needs to be done if we are to reduce the number of people coming to Citizens Advice who have been let down by poor service, mis-selling or bad practice in the financial services sector.

That isn’t something that can be put right with a vulnerability strategy or the launch of a new inclusive product. The industry will fail to win back the support of the public if it only adds these things around the edges. We need a wholesale change of mind and change of heart. This is why I welcome – and am pleased to play a part in – the BSB’s work to develop a better understanding of the culture of banking. To identify the areas where deep-rooted attitudes and behaviours are detrimental to the interests of customers.

My challenge to the banking industry is to make sure your actions speak as loud as your words – at all levels of your business. Customers will only feel the difference when changes in culture, conduct and ethics are displayed as proudly on the front line – whether that’s a branch, a call centre or online – as in carefully drafted strategy documents. When that has been achieved, we can start talking about banks being worthy of trust.

Gillian Guy, Chief Executive, Citizens Advice
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING BLOG SERIES

David Duffy, Clydesdale and Yorkshire Bank

Since our inception, Clydesdale and Yorkshire Bank has been a community-based bank known for multi-generational relationships with our customers.

We have gained the trust of these customers by supporting them over the long term, through both the good and the bad times.

Today our powerful retail and SME franchise is based on over 100 years’ experience advising and lending to households and businesses across the country’s key sectors, like agriculture and manufacturing.

In a world where banking is evolving at lightning speed, with new technologies and disruptors continually coming on the scene, the question is asked whether firms can maintain these levels of trust and consumer confidence.

Our answer to that is that they must, as trust and confidence is becoming more important than ever.

We know just how strong consumers’ appetite is for using new technology when it comes to how they manage their money. We’ve seen how quickly they have adopted first telephone, then online and now mobile banking. In the last 5 years, the number of customers using their bank branch for day-to-day transactions has fallen by a third. At the same time, we’ve seen a dramatic shift by customers to multi-banking.

Many new players are entering our different channels and in most cases are delivering those channels more effectively and at a lower cost than the traditional bank model. In addition to the disruption and disintermediation of competitors, regulatory changes driving open banking will have a very significant impact on how customers interact with banks.

Technology is also having a dramatic impact in every consumer space and in particular banking. When you combine the accelerating impact of Moore’s law, cloud computing and the leveraging capability of artificial intelligence, it is easy to imagine that the traditional model of banking could be extinct in the near term rather than the long term.

Certainly the old world of a proprietary bank model has gone forever.

Today, banks are no longer entitled to customers – we have to fight for them within a consumer-focussed model.

Ultimately we believe that banking transactions will exist in some form of social media ecosystem, where consumers will order goods, pay for them, compare pricing of products, while at the same time accessing instreaming products and a variety of social media such as Instagram, Snapchat and messaging services. Banking aggregators will further disintermediate the relationship with the customer.

However, while the scale and pace of change we’re witnessing might, on the face of it, reduce the importance of relationships and trust, we believe the opposite.

We believe consumers will see as the norm, the choice, convenience and flexibility, that automation and technology can deliver. But their demand for a relationship with their bank based on trust and confidence will be stronger than ever. Rebuilding this trust is a critical part of the role of leadership in banking today. Cultural transformation will be at the heart of this.

Some of the trends underline this – fewer than 1 in 10 consumers say they would consider opening an account with a digital only bank in the next 3 years and the branch remains by far the dominant channel for opening current accounts, savings accounts and applying for a mortgage, suggesting that the need for face-to-face interaction and advice when required, remains high with consumers.

Perhaps more tellingly, and understandably, trust in a firms’ ability to handle customers personal data remains a key issue – two-thirds of people say they would not open a current account with any financial provider, new or established, if it shared their financial data with third providers.
That’s why we believe consumers will place a premium on service, advice and the level of confidence and trust they have in their bank in the future – even more so than they do today.

And that’s why at CYBG we’re excited about the future – because we believe long term survival will be based on our ability to combine the best of our history of local touch relationships and advice, with a world class technology service that supports those relationships.

Technology should not be viewed as being ‘instead of’ but rather ‘in support of’ the customer experience – and it’s this experience and the ability of banks to build relationships based on service and trust, that will be the battleground of the future.

Too often digital challengers adopt single or limited offerings which push product at the customer. We believe that we need to prioritise the customer and their experience and not the product, utilising technology to enhance their experience, not change it. To this end, in our app, B, we have developed the first true AI application in the market on our open API platform. This app helps you manage your money and puts the customer at the heart of the discussion, prioritising convenience for the customer.

We are expanding this technology across all of our products and services to ensure that the customer, as an individual or business, can access services where they want, how they want, when they want and with the best experience in the industry.

As excitement grows around the evolution of technology, banking is absorbed into the conversation in a generic fashion – but trusting a third party with your life’s savings, your family’s security or the growth potential of your business, is not the same as storing your pictures.

As our world evolves at a fast pace it is interesting to observe that the best banking model is likely to require the relationship capabilities of the past, the technology of the future and a consumer orientated culture.

This is the bank that CYBG is building.

David Duffy, Chief Executive Officer, Clydesdale and Yorkshire Bank
BSB Deputy Chairman Sir Brendan Barber spoke to City A.M. on the morning of the Worthy of trust? event on the importance of law, ethics and culture if the banking sector is to be worthy of customers’ trust...

Click here to read the article
PANELLISTS’ REMARKS

The Worthy of trust? event, chaired by BSB Chairman Dame Colette Bowe, brought together an eminent panel comprising Bank of England Governor Mark Carney, President and Chief Executive Officer of the Federal Reserve Bank of New York William C Dudley and the Rt. Hon. the Lord Thomas of Cwmgiedd, Lord Chief Justice of England and Wales to explore the issue of shared importance: the relationship between law, ethics and culture in creating a banking sector that is worthy of trust. Read the opening remarks from each panellist...

MARK CARNEY, GOVERNOR OF THE BANK OF ENGLAND
Click here to read Mark Carney’s panel remarks

WILLIAM C DUDLEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE FEDERAL RESERVE BANK OF NEW YORK
Click here to read Bill Dudley’s panel remarks at the Worthy of trust? event
Click here to read Bill Dudley’s remarks at an earlier Banking Standards Board breakfast event on 21 March

RT. HON. THE LORD THOMAS OF CWMGIEDD, LORD CHIEF JUSTICE OF ENGLAND AND WALES
Click here to read Lord Thomas of Cwmgiedd’s panel remarks
WORTHY OF TRUST? LAW, ETHICS AND CULTURE IN BANKING - 21 MARCH 2017

The event is available to watch in full:

Click here to see the video