

# Chartered Banker

The voice of financial professionalism

April – May 2009

HOW TO REBUILD THE FOUNDATIONS OF TRUST

**JOHN KAY** “Restructure regulation”

**BRIAN SCOTT-QUINN** “Restore professionalism”

**BENNY HIGGINS** “Reward loyalty”



TRUST

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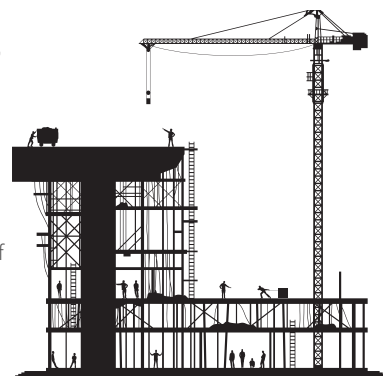


**BRIAN SCOTT-QUINN**, Chairman of Henley's International Capital Markets Association (ICMA) Centre, examines how banking can recreate that cornerstone of trust – its ethic of professionalism. (p14)

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As regulators and politicians immerse themselves in reforms to the machinery of finance, Chief Executive SIMON THOMPSON argues that education, not regulation, is the secret to rebuilding trust in banks.

# Time to renew our human capital

"Frankly, I don't think there's much that matters more," says BENNY HIGGINS. "I treat people education and training as absolutely mandatory." I couldn't put it better myself.

As Chief Executive of Tesco Personal Finance, Benny has engineered one of the few precious pieces of good news so far this year, launching Tesco's new banking HQ in Edinburgh with 200 new jobs – plus that unequivocal commitment to building the human capital of his organisation.

That's entirely the right emphasis. Regulators and politicians alike are now quite properly immersed in the machinery, looking for new systems and processes – as the Turner Review (p6-7) does so comprehensively – to corral this crisis and prevent future stampedes.

But the truth is that we'll only rebuild trust in banks if we replenish their human capital along with their financial capital. We can devise all manner of robust international regulations, renewed accords, reinforced capital ratios, revised risk monitoring regimes and more stringent patrolling of rewards; but, if we don't do something about the attitudes and behaviours of bankers, we'll be back here again in 10 years' time.

The issue exercising everyone right now is the way banks' incentives have encouraged inappropriate behaviour. But that's not just an issue of performance bonuses. What we actually need is a wider appreciation of a new banking culture of professionalism to be secured not through regulation but through education.

Let's be clear: this isn't some notion of producing leaders through academic courses. You might have fantastic leadership qualities. But can you run a bank? Here at the Institute, we're not selling the latest self-indulgent leadership fad to the banks. We produce bankers.

That's our distinction: we're concerned with the core competencies of the banking business –

assessing credit, judging risk, establishing the ethical foundations; and doing this not through academic qualifications, but through Continuing Professional Development.

That's what makes us a professional body rather than an academic institution. Once you become a Chartered Banker, you remain a Chartered Banker only by sustaining and renewing your commitment to high standards of ethical behaviour through CPD.

This is an endeavour in which we believe the industry itself needs to take the lead by saying what we think the minimum standards for a banker should be. The FSA are attempting to impose minimum standards but, in all honesty, this isn't really their bag. Their job is to regulate organisations, not individuals. We shouldn't need the FSA to do this for us. We should do it as an industry – and, in a sector where standards are currently far too low, we should set the bar visibly higher as a prerequisite of regaining public trust.

This is why we at the Institute have launched a UK-wide consultation (p22) to establish a benchmark of the banking professional, covering the key ethical, technical and professional issues they'll face in their careers.

Others recognise the need. Henley Business School's Professor BRIAN SCOTT-QUINN (p14), wonders about the validity of a banking equivalent of the Hippocratic Oath in which "working for the good of the client" is at the heart of what is professed.

JOHN ANDERSON, CEO of the Entrepreneurial Exchange (p38) comes at it from a different angle. "Keep your promises" he insists. "When customers trip, the banks have got to be there to catch them – like they said they would." It may well be difficult to fight through the undergrowth of conflicting interests to establish what level of competence we need in banking. But it really ought to be an industry-led solution. It's critical to restoring our human capital.

**"We can devise all manner of robust regulations, renewed accords and reinforced capital ratios, but, if we don't do something about the behaviours of bankers, we'll be back here again in 10 years' time."**

# news & views



## Turner in a nutshell

Last October, FSA Chairman Lord Turner was asked by Chancellor Darling to review the causes of the financial crisis and recommend changes needed for a more robust banking system. The Turner Review is his recipe for tackling “arguably the greatest crisis in the history of finance capitalism”.

“We require a global banking system focused on serving the needs of businesses and households, not in taking risks for quick return.”

**T**he financial crisis,” says Lord Turner, “has challenged the intellectual assumptions on which previous regulatory approaches were largely built, and in particular the theory of rational and self-correcting markets. Much financial innovation has proved of little value, and market discipline of individual bank strategies has often proved ineffective.”

Turner is clear that a global market economy remains the best means of delivering global prosperity. “It requires a global banking system focused on serving the needs of businesses and households,” he argues, “not in taking risks for quick return.”

Failure to look at the big picture, he asserts, was far more important to the origins of the crisis than any specific failures in supervising individual firms. Solutions must reflect the reality of a global financial system without a global government – “we need both far more intense international co-operation and greater use of national powers.”

## THE REVIEW RECOMMENDS:

### CAPITAL & LIQUIDITY

Fundamental changes to bank capital and liquidity regulations and to bank published accounts, including:

- More and higher quality bank capital, with several times as much capital required to support risky trading activity.
- Counter-cyclical capital buffers, building up in good economic times so that they can be drawn on in downturns, and reflected in published account estimates of future potential losses.
- A central role for much tighter regulation of liquidity.

### SHADOW BANKING

- Regulation of "shadow banking" activities on the basis of economic substance, not legal form.
- Increased reporting requirements for unregulated financial institutions such as hedge funds, and regulator powers to extend capital regulation.

### RATING AGENCIES

- Regulation of Credit Rating Agencies to limit conflicts of interest and inappropriate application of rating techniques.

### PAY & BONUSES

- National and international action to ensure that remuneration policies are designed to discourage excessive risk-taking.

### STRATEGIES & RISKS

- Major changes in the FSA's supervisory approach, building on the existing Supervisory Enhancement Programme (SEP).
- A focus on business strategies and system wide risks, rather

than internal processes and structures.

### EUROPEAN REFORM

Major reforms in the regulation of the European banking market, combining:

- A new European regulatory authority.
- Increased national powers to constrain risky cross-border activity.

### "UTILITIES v. CASINOS"

The Review rejects a complete separation of narrow ("utility") banking from investment ("casino") banking. "It is certainly not possible to separate casino banking so completely that we can happily let it go bankrupt in a crisis: Bear Sterns and Lehman Brothers were not deposit takers, they were separate from narrow banks, but they were still systemically important.

"Narrowness is no defence against excess; diversification has its virtues: Northern Rock, Washington Mutual and Indy Mac – three big bank failures of the crisis – were all narrow banks.

"In a world of global corporations, floating exchange rates, global capital flows, there is an important role for complex global banks involved in a wide range of activities, some of which do require market making activities and some position taking.

"Better controls on capital and liquidity should result in many commercial banks choosing to play much reduced roles in propriety trading activity. And global commercial banks which are involved in market making and trading activities, should be doing so in order to support their services to corporate customers, rather than as free standing propriety activities."

Everyone has a verdict on the Turner Review – and the one thing that's clear is the lack of unanimity.

### "A BLOW TO UK COMPETITIVENESS"

His approach has much to recommend. (But) the proposals on liquidity and product regulation could put the UK out of step with other countries and force firms to manage their reserves on a country-by-country basis, which would be a blow to the UK's competitiveness. JOHN CRIDLAND, Deputy Director-General, CBI

### "AND WHAT ABOUT THE AUDITORS?"

The review doesn't seem to have touched on accounting rules even though the auditing profession has not policed risk when signing off accounts. One wonders how they gave 'going concern' statements in recent years while not fully understanding an institution's exposure. ROBIN JOHNSON, Corporate Partner, Eversheds

### "IT WILL NEVER WORK"

The City needs change which genuinely makes things better, not change for change's sake. Mervyn King was spot-on when he called for "simple, robust" regulation. Creating new rules for every eventuality will never work. STUART FRASER, Chairman of Policy, City of London Corporation

### "THE DEVIL'S IN THE EUROPEAN DETAIL"

The real surprise is the FSA's willingness to give up powers to Europe. This is a politically brave recognition of the need for international solutions to international problems. However, the devil will be in the detail of negotiating how far real powers will be ceded to Europe. BOB PENN, Financial Services Partner, Allen & Overy

### "POLITICALLY SHREWD – BUT RISKY"

Lord Turner's bold effort to set the tone for international regulatory reform could founder – and UK financial services suffer – if his central gamble that the FSA's global partners will follow its lead does not pay off. Lord Turner has a shrewd political sense. While he is intellectually opposed to separating "casino banking" from "utility banking", for instance, he also recognises that Germany, for one, could not practically agree such a step, and that Britain would be left isolated on the issue. ANDREW HILL, Lombard, The Financial Times

### "PRESSURE AT THE WRONG TIME"

The proposed changes are likely to put more pressure on financial institutions at a time when they are already battling with lack of liquidity, unprecedented losses, difficult trading conditions and battered consumer and investor confidence. GRAHAM O'CONNELL, Partner, PricewaterhouseCoopers LLP

# news & views

## The world's '50 oldest banks', says GLOBAL FINANCE

Such has been the turmoil in the world's banking industry that, for the first time, Global Finance magazine is publishing a mid-year update of its much respected 'Safest Banks' listing.

The 'World's 50 Safest Banks' 2009 were selected through a comparison of the long-term credit ratings and total assets of the 500 largest banks around the world. Ratings from Moody's, Standard & Poor's and Fitch were used.

"The rating agencies have determined these banks have demonstrated a more prudent and sustainable approach to risk than their peers," says Global Finance publisher Joseph D.



Giarraputo. "More than ever, customers all around the world are viewing long term creditworthiness as the key feature of the banks with which they do business."

1. KfW (Germany)
2. Caisse des Depots et Consignations (CDC) (France)
3. Bank Nederlands Gemeenten (BNG) (Netherlands)
4. Landwirtschaftliche Rentenbank (Germany)
5. Rabobank (Netherlands)
6. Landeskreditbank Baden-Wuerttemberg-Foerderbank (Germany)
7. NRW. Bank (Germany)
8. BNP Paribas (France)
9. Banco Santander (Spain)
10. Royal Bank of Canada (Canada)
11. National Australia Bank (Australia)
12. Commonwealth Bank of Australia (Australia)
13. Banco Bilbao Vizcaya Argentaria (BBVA) (Spain)
14. Toronto-Dominion Bank (Canada)
15. Australia & New Zealand Banking Group (Australia)
16. Westpac Banking Corporation (Australia)
17. Banco Espanol de Credito S.A. (Banesto) (Spain)
18. ASB Bank Limited (New Zealand)
19. HSBC (United Kingdom)
20. Credit Agricole (France)
21. Wells Fargo (United States)
22. Nordea Bank (Sweden)
23. Scotiabank (Canada)
24. La Caixa (Spain)
25. Svenska Handelsbanken (Sweden)
26. US Bancorp (United States)
27. Banco Popular Espanol (Spain)
28. DBS Bank (Singapore)
29. Pohjola Bank (Finland)
30. Deutsche Bank (Germany)
31. Société Générale (France)
32. Intesa Sanpaolo (Italy)
33. Bank of Montreal (Canada)
34. DnB NOR Bank (Norway)
35. The Bank of New York Mellon (United States)
36. Caixa Geral de Depositos (Portugal)
37. United Overseas Bank (Singapore)
38. OCBC (Singapore)
39. Axa Bank Europe (Belgium)
40. Credit Suisse Group (Switzerland)
41. Landesbank Baden-Wuerttemberg (Germany)
42. Nationwide Building Society (United Kingdom)
43. CIBC (Canada)
44. National Bank Of Kuwait (Kuwait)
45. Barclays (United Kingdom)
46. UBS (Switzerland)
47. JPMorgan Chase (United States)
48. Bank of Tokyo-Mitsubishi UFJ (Japan)
49. Banque Federative du Credit Mutuel (BFCM) (France)
50. Credit Industriel et Commercial (CIC) (France)

## BBA reports rise in business lending

The level of banks' lending to small businesses rose by £235m to £54.2bn in January, according to new figures from the British Bankers' Association.

January's rise in lending reversed the previous month's movement when overdraft balances were reduced by receipts of single farm payments. Deposits fell by £1,513mn in the first month of this year, in part reflecting small businesses tax payments.

Commenting on the data, BBA Statistics Director, David Dooks, said: "There have been net rises in term lending to small businesses each month since last Autumn, albeit at levels below last year's monthly average, reflecting subdued business investment in the economic downturn. At the end of last year, the outstanding level of term lending was some 9 per cent higher than a year earlier. The many small businesses that don't borrow are drawing on cash reserves to fund current cash-flow needs, such as January's tax payments. Despite the recession, people are still embarking on new business ventures, as shown by the number of new start-up relationships in early 2009 being in line with last year's average."

Lending to small businesses rose by £235m to

£54.2bn

# Virgin Group seeks licence to become High Street bank

Sir Richard Branson is looking to obtain a licence for his Virgin Group in a bid to become a High Street bank and return to the mortgage market.

The billionaire entrepreneur told The Times: "We are going to get back into the mortgage business and we will become a bank either by acquisition or by getting our own banking licence. You will see us become a consumer bank within the next couple of years."

Virgin, which was unsuccessful in acquiring crisis-torn Northern Rock, sold its Virgin mortgage product, Virgin One, to RBS more than five years ago.

It is understood that the group is now keen for the Government to break up RBS, which is now 70% owned, which would give Branson the opportunity to purchase parts of the bank, and branch out onto the High Street.



# One third of consumers pay everyday expenses on credit

Post Office survey reveals reliance on credit is not limited to one particular social group, but affects people from all backgrounds.

**A** Most one third of UK consumers use a credit card to pay for everyday items such as groceries, a Post Office survey has revealed. The poll shows that 10 million British adults intend to use their credit cards to cover day-to-day living expenses during the first part of this year.

Meanwhile, 2.6 million people intend to spend more on their credit card this year than last year, despite economic recession and increased risk of redundancy.

45% of credit card holders also said they are not planning to pay off their bill in full at the end of each month.

# 45%

of credit card holders are not planning to pay off their bill in full at the end of each month

# One in four Brits save nothing

Nearly a quarter of Brits have no money set aside in a savings account, according to research by Nationwide Building Society.

The study in savings trends found that 23% of respondents had nothing in a savings account, whilst the number of people who consider saving important has dropped 25% compared to a year ago.

Repeated cuts to the Bank of England's base rate to one tenth of what it was in October were to blame for the fall in the perceived importance of saving, Nationwide said.

Falling returns are pushing consumers away from holding money in banks and building societies, Nationwide warned, reducing the funding available to mortgage lenders.

Despite the drop in the perceived importance of saving, many Brits believe they are saving less than they should. Six in ten (59%) respondents said they are saving less than they need.

Over half (52%), meanwhile, said they will be saving the same amount of money as they are now in six months time – suggesting that whilst savings need to increase, many savers are unwilling to change their habits.

Andy McQueen, Nationwide Savings Director, said: "Even though returns are smaller at the moment, it's still just as important for people to regularly put money aside."



# news & views



## Cash machine crime up 17% on year

**A**ccording to the UK's cash machine network, Link, the number of attacks on cash machines increased 17% in 2008 compared with the 2007 year, with almost two a day being attacked.

In 2007, these types of crimes cost the industry £37 million, with techniques including fitting a miniature camera so fraudsters can record a PIN number as it is tapped in, or skimming devices fitted to machines to copy a customer's card details.

To help fight this type of crime, Link has teamed up with Crimestoppers. They will work closely with different police agencies and departments, including the Dedicated Cheque and Plastic Crime Unit (DCPCU).

Consumers are advised to protect their PIN by shielding the keypad with their hand or where possible, use a cash machine which is in clear view and well lit.

Anyone suspecting foul play should report it via [www.crimestoppers-uk.org](http://www.crimestoppers-uk.org) or call the organisation on 0800 555 111.

## Government launches loan shark hotline

The Government has launched a national helpline and text messaging service for people who become the victims of loan sharks.

As the recession and credit crisis continue to bite, more people in desperate financial straits and those with poor credit histories will be tempted to borrow at the exorbitant interest rates charged by unlicensed moneylenders.

The Department for Business, Enterprise and Regulatory Reform (DBERR) is behind a new scheme which allows consumers to make one phone call and 'shop' illegal operators.

The confidential national hotline number is **0300 555 2222**. Text messages can be sent on **60003**.

According to Government research, a loan from a loan shark is, on average, three times the cost of the same loan from someone operating legally. However, interest rates of between 8000% and 117,000% have been uncovered.

Loan shark interest rates of between

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## New coalition calls for Royal Mail to start a bank

A coalition of trade unions, business leaders, pensioner and other pressure groups are among those urging the launch of a new Post Bank. Politicians from the main parties will join a Parliamentary reception to launch the proposal to provide more financial services to people and businesses not served by high street lenders.

A Post Bank would boost the post office network, create new jobs and secure the organisation's future, it was argued.

Ministers were also told that a Post Bank would establish the form of relationship-banking "abandoned" by the country's biggest banks.

The coalition said there was a "unique" opportunity to help secure the future of the Post Office network and answer concerns about equitable finance. Three million people were still being denied access to basic finance in the UK, including pensioners and the most disadvantaged, while small firms were being hit by increases in the cost of new credit, said the coalition.

Billy Hayes, General Secretary of the Communication Workers Union, said: "The Post Bank is the right proposal at the right time politically and industrially. It answers the needs of the financially excluded and will appeal to many in this time of economic uncertainty.

"The Post Bank will be a true People's Bank, meeting the needs of society and business alike and will bring crucial security to the Post Office network. The Government must move swiftly to endorse this timely proposal."



# Institute news

## Fantastic! Excellent! Encore!

“Fantastic speaker,” says one delegate. “Content perfect for the time slot. Enjoyed the humour.”

**T**hat was one reaction to Miascape – “We help individuals, teams and organisations view their world as if they are seeing it for the first time.” Others attending this ‘Thinking Harder’ event by our Glasgow District Centre at the Millenium Hotel on 19 February were just as impressed.

“The presenter was excellent and the content very relevant,” reports one. “The guest speaker was very engaging,” says another, “and made me think about how I can apply this approach to everyday scenarios.”

The event – the third and all three have



been sell-outs – was such a success that the Centre would like to run it again later this year if there’s a demand. Institute members will be contacted if a further date is arranged.

Miascape aids understanding of the thinking behind organisational and individual behaviours. The seminar’s insight helps you to:

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Still prefer post? If so, please let us know that, too, and we’ll note that on your records.

Institute events are primarily advertised by e-mail and on our website. Where possible, details will also appear in Chartered Banker magazine.

## Glasgow: by open-top bus

You’d be surprised how much more there is to learn about some of Glasgow’s many beautiful buildings and attractions that we walk by each day and take for granted.

Well, here’s your chance: the next event by Glasgow District Centre – a private two-hour, open-top bus tour of the city on April 23 – takes us to the People’s Palace, the City Chambers, the Botanic Gardens, Glasgow School of Art and the Transport Museum.

The bus picks up outside of the Millennium Hotel, 40 George Square, Glasgow at 6:15pm, returning to the same spot at around 8:30pm.

Bookings are open to Institute members and non-members on a ‘first come first served’



basis. Institute members are asked to book via our website: [www.charteredbanker.com](http://www.charteredbanker.com).

Non-members are asked to book by contacting: [val@charteredbanker.com](mailto:val@charteredbanker.com) or telephone 0131 473 7773.

There’s a charge of £5/head, payable at the time of booking.

## ANNUAL GENERAL MEETING JUNE 22

We look forward to welcoming you to the Institute’s Annual General Meeting Monday June 22 at 5.15pm. It’s being held at the Institute’s offices, 38b Drumsheugh Gardens, Edinburgh EH3 7SW. We hope you can join us.

# Institute news

## OTHER EVENTS OF INTEREST

### Secrets of success

#### Half-Day Miascape Seminar – 20th May 2009

The Institute has been running a successful series of taster events with Miascape on the theme of 'Thinking Harder'. Given the tremendous feedback these have received, we are pleased to offer two full-length sessions with Miascape at a substantial discount on normal prices.

If you or your team are being asked to deal with constant uncertainty, to deliver more with less resources, or to move people quickly without losing their engagement, then you could benefit from this seminar where you will:

- Discover the secret of success in the current climate;
- Get powerful insights into human behaviours (including your own);
- Learn precisely how to engage people in your transformation journey;
- Understand the psychological handbook we have all written; and
- Discover how to make it more probable that you come up with the next recession breaking idea.

**Location:** Edinburgh      **Date:** May 20th 2009  
**Timing:** 13:00 - 16:00      **Fee:** £195

## Banking Insights 2009

Following the popular Scottish Banking Forum seminar series, this year we are delighted to present Banking Insights 2009.

This season of events marks our seventh year of collaboration with PricewaterhouseCoopers to bring you topical and timely banking updates and insights.

Join us on 21st April for the first session of the series entitled 'Strengthening Liquidity Standards: What You Need To Do'.

The FSA recently announced far-reaching proposals in terms of strengthening liquidity standards and many institutions will have to drastically reshape their business models over the next few years.

At this seminar, PwC industry specialists will consider the scope and detail of the new regime, what the proposals will mean for you and how best to manage the impact on your business.

<b>EVENT</b>	Banking Insights 2009 – Seminar I 'Strengthening Liquidity Standards: What You Need To Do'
<b>DATE</b>	Tuesday 21st April
<b>LOCATION</b>	Apex International, 31 – 35 Grassmarket, Edinburgh EH1 2HS
<b>TIME</b>	Registration and light breakfast: 8.45am Presentation & discussion: 9am – 10.30am
<b>FEE</b>	Members, £35    Non members, £45

For more information on this series, check the events section of our website where you can download the Banking Insights 2009 brochure.

To register for this event, members can use the online booking system in the events section of our website [www.charteredbanker.com](http://www.charteredbanker.com). Non-members can download the booking form from our website. If you have any queries about this series, please contact Ashleigh Edmiston at the Institute on **0131 473 7797** or email [ashleigh@charteredbanker.com](mailto:ashleigh@charteredbanker.com).

## One-Day Miascape Workshop for Senior Managers – 27th May 2009

### As a Senior Manager, do you find that:

- Existing models and methodologies are proving insufficient in dealing with the current climate?
- You are being challenged more than ever before about the strategies you wish to implement?
- Things are not happening fast enough?
- You recognise the need to do something different?
- Staff are being described as demotivated and disengaged?
- People strategies are secondary but feel imperative to success?
- Thinking creatively is becoming harder as products become commodities?

If this sounds familiar, then this one-day workshop will offer you an insight into the 'E=mc2' of transformation and provide powerful processes for challenging



thinking in yourself and others. You will discover how to make transformation more probable, work on real issues and gain rapid results, and will leave with a "how to" guide to put your new learning into practice.

Numbers will be restricted to allow more interaction with the workshop leaders and attendees will also gain access to Miascape's online transformation product, the 'Thinking Harder' forum and its quarterly newsletter.

CIOBS members should book online in the 'My CIOBS' section of [www.charteredbanker.com](http://www.charteredbanker.com). Non-members can book by downloading a registration form from the website, which can be faxed to CIOBS on **0131 473 7788**.

For more information contact Martin Fishman on **0131 473 7789**.

**Location:** Edinburgh      **Date:** May 27th 2009  
**Timing:** 10:00 - 16:30      **Fee:** £595

The banking industry's own construction site may have been devastated. But work on it has certainly not halted. Faced with what the Turner Review calls "arguably the greatest crisis in the history of finance capitalism," bankers, politicians and regulators are in a frenzy of activity and inquiry. In this issue, Chartered Banker reviews their work in progress – the central search to rebuild trust.

# Work in progress

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Prof BRIAN SCOTT-QUINN: "Bankers are in the doghouse. Banking is in disrepute. What better time to examine how banking can recreate that cornerstone of trust – its ethic of professionalism."

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JOHN KAY: "The present crisis is not an act of God, unpredictable and unpredicted by ordinary mortals. There are solutions to the problems that led to banking's death of trust."

p20

CASPIAN WOODS: "We're witnessing the first skirmishes in the battle to rebuild trust with customers. But shouldn't the banks be fighting this battle nearer home – with their staff?"

"the

truth is that we'll only rebuild trust in banks if we replenish their human capital along with their financial capital," says Simon Thompson, the Institute's Chief Executive in his Foreword to this issue (p5).

"We can devise all manner of robust international regulations, renewed accords, reinforced capital ratios, revised risk monitoring regimes and more stringent patrolling of rewards; but, if we don't do something about the behaviours of bankers, we'll be back here again in 10 years' time.

"What we actually need is a wider appreciation of a new banking culture of professionalism to be secured not through regulation but through education."

That's the context for Chartered Banker's examination of three of today's key themes – how to restore public faith in banking as a profession, how to protect depositors and lenders from the "casino" of the traders, and how to help bank staff themselves regain their self-respect and self-confidence.



BRIAN SCOTT-QUINN &amp; JOHN BOARD

# Is banking really a profession?

Bankers are in the doghouse. Banking is in disrepute. What better time, say Professors BRIAN SCOTT-QUINN and JOHN BOARD from the ICMA Centre at Henley Business School, to examine how banking can recreate that cornerstone of trust – its ethic of professionalism.

In times past, the only professions were divinity, medicine and law. Participants were not just expected to demonstrate expertise in their field – they also had to swear to the ethics of their practice – most famously, the physicians' Hippocratic Oath attests to their twin pledges never to do anyone harm and to keep the confidences of their patients. Working for the good of the client was at the heart of what they professed.

In finance, working for the good of the client also involves a fiduciary duty to that client, defined recently as providing the highest standard of care at equity or law. A fiduciary is expected to be loyal to the person to whom he owes the duty. He must not put his personal interests before the duty,

and must not profit from his position, unless the client consents. This is a legal concept as well as being a moral basis of any code of behaviour.

In defining a “profession”, there will always be a requirement for extensive education and some formal qualification normally achieved through examination. A “profession” will have one or more regulatory bodies. There will be a code of ethics. Traditionally, there might often have been monopoly rights, like those once exercised by barristers, but that is not acceptable today.

Does banking fit these normal attributes of a “profession”? The first problem is that banking covers such a wide range of activities. A bank teller or a branch manager is different from those evaluating large corporate loans. They, in turn are different from bank directors. All the same, banking diversity doesn't preclude creating the pre-conditions for a profession.

And actually, we needn't reinvent the wheel for the banking part of financial services. The Professionalism Working Group for another part of the industry with a similar image problem – retail financial product distribution – has

already asked itself what it needs to do to be seen in a more professional light.

As part of the FSA's Retail Distribution Review, the Group set out to define its "identikit" for professional advisors. Their objectives were to establish minimum qualifications, raise standards of behaviour and secure the trust and confidence of the public. These are all characteristics, it's probably fair to say, that are just as relevant to banking right now.

The Group's central recommendation is that a new Independent Professional Standards Board should be set up to:


- lay down new minimum qualifications;
- define a new Code of Ethics;
- establish consistent minimum CPD requirements;
- create a process for recognising professional bodies;
- encourage membership of a professional body.

It's important, I believe, that unlike many "professions", there wouldn't be just a single professional body but multiple organisations. This reduces the chance of the industry creating a closed shop and replicating some of the less desirable attributes of other professional bodies. But overseeing the professional bodies would be a single Professional Standards Board. Accountancy is another good example of a profession with multiple professional standard-bearers. But it

remains possible to practice as an accountant without any qualification – except in auditing and insolvency. However, any accountant who wished to progress in his profession, would clearly not succeed without one of the professional qualifications.

All concepts of professionalism include a requirement for knowledge and understanding.

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"In defining a 'profession', there will always be a requirement for extensive education, and some formal qualification normally achieved through examination."

“Senior bankers with a retailing background have been criticised for not having banking qualifications. The key difference between consumer product sales and banking, I think, is that in retailing the product being purchased can be examined and tested (by the Consumer Association, say) and compared with alternatives. But financial products cannot so easily be examined or tested.”



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The Chartered Financial Analysts recently published *Private Wealth Management: Body of Knowledge*, in which a wide range of practitioners laid down what areas of knowledge they believe are required in their business. Such an approach would be a good starting point for an examination of what bankers need to know.

Senior bankers with a retailing background have been criticised for not having banking qualifications, and indeed, for being from a retailing background. The key difference between consumer product sales and banking is that in retailing the product being purchased can be examined and tested (by the Consumer Association, say) and compared with alternatives. But financial products cannot so easily be examined or tested and have a very uncertain payoff over a long period.

On the liability side of the bankers' balance sheet, for instance, loans such as mortgages may or may not be repaid: understanding the risks involved in determining the likelihood of repayment some time in the future is a highly

technical process. It's a technical task that's routinely sub-contracted to those at lower levels in a bank, but recent events show that a clear understanding of much of this technical knowledge is also required at board level. If the bank gets this wrong, it's the taxpayer, as well as the shareholder, who picks up the tab.

On the asset side of the balance sheet, the utility of financial products to the consumer can only be established at the termination of a long-term contract. So the regulator of such products has to ensure that those who create and distribute them have the required level of expertise, understanding of fiduciary duty and provide the right level of transparency to make unexpected outcomes to the consumer less likely.

Although voters shouldn't expect protection from normal investment losses, they do expect the Government to safeguard them from avoidable loss resulting from poor regulation or the ignorance of bank employees. So, governments wanting to be re-elected

will always want to ensure that regulators do minimise such risks.

None of this means that banks should not employ people from a retail background in their product creation or distribution areas. Nor does it mean that the main board of a bank wouldn't benefit from having executive or non-executive members who come from a retailing background. Quite the contrary – those skills are vital in retail banking and wealth management. But what is essential is that these people, at the very least, demonstrate in some way that they have a good understanding of the “body of knowledge” relevant to running a bank.

That's the critical task ahead in professionalising banking. And both the Institute and the ICMA Centre at Henley Business School are contributing to this through the Performance through Professionalism programme (p37) currently being rolled out in partnership with the Institute.

Professor John Board, Director  
 Professor Brian Scott-Quinn, Director of Banking  
 Programmes ICMA Centre, the business school for  
 financial markets, Henley Business School,  
 University of Reading.  
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JOHN KAY



“We need to restore narrow banking – to ensure that the casino of proprietary trading by banks cannot again jeopardise the utility. That means ring-fencing the payments system, routine deposit taking and lending to consumers and to small and medium-sized businesses.”

The Turner Review proposes to regulate the casino so that no one will lose very much money in it. Dream on, says JOHN KAY.  
That is not how casinos function.

the present crisis is not an act of God, unpredictable to and unpredicted by ordinary mortals. It was not caused by loose monetary policy in the United States. Nor was the crisis the result of the American and European love affair with housing, or the proclivity of English-speaking consumers for excess credit. The crisis was caused by sub-prime mortgage lending in the United States only in the same sense that the First World War was caused by Princip's assassination of the Archduke Franz Ferdinand.

Just as there were many contributing factors to the outbreak of the First World War, there were many contributing factors to the outbreak of the credit crunch. But the cause of the crisis was unsuccessful speculation by large banks in wholesale money markets.

We attached a casino – proprietary trading activity by banks – to a utility – the payment system and the management of the deposits and lending that are essential to the day-to-day functioning of the non-financial economy. The losses in the casino have threatened to bring the utility to a halt.



If we are to emerge with any confidence, we need to put in place measures that will prevent these events happening again. The way I have framed the problem points directly to the solution – permanent separation of the utility and the casino.

The Turner Review instead proposes to regulate the casino so that no one will lose very much money in it. Dream on: that is not how casinos function. Regulators cannot, and in practice will not, second guess the strategic judgements of banks and, even if they really did, it would stifle the development of the financial services sector.

The mistake is obvious if we draw on the extensive experience we have of regulating other industries. From these businesses we have learnt that regulation works best when it is carefully targeted on specific market failures. Structural regulation is generally to be preferred to behavioural regulation – regulation of the scope of business activity is more effective than regulation of the conduct of business activity.

By removing the opportunities for misconduct rather than monitoring the conduct itself, regulators can minimise the unintended consequences of their actions, avoid the pitfalls of superficial conformity but substantive disregard of regulatory principles, and focus their energies on the evils that made regulation necessary in the first place.

We have comprehensively failed to apply these lessons to financial services. We claim to impose general prudential supervision of these businesses. That activity fails every test of good regulatory practice. Such supervision encourages institutions to treat prudential regulation as constraints to escape rather than a guide to good practice, and leads us to control many things without controlling things that most concern us.


In practice, financial services regulation is mostly concerned with what is derisively called 'box-ticking' – ensuring compliance with detailed administrative rules. And, given the political power of large financial institutions – the most effective industry lobby in western economies today – and any realistic view of the skills likely to be available to regulatory agencies, it cannot be otherwise.

We are at the end of a failed experiment in

structural deregulation. Until the 1970s both Britain and the United States had specialised financial institutions: the result of a mixture of convention and regulatory restriction. These conventional and regulatory restraints were successively relaxed, allowing the emergence of the large, diversified conglomerates we see today.

These large, diversified financial conglomerates are, in the popular phrase, 'too big to fail'. They are also riddled with conflict of interest. There is a basic conflict of interest between the purchasers of securities and the issuers of securities. A more recent conflict – central to the current crisis – is the result of deposit insurance. The deposits of the retail bank, effectively underwritten by the taxpayer, can be used as collateral for the trading activities of the investment bank.

In addition to these conflicts, there are conflicts of interest within investment banking itself. The modern investment bank – including the investment banking activities of



“The financial conglomerates, characterised by incompatible baronies and unfathomable interactions between products, were unmanageable and, effectively, unmanaged. That failure is the central explanation of why we are where we are today.”

commercial banks – gives financial advice to large corporations, offers asset management services, engages in market making, issues securities, and undertakes proprietary trading on its own behalf. The customers of every one of these activities have interests which conflict directly with the interests of the customers of every other.

The claim made was that market forces

bolstered by internal and external regulation through Chinese walls, would mitigate these conflicts, and allow conglomerates to reap the informational advantages of conglomeration without the associated disadvantages. This claim has proved false.

Worse, the tensions between functions were aggravated by clashes of organisational culture. It is hard to imagine two more diverse business styles than the individualistic opportunistic aggression required in proprietary trading and the routine bureaucratic processing of millions of daily transactions needed for retail banking. In practice, these financial conglomerates, characterised by incompatible baronies and unfathomable interactions between products, were unmanageable and, effectively, unmanaged. That management failure is the central explanation of why we are where we are today.

I believe we need to restore narrow banking – to ensure that the casino cannot again jeopardise the utility. That means ring-fencing the payments system, routine deposit taking and lending to consumers and to small and medium-sized businesses.

There are several measures that might help towards this objective and a combination is probably appropriate. I suspect such an outcome will now be best achieved by taking the failed banks into direct public ownership for a period. Measures to re-establish narrow banking will necessarily involve the divestiture or closure of the investment banking activities of retail banks.

Such restrictions will provide an opportunity to reintroduce measures of structural separation between fundamentally incompatible wholesale financial activities.

The causes of the crisis, and the remedial measures now required, are embedded in the structure of the modern financial services industry. Addressing these structural issues, which will require high political courage, is a prerequisite of policies to prevent a similar crisis.

John Kay's book 'The Long and the Short of It – finance and investment for normally intelligent people who aren't in the industry', was published in January.

On TV screens and billboards, we're witnessing the first skirmishes of financial institutions' efforts to rebuild trust with customers. But shouldn't they be fighting this battle nearer home, asks CASPIAN WOODS – with their staff?



# Start from the inside



“A colleague is more likely to trust a tip if it comes from Doris up the road rather than the Head of Group Protection”  
**RACHAL McHALE, Internal Advocacy Consultant**

“with significant layoffs, benefit reductions and contractual changes, many employees, particularly in financial services, rightly feel the psychological contract they’ve had with their employers has been violated,” says Derrick Ahlfeldt, Senior VP of Human Resources at Visa Europe. “They worry that the values they believe they shared with the business over the years have been undermined and question the whole premise of their relationship with the business. It’s akin to finding your partner has been cheating on you.”

Then, of course, there’s the pain many employee shareholders are feeling in their pockets. In that context, rebuilding customer trust through greater employee engagement seems a daunting goal.

Cynics might go further and question whether ‘engagement’ and ‘advocacy’ are indulgences of the boom years. Shouldn’t staff be grateful to have jobs at all? In the

end, what benefit were RBS’s industry-leading engagement scores?

Dr Susan Hetrick, former Global Head of Employment Proposition and Policy at RBS and now director at People Academy, responds to the challenge. “RBS defines engagement as ‘stay, say and strive’. I don’t see any of this ceasing to be relevant in the current environment.

“With low ‘stay’ scores, the risk is that the brightest will go: they’re the ones with choices, while the least engaged stay. ‘Saying’ the right thing is also imperative. Employees are a key delivery channel of the brand in the market; if they don’t believe the message, any marketing campaign is on shaky foundations. And without everyone giving their discretionary extra effort, we can’t strive to rebuild our businesses.”

Banks who ignore employee engagement face plenty of competitors willing to pick up the slack. Jeremy Hicks, Communications Director at Chelsea Building Society, sees ‘caring’ as a great chance to differentiate their offering. “Our

customers value it, and we get a flow of talented new applicants referred to us by colleagues.”

For a good advocacy model, Rachal McHale, Internal Advocacy Consultant for a major UK bank, cites the example of Payment Protection products. “They’re an extreme case. They’re complex and heavily regulated products that have taken a hammering in the press, and selling them requires bringing up negative issues with customers. It’s understandable that colleagues feel inclined to shun them, but this could mean customers might not be adequately protected.”

So she started at the micro level. “Colleagues may have less trust in the parent brand, but they take solace from those closer to them.” The bank identified a cadre of ‘GI Heroes’, selected not by seniority, but by attitude and belief. They brought them together in a ‘Heroes Academy’, and then harnessed them as internal ambassadors to spread the message.

Hetrick supports this with the example of United Airlines. “After 9/11, they had a huge challenge getting people to fly again. So they started with their front line staff, and were very clever in using them as natural ambassadors for the message.”

That level of engagement also requires giving up a degree of control. “In internal communications, we are very good at telling people what to say,” says Hicks at Chelsea. Citing the example of Treating Customers Fairly legislation, he says, “if you expect colleagues to work off someone else’s script, they end up having incredibly stilted conversations with customers. You have to get them to take the message to heart, and then express it in their own words.”

To achieve this, a central feature of McHale’s ‘Heroes Academy’ is an online portal where colleagues share hints and approaches for how to respond to customer concerns. “A colleague is more likely to trust a tip if it comes from Doris up the road, rather than the Head of Group Protection” she says.

But how does engagement face up to the deluge of negative messages hitting colleagues? Johnny Weir, Director at Deutsche Bank, sees the value: “When it comes to cost reduction, most people get it. But you have to put the message in context. Managers need to understand the damage they can do by putting out a curt couple of lines cutting a benefit to staff working extreme hours.”

Ahlfeldt at Visa concurs. “Engagement isn’t all motherhood and apple pie. People understand that costs have to be reduced and you’d be surprised at the benefits of engagement. Following a session on cost reduction within my



“Managers need to understand the damage they can do by putting out a curt couple of lines cutting a benefit to staff working extreme hours.”

JOHNNY WEIR  
Director,  
Deutsche Bank

team, unbeknown to me the team got together and came to me with a proposal saying ‘if we ever got to the point where we had to consider redundancies, we’d all be happy to take a pay-cut if it means we can keep the team together.’”

It demonstrates that engagement and advocacy are essentially emotional issues. “Organisational values are the sum total of all their employees’ values,” explains Ahlfeldt. Supported by a company called Inspiros, Visa spent 18 months working with colleagues at all levels to align their organisational and individual values. “It’s not rocket science, but it is a hard slog.”

The results are impressive. Engagement scores have dramatically improved from an already high base. The value statement has also underpinned their recent successful TV advertising campaign. “People sometimes say there are other things we should be doing to deal with the fallout of the downturn,” says Ahlfeldt. “There are, but I’d argue there is nothing more important than having an engaged workforce when times get tough.”



# How to make a Professional

The Institute has launched a UK-wide consultation to establish a benchmark of the banking professional. “To regain public trust,” says Chief Executive SIMON THOMPSON, “we must provide those entering the profession with agreed standards covering the key ethical, technical and professional issues they’ll face in their careers.”

“we believe the industry itself needs to take the lead by saying what we think the minimum standards for a banker should be,” says the Institute’s Chief Executive, Simon Thompson in his foreword (p5).

“We should set the bar visibly higher as a prerequisite of regaining public trust.

“It may well be difficult to fight through the undergrowth of conflicting interests to establish finally what level of competence we need in banking. But it really ought to be an industry-led solution.”

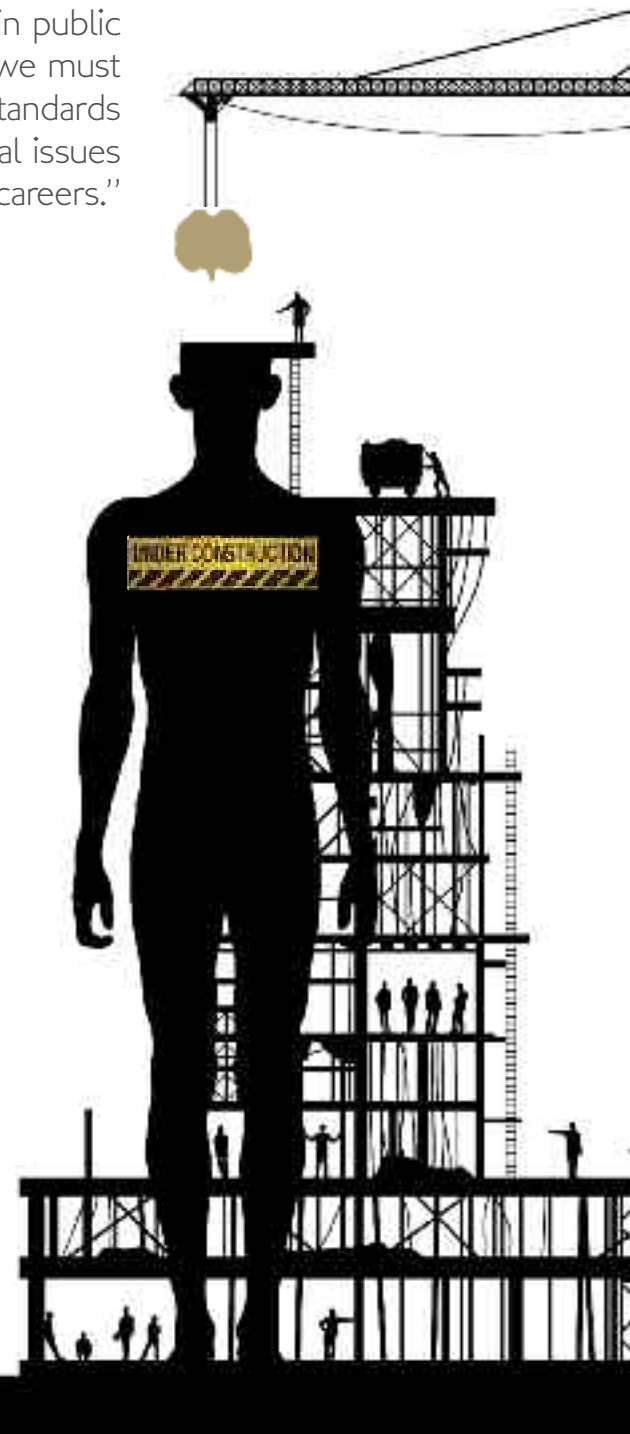
That’s why the Institute has taken the lead by launching the first of a series of consultations on professional standards for the banking and financial services industry. It covers all core areas of banking practice, with separate consultations for the building society, credit union sectors and other areas of the financial services industry.

## The benchmark

The proposed Professional Banker Standards are designed as the new introductory benchmark level of professional knowledge for those entering the UK banking and financial services industry, and for those already employed in junior roles in banking in both customer facing and back office roles. Chartered Banker is the benchmark for those who wish to become fully qualified.

The Standards aim to demonstrate which areas of professionalism are required to:

- help individuals develop and demonstrate the core technical and professional knowledge and skills required to work effectively in the financial services industry;
- help employers develop the technical and professional capability of their workforce, and demonstrate their commitment



# Banker

to professional standards to regulators and others; and

- reassure the public of the high levels of technical and professional standards required of individuals employed in UK banking and financial services.

One of the key outcomes of this consultation is to develop an understanding of how broadly appropriate these standards may be.

**“It may well be difficult to fight through the undergrowth of conflicting interests to establish finally what level of competence we need in banking. But it really ought to be an industry-led solution.”**

## The standards

The Standards may be embedded into organisations through a variety of routes to suit their needs, including:

- accredited internal training and development schemes – for example as part of an employee’s induction/onboarding training;
- provision by universities, colleges and skills academies;
- qualification by examination with a professional body;
- accredited third-party training provision.

Banks, building societies and other financial services organisations may choose to adopt the Standards, for instance by developing internal training programmes. Any internal training programmes will need to be accredited by CIOBS if they are to be

stated as meeting the Standards. The Standards may also be used in a wide range of other ways: identifying competencies for specific roles, for example, or identifying gaps in current competency regimes.

## Main issues

The Institute’s Education Committee is particularly interested in answers to these questions:

### General

- In what ways may the creation and the adoption of professional Standards help rebuild public confidence and trust in the banking industry?
- Are there any gaps in the Standards? Are any key areas not covered? Is there enough breadth and depth?
- Do the Standards link together to give a general feel of the areas that the professional should be proficient in?
- Are the Standards broad enough to cover such a diverse industry? If not, in which areas would you like to see broader coverage?

### Organisational

- For which roles in your organisation might the Standards be appropriate?
- For which other roles, not covered, would you like to see Standards developed?
- In what ways might the Standards support internal competency frameworks and/or training and development undertaken in your organisation?
- Would you advocate adoption of the Standards in your organisation?

## PROPOSED STANDARDS: The Professional Banker

The Standards aim to give the benchmark for the basic level of knowledge and understanding for a banking professional. The aim of all those who wish to become fully professionally qualified is Chartered Banker status. The Standards represent the first step to Chartered Banker status.

The objective is to provide those entering the profession with an introduction to the key ethical, regulatory, economic, legal and credit issues facing banking professionals.

To demonstrate a full understanding of the Standards, individuals should be able to:

- show an understanding of the ethical and professional requirements for banking professionals;
- describe the structure, regulation and processes within the financial services industry;
- understand how to meet the needs of a range of customers in a professional and responsible manner;
- understand risk, exposure to risk and how such exposure can be managed.

## Critical competencies

The Standards identify the key technical areas of critical importance to the effective performance of the professional banker. Within each, the Standards also define the critical knowledge, understanding and behaviours which must be demonstrated.

### I. Professionalism and Ethics

- The Professional Banker must adhere to the core principles of professionalism and ethics, and should therefore be able to demonstrate the ability to:
  - recognise an ethical issue when faced with one;
  - identify the appropriate professional behaviour in a given set of circumstances;
  - understand the practical application of ethical thinking in day to day business;

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- apply ethical decision taking on a practical basis;
- understand the impact of social and environmental considerations.

### 2. Banking industry structure

Understanding the industry and markets in which banks operate is critical to successful performance. A Professional Banker should be able to demonstrate knowledge and understanding of:

- a brief history of banking;
- the role of banking in the early 21st century;
- the functions of banks – business, retail, commercial, corporate etc;
- the different types of banks;
- liquidity and capital considerations;
- how their role integrates with all of the above.

### 3. Broader financial services

A Professional Banker should have a broad knowledge and understanding of the industry in which he/she works, and specifically should be able to demonstrate a knowledge and understanding of:

- the organisation, functions and structure of the Central Bank;
- building societies;
- National Savings and Investments;
- insurance providers;
- merchant banks and investment banks;
- credit unions;
- the Stock Exchange;
- institutional investors and their role.

### 4. The regulatory framework

The financial services industry is highly regulated. A Professional Banker must be able to demonstrate an awareness and understanding of:

- the Financial Services Authority;
- data protection legislation;
- consumer credit legislation;
- money laundering regulations;
- codes of practice;
- Treating Customers Fairly.

**“This is the first step to Chartered Banker status. It provides those entering the profession with an introduction to the key ethical, regulatory, economic, legal and credit issues facing banking professionals.”**

### 5. Economic factors

The Professional Banker should understand the economy and the impact of economic factors on the local commercial environment and should be able to demonstrate an understanding of:

- economic systems;
- inflation;
- interest rates;
- the role of Government in the economy.

### 6. Managing risk

The Professional Banker must be aware of the potential risk implications of their activity for themselves, their organisation and their customers. Risk is managed by all banks, so the Professional Banker must demonstrate knowledge and understanding of the day to day impact of:

- credit risk;
- regulatory risk;
- operational risk;
- reputational risk;
- risk management.

### 7. The legal environment

The Professional Banker must show an understanding of how the law impacts on financial services and demonstrate knowledge of these areas:

- banker/customer relationship;
- agency;
- negotiable instruments;
- companies.

### 8. Credit and security

These are key features of any bank's commercial offering and a vital part of effective lending practice. The Professional Banker must be able to demonstrate an understanding of:

- types of customer – retail, business, corporate;
- the canons of lending;
- documentation;
- the person;
- amount and purpose;
- repayment;
- viability;
- security.

### 9. Customer service

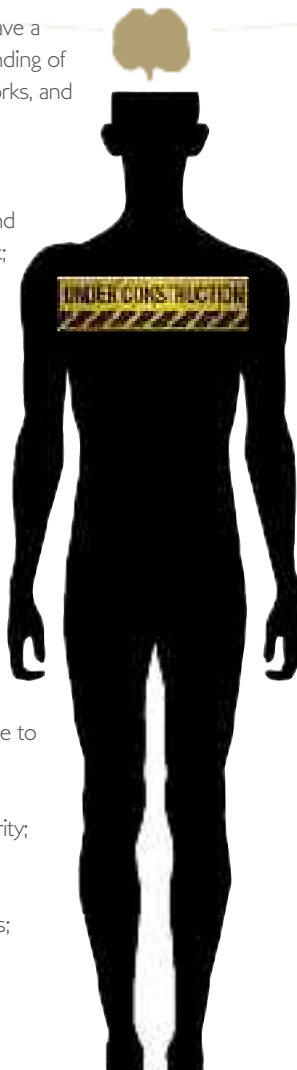
The Professional Banker must be able to perform his/her duties while dealing with customers to the highest standards of care. The customer relationship will vary with the sector of the industry, but good service and understanding customer needs are vital. The Professional Banker must be able to:

- provide high quality customer service;
- grasp the key concepts of customer relationship management;
- understand the customer life-cycle;
- deal with complaints;
- treat customers fairly;
- recognise what action to take when things go wrong.

### 10. Products and services

The Professional Banker must demonstrate knowledge and understanding of the products offered and know about:

- products and services commonly available across the industry;
- products offered by the area of the bank in which they work;
- competing products offered in the marketplace;
- money transmission services.



## HOW TO TAKE PART

The Institute's *Invitation to Comment* seeks views on the structure and content of the proposed *Professional Standards for Bankers*. Comments will not be made public, but a summary will be prepared, discussed and published by the Institute's Education Committee.

Please send your comments to reach us by 15th May 2009 by:

#### Email at

[ITCResponses@charteredbanker.com](mailto:ITCResponses@charteredbanker.com)

#### Online via:

[www.charteredbanker.com/ITC](http://www.charteredbanker.com/ITC)

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Campbell Dallas Chartered Accountants and Business Advisers

# Get out of the trenches

Peter Gallanagh, Partner, Campbell Dallas, calls for a rebuilding of bridges between banks and customers.

Over the past few months, a constant deluge of criticism has been targeted at banks. Banks have been continuously lambasted for creating the credit crunch, for making access to credit too easy and for leading us into the current economic recession.

Furthermore, banks have been heavily criticised for not understanding the complexity of their business, particularly the vehicles used to bundle 'toxic-assets' together for onward sale, and for making inordinate bonuses to employees for the 'profits' generated in these good times and for the way they handled the removal of previous management teams. I could write about this and many other areas being left at the banks' doors, but enough has been said elsewhere on these matters.

It is no wonder that the banks' employees – once the most confident and dynamic of the business community – have retreated to the trenches to hide away from this constant barrage. An attitude of 'I can't do' now appears to prevail.

However, when we take a step back and review the situation, can we actually lay responsibility for all the current economic issues at the door of bank employees any more than we can anyone else in the business community?

It is clear, again in hindsight, that we were all aware of the risks underpinning business over the past ten years or so and that lending criteria had moved from a traditional model based around a secondary secure exit to one predicated on future cash flows and on ever increasing growth in the value of property. The business community were all

“Being close to clients through the good times is easy. Staying close through the rough times is where it counts, and will result in a much more vibrant and trusted relationship when the wave starts to rise in the future.”

happy to ride the crest of this wave and reap the rewards. They, too, ignored the increased risk from which this wave arose and inevitably crashed.

You, the bank employee, have been hit as hard as anyone in this economic recession. The uncertainty in the future of UK banking has resulted in significant job losses and uncertain employment for those remaining. In addition, your job has become increasingly more difficult as lending criteria is tightened and public confidence in banks is at an all time low. This is clearly de-motivating.

In my opinion, we all must take some responsibility for the current economic situation, and we should all work together to get out of it.

We must all change our attitude. We must be positive and dynamic. Yes, many situations are out of our hands and the criteria to which credit departments are willing to lend will result in less new business and significantly more difficult conversations with clients for all of you.

You can, however, work closely with clients and their accountants and provide other benefits which are outside the traditional scope of the banker, but will build new and more vibrant relationships with clients.

Get out of the trenches. Meet with clients and their accountants to discuss the issues which are affecting them all. Some that immediately spring to mind are:

- The quality of their management information and how this can be improved;
- Discuss break even and 'cash even' positions with clients and alternative strategies of cash management;
- Talk to the client about reduction of overheads and try and network clients to the benefit of all;
- Agree tax saving strategies (often simple techniques such as changing year ends can reduce tax payable);
- Discuss re-organisation plans and 'what if' scenarios should issues deteriorate;
- Be seen to be fighting the client's case internally with your credit committee.

This proactive approach may not provide clients with the funding they require, but clients will be clear that you are fighting their case, walking the hard walk with them and not riding out the battle from the security of the trench.

This is a time to build relationships and help each other. Being close to clients through the good times is easy. Staying close through the rough times is where it counts, and will result in a much more vibrant and trusted relationship when the wave starts to rise in the future.

Peter Gallanagh, Partner, Campbell Dallas. With offices in Aberdeen, Bearsden, Paisley, Perth and Stirling. Campbell Dallas is the Scottish associate of UHY International and is a progressive practice providing sound commercial and professional advice to small and medium-sized enterprises

across Scotland. For more information or advice, contact: Dugald MacPherson (Audit and Accountancy) on 01224 623 111, Bruce Wilson (Tax Consultancy) on 0141 887 4141, Chris Horne (Corporate Finance) on 0141 942 0722 or David Hunter (Business Recovery and Insolvency) on 0141 887 4141.

# “Let’s coach the whistle-blowers”

Today's banking crisis, argues WILLIAM L. HUTTON, was caused by the “moral turpitude” of bankers. Shouldn't we teach today's young professionals “how to detect, deter, disrupt and discipline corporate wrongdoers at all levels,” he asks?

In addition to legality, there are four basic principles of good business and good banking: Competence, Integrity, Trust and Respect. Competence and integrity breed trust and respect. Lack of them creates mistrust, contempt and a threat to the whole banking system.

Competence is gained through the acquisition of professional qualifications, experience in the application of these qualifications to the “real” world, and a clear commitment to transparency and ethical practice.

There's a challenge here for the Institute. Professionalism and ethics become essentially personal matters, especially when a corporate culture militates against best practice, and short term growth is rewarded with huge bonuses. Honest and capable critics are wrongly sacked and gagged. Whistle-blowers get little protection from the law while corporate wrongdoers denigrate them and blight their careers.

Whistle-blowing and even legitimate in-house criticism requires courage, determination, persistence and, usually, sacrifice. Cases from Enron to GCHQ and the National Health Service show how rarely it is applauded – and even less often rewarded, especially if complainants take their concerns to the authorities or the media.

Since initial evidence of corporate fraud and abuse often comes from within an organisation by tip-offs and whistle-blowing, perhaps the Institute might teach, train,

encourage and applaud those who seek to detect, deter, disrupt and discipline corporate wrongdoers at all levels. Might this be added to its Professionalism and Ethics course?

For bankers especially, we've seen what happens when three basic rules are ignored:

- borrow long and lend shorter;
- do due diligence on acquisitions, investments and loans;
- diversify funding sources and loan distribution by sector and individual.

I believe these rules are for the guidance of wise men and the absolute obedience of fools. They've been ignored by board members and senior managements.

Borrowing very short to lend very long led to their liquidity crises. Due diligence by bankers, lawyers, accountants and auditors failed to spot the disastrous flaws in the toxic assets they acquired, the contrived securities they purchased, and the under-secured mortgages and loans they granted. And they ignored another basic rule: if you don't understand it, don't buy it.

An ethical approach – informed by professional conduct and underpinned by professional standards of behaviour – would have made the exercise of due diligence second nature to bankers of the 'old school'. It was part of their professional DNA.

Today, though, bank shareholders in the US and the UK are driven to mount court actions because they are convinced they have been misled by capital-raising prospectuses that concealed the true

William Hutton is an Honorary Fellow, sponsors the Institute's annual Prize for Professionalism and Ethics, is a Certified Fraud Examiner, and has co-authored papers and reports with Prof Andrew Massey of Exeter University on professionalism and governance. He started his banking career in Glasgow in 1955.



“An ethical approach would have made the exercise of due diligence second nature to bankers of the ‘old school’. It was part of their professional DNA.”

Professor Andrew Massey,  
Exeter University

losses their banks had racked up. What these actions should also test is the degree to which management systems failed to carry out even the most basic of traditional banking activities:

- to manage liquidity, to match maturities of their deposits and loans;
- to attribute individual responsibility for doing due diligence;
- to test properly the assumptions upon which their business plans and risks were based;
- to prepare sensitivity analyses to assess the sensitivity of their business plans to possible future risks and events;
- to have contingency plans to deal promptly and effectively with changes in circumstances;
- to take only those risks for which timely exit plans were prepared and shown to be feasible;
- to change an organisational structure presently designed to delegate and disperse responsibility; only authority can be delegated, never responsibility.

The systems bankers did contrive seem to have been used more as a shield for themselves than as a sword to attack bad practice for which they were responsible. In the end, this is to my mind, as much a question of morality as it is about standards of justice and honesty. It may be illustrated by:

- their concealment and persistent delay in disclosing losses;
- their attempt to evade responsibility, pass the blame to others, and so blatantly as to raise fresh capital “for future development” only to reveal within days yet another tranche of unprecedented and hitherto undeclared losses;
- the readiness of chairmen to take on such vital jobs with no formal banking qualifications and to carry out their full time responsibilities on a part time basis;
- their willingness to seek and accept vast bonuses and pensions whilst leading their banks to disaster.

A simple return to appointing professionally competent, financially qualified and ethically motivated bankers would go some way to address these problems. Meanwhile, the bankers themselves offered specious excuses for their behaviour:

- the regulator didn't stop them;
- the credit ratings agencies let them down;
- it was those American sub-prime mortgages and the securitisation of their toxic loans;
- it was the failure of the insurers of these toxic loans and bonds;
- it was the collapse of Lehman Bros (though this occurred only in September 2008);
- it is a worldwide problem;
- everyone else is in the same mess;
- we just made “mistakes”;
- we lost money, too.

What sanctions do they face? What restitution should they make? Retired QC Iain Hamilton may have abandoned his recent court action against one of our leading banks for “negligence” in selling him shares shortly before the bank collapsed.

But I for one applaud his attempt. Wrongdoers should be sanctioned for their misconduct. Their moral turpitude should be exposed. If there is evidence of fraud and criminal negligence, it should certainly be put before the courts.

# Every little helps

When all we're hearing in finance these days is the sound of doors slamming, BENNY HIGGINS is opening his new banking headquarters in Edinburgh. What he's investing, he says, is a fund of trust – borrowed from a supermarket.

## Tesco's

Benny Higgins has three watchwords: Be transparent. Offer simplicity. Reward loyalty. "Each of these seems straightforward," he says, "but, in practice, the financial services industry hasn't really aspired to do any of them very effectively. And, of those three, the one that stands out for me is rewarding loyalty."

And that's the very bit that has been done worst of all, he's convinced. "What we call loyalty, many financial services businesses would call 'inert'. Customers who stay with financial service businesses are often assumed to be not sensitive to change and are exploited for that reason. Those businesses are supported by the high profitability of this 'back book' of customers whose loyalty they think they can take for granted.

"At Tesco, we think differently. We regard customers who stay with us as loyal, and we think they should be rewarded. It's part of the value at the heart of Tesco's business: 'No-one tries harder for customers.' That's how I want to run this business."

As Chief Executive of Tesco Personal

Finance, Higgins is an oddity and proud of it. In a world of collapsing financial empires, his is growing. While depositors have fled from other banks in recent months, the savings he has taken in have grown from £2.5bn to £4.5bn. And he's just announced that he's hiring another 200 people to double the staff at the headquarters he's creating in Edinburgh, the UK's beleaguered "second city of finance".

But is Benny's bank really any better than the rest? Higgins argues that it enjoys one clear advantage, which so many of his competitors have squandered and are now struggling to rebuild: trust. And he makes no pretence about



“I expect us to be a cautious, very well run bank that has a very systematic approach to risk management. That will be true all the way through the business.”  
BENNY HIGGINS, CEO,  
Tesco Personal Finance

this being his own invention. It's borrowed.

“It's transferred, for sure. We don't have our own brand. There is only Tesco's. And there is no doubt that the Tesco brand has stretched into non-foods in the last decade – and demonstrably into financial services. Customers are telling us that by their actions, not by what they say.”

It would be disingenuous, he concedes, to imagine that customer confidence and trust in Tesco Personal Finance hadn't been boosted by today's

money markets turmoil. But he says they have “fairly limitless evidence” that the parent group's beneficial brand-stretch has actually been going on since 1997 when its personal finance operation was launched as a 50-50 joint venture with Royal Bank of Scotland.

It now reaches just under six million customers, accounts for an almost 8% share of the credit card market, nearly 4.5% of the motor market, has 2.7m insurance customers in all and a range of 28 products. Its loan book is about

£2bn and its credit card book is about the same size. “So this is a business that's done rather well.”

And what excites Higgins is his conviction that this momentum can be sustained. “We do have real aspirations to grow. There are over 13 million loyal Tesco Clubcard customers and we feel we can do more with them. We currently offer Clubcard customers a pretty material discount on insurance, for example, and I think our relationship with them all will be the secret to our success because that's

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“Frankly, I don’t think there’s much that matters more than making sure the people engaged in the business are properly skilled – whether that’s in risk or in finance or in the sales process. I treat people education and training as absolutely mandatory.”

BENNY HIGGINS, CEO, Tesco Personal Finance

what Tesco’s loyal relationships are all about.”

He thinks it’s inevitable that they’ll broaden their offer to include other relationship products – the two most obvious ones are current accounts and mortgages. On both, he says, there’s been “a pretty serious amount of noise” in the marketplace, and they’re listening to it with some care.

“With current accounts, we have yet to see how the challenge on bank charges unfolds. It’s a good example of a lack of transparency and lack of simplicity elsewhere in the industry: the profitability of current accounts for traditional banks has all been about a polarised approach to customer charges which I don’t think has ever really been entirely sustainable. But it’s lasted for a very long time.

“So, we need to see how the market settles down through the bank charges challenge. We’re doing a lot of work on it, but I’m more certain that we’ll go into current accounts than I am sure about when.

“Mortgages are very different and more accessible to analysis. The mortgage market two years ago was frankly unsustainable for two reasons: the margins didn’t support sustainable profit and the risk being taken by lenders wasn’t justified by the profit.

“We’ve now seen the mortgage market go through what’s effectively a restructure. Today, margins do support profitability and there is a place to be a responsible lender. Loan-to-

values are going to be much lower than they were previously. We did think about mortgages in past years, but always decided that it just didn’t make sense.

“It now does make sense although, frankly, in the short run there are still issues around the wholesale funding market that remain difficult. But we are a natural franchise for savings. We’re offering consistently better rates than the frankly deplorably low rates frequently offered elsewhere.

“And the wholesale funding market will not remain like this forever. An opportunity will emerge when the funding conditions are easier and when we can lend responsibly at a margin that’s good for customers and that’s sustainable for us.”

The service delivery will continue to use a mix of phone, web and personal channels. Higgins’ team has been piloting its banking presence at Silverburn in Glasgow. “When we ask customers what they’re looking for, they say they’d enjoy the convenience of an in-store presence. We’ve learned quite a lot from the Silverburn pilot and we absolutely will be rolling out more in-store facilities.”

Skills and attitudes are going to be vital, he says. At his new HQ in Edinburgh’s Haymarket, he’s reinforcing his top-line team (see side panel) with the stand-alone competencies previously provided by RBS secondees before Tesco bought back its half-share of the business. And training for his in-store personnel is taken for granted by Higgins who had a quarter of a century of senior experience in personal finance with Standard Life, RBS and HBOS before joining Tesco Personal Finance.

“Frankly, I don’t think there’s much that matters more than making sure the people engaged in the business are properly skilled – whether that’s in risk or in finance or in the sales process. I treat people education and training as absolutely mandatory.

“I expect us to be a cautious, very well run bank that has a very systematic approach to risk management and that will be true all the way through the business. I think we have had a very clear demonstration over the last year or so of what makes risk management so important. It does lie at the very heart of everything we do.”

## Banking on Tesco

### BENNY HIGGINS Chief Executive

He previously headed the HBOS Retail Business and, from 1997-2005, was Chief Executive, Retail Banking at RBS where he led the integration of NatWest Retail Banking. He served 14 years at Standard Life in a range of senior positions. He has a First Class Honours degree in Mathematics from the University of Glasgow, is a Fellow of the Faculty of Actuaries and a Fellow of the Chartered Institute of Bankers in Scotland.

### PAULETTE ROWE Commercial & Marketing Director

She spent seven years at RBS, latterly as Chief Executive of European Consumer Finance. She was formerly Managing Director of NatWest Retail Banking, Managing Director of Direct Sales and ran marketing and products for NatWest Retail. She spent eight years with GE Capital here and in France.

### IAIN CLINK Finance & International Director

He was formerly Chief Executive, Cards and Direct Finance with RBS. From 1999-2004 he was Chief Executive of Tesco Personal Finance and previously was Managing Director of RBS Advanta. He first moved to RBS from Coopers & Lybrand in 1989, initially as Chief Accountant for the Retail Bank.

### SHAUN DOHERTY Operations & IT Director

He spent two years at HBOS where he was Operations Director, Retail Banking. Before joining HBOS in 2006, he spent 16 years at Standard Life in various roles including IT Director and Managing Director for Customer Service. His career has also included IT roles at National Savings and Scottish Widows.

### IAN WILSON Risk Director

He was formerly Chief Risk Officer for GE Money UK. Before joining GE, he was Managing Director, Abbey Business Banking. He spent most of his banking career with RBS, latterly as Director Credit Risk, Retail Banking, and has experience of consulting with Ernst & Young’s Financial Services practice. He is a Fellow of the Institute and also sits on the council.



# Credit where it's due

The worst year in banking history may well become one of the best for credit unions. New legislation is opening the door to expansion, explains MARK LYONETTE, Chief Executive of ABCUL, the trade association for British credit unions.

## legislation

that's about to reach the Statute Book aims to put British credit unions on a par with the best in the

world. It will extend their scope to recruit individual and corporate members, pay interest on savings and make it easier to update and modernise their products.

Despite constraints, UK credit unions have already been faring pretty well. Membership tripled to 607,400 in 501 credit unions in the ten years to end 2007. So did savings (+318% to £449m), loans (+298% to £393m) and assets (+351% to £599m)\*.

While most credit unions still have fewer than 2,000 members, some substantial ones have developed: Scotwest in Glasgow has 21,000 members, and extends mortgages, Glasgow Credit Union has 18,000 members, and Edinburgh's Capital Credit Union, celebrating its 20th birthday this year, has 12,000 members. Liverpool's Partners Credit Union is a muscular merger of five credit unions.

Their structure – they are co-operatives, owned by their depositor members – means that these community banks have enjoyed some insulation from the credit crunch that's hit other banks so disastrously. "We haven't been hugely affected," says Mark Lyonette,

"because of the way we're set up as mutuals with little exposure to the stock market. But one rather ironic impact has been our need as a deposit-taker, to pay, alongside other banks and building societies, into the Financial Compensation Scheme to help shore up failed banks."

But credit unions were never supposed to rival banks. Their members pool savings to offer low cost and flexible financial products. Their focus is on providing a

savings service to those who find it difficult to open accounts in mainstream banks. While credit union numbers are increasing steadily, many individual unions still find it hard to grow, and certainly not quickly.

The new legislation aims to help in three ways. First, says Mark Lyonette, it offers a more flexible definition of the "common bond" concept governing who can join – "for example those who live in the same area, or work colleagues and so on. This common bond has been too restrictive. Most employers beyond a certain local authority boundary found it difficult to join a credit union unless they started one up themselves."

Second, credit unions will now be able to recruit organisations as members and not just individuals. Third, they will be able to pay interest and not just a dividend. Taken together, these measures will help increase membership and drive savings. "Our aim is for universal coverage either through

Membership tripled to

# 607,400

in 501 credit unions in the 10 years to end 2007

individual membership or through employee membership. We'd like everyone, anywhere in the UK, who could benefit to be able to access what we offer."

But this won't necessarily mean businesses joining a credit union will find it easier to borrow. "The power to make business loans will be there," he says, "but our focus has to be on attracting more savings. Business lending is a different ballgame. Most credit unions would not be set up for it. Such loans certainly wouldn't be a high priority in terms of risk and how they want to serve their community."

The main aim for many credit unions is

"Our aim is for universal coverage either through individual or employee membership. We'd like everyone, anywhere in the UK, to be able to access what we offer."

simply to grow, develop a diverse membership, mobilise savings and become more efficient, sustainable businesses. Central to this is their need to update their range of financial products and services. One focus is on rolling out the Credit Union Current Account supported by the Growth Fund of the Department for Work and Pensions. Seven more credit unions across England, Wales and

Northern Ireland launched these accounts in January.

"Given this expansion of financial products," says Mark Lyonette, "one of our challenges will be to support much greater back-office and front-office collaboration. We need to ensure credit unions continue to be well run.

"As well as being regulated by the Financial Services Authority, we've developed our own clear Code of Corporate Governance. And we all recognise how crucial it is to improve and update our skills, so we've recently started our own online training. There's lots of development underway."

\*Source: Interim December 2008 report by ABCUL – Breaking Into The Future: the strategic development of credit unions, 1998-2008.

## And now – Bank of Essex?

Credit unions are not the only ones on the move amidst the debris of conventional banking. While their emphasis is on individual savings, others are looking at ways to support local businesses through the development of standalone community banks.

The 'Bank of Essex' is the first to hit the headlines. Promoted by Essex County Council, its aim is to help small businesses in the county. Birmingham, Sussex and Kent are also thought to be discussing plans for their own banks. "We want to try to support businesses in difficult times," explains Essex Council leader Lord Hanningfield. "The situation in Essex for the next year doesn't look good. If the banks won't help them, someone has to."

Modelled on the US namesake Bank of Essex in Tappahannock, Virginia, the idea came from a November special session of the Essex Management Board, representing the county's public sector. The Council is now discussing how the Bank of Essex would be licensed under FSA regulation. "We hope to have a standalone bank up and running in September," a spokesman told Chartered Banker. "Essex County Council will put in up to £50m, and we are also looking at funds from the European Investment Bank which makes money available for generation projects through a special delivery vehicle. We're looking at lending relatively small amounts of £20-£30k with low interest rates to viable businesses. Our short-term timeframe is to start lending next month, which we will be able to do through local high street providers.

"Alongside this we are helping Essex's only credit union – Essex Savers – to grow into a sustainable £2m business. Public sector is providing start up grants, seconded personnel, collection points, payroll deduction facilities and publicity to increase awareness of the benefits of credit unions."

# “Growth? It’s a no brainer!”

At its 20th annual meeting, Capital Credit Union is excited about recent impressive expansion and future prospects. CHARTERED BANKER caught up with its Chief Executive, MARLENE SHIELS.

“we’re inundated with new member applications,” says Marlene Shiels, Chief Executive of Edinburgh’s Capital Credit Union. “People are genuinely turning away from the banks and are looking for viable alternatives.”

Speaking at Capital’s 20th annual meeting, she’s excited by what lies ahead. “Credit unions are a no-brainer. There are no external shareholders – you benefit directly as any surpluses go directly back to the members, or are used to develop the organisation. It’s not a numbers game. It’s about making more people benefit. People are looking to services like ours not only because of the

**“We believe that this is the credit unions’ time and we will be there for people in a way the banks haven’t been.”**

transparently ethical nature of our business, but also because they have been turned away from the banking system.”

Capital was launched in 1989 as the Lothian Regional Council Employees Credit Union, to provide accessible savings and borrowing for its staff. Today, it provides savings, current accounts, lending, insurance services and even mortgages to more than 16,000 members from over 50 sponsoring employers and the wider community.

“I believe we’re in the vanguard of the credit union movement,” explains Marlene Shiels. “Our aim is to be a first class financial services provider. We have an asset base of over £14m and are the largest credit union operating in the Lothians and Borders

region. In the last 18 months alone, we’ve brought in over 3,000 members – and it’s still going up!

“We’ve been among the first to introduce some of the most important innovations for credit unions in the last couple of years, like the Credit Union Current Account. That takes vision, and a lot of effort: it took four years to get that robust and running.”

The union’s strategic vision for the last 10 years, she says, has been to persuade members “to think of us as their primary financial institution”. The current account was the last piece of the jigsaw: it now has mortgages, insurance products and multiple savings and loan products. And, with more development educators than any other UK union, Capital is widely recognised as a model employer.

“The new legislation gives us a number of new powers – the ability to serve small businesses and the scope to charge for ancillary services,” she explains. And that’s on top of a number of attractive products like free insurance on both loans and savings, which sees savings doubled in the event of death.

“We do what we feel is fair, based very much on the philosophy underpinning credit unions around the world. We don’t put people in a worse position during a difficult time. Plus we’re going to be able to pay interest on savings, not just a dividend, which will be attractive to more savers. And the more savers we have, the more we’ll be able to lend.

“Recently we launched a new office in Bathgate in partnership with West Lothian Council and we continue to work very closely with Government to offer financial services to people who have no access to finance. We believe that this is the credit union’s time and we will be there for people in a way the banks haven’t been.”

## Rise of the credit union

Demand for credit union services is increasing across the UK.



- The Financial Services Authority has approved plans for the formation of the York and North Yorkshire Credit Union.
- East Hampshire District Council has put up £100,000 to help launch a new branch in Bordon. Council leader Ferris Cowper says “of all the new schemes that we are running, this is the one that will deliver most to help people facing difficulties as a result of the recession.”
- Manchester Credit Union also launched a new branch to help City South Manchester housing tenants, while in Oxford, 200 new members have been drawn to the local branch in the last 16 months.

## Glasgow promotes its unions

Glasgow Council has launched a major advertising campaign to promote its 35 credit unions to residents. Its [www.cucity.co.uk](http://www.cucity.co.uk) website provides information on the range of credit unions currently serving nearly 110,000 members and managing assets worth over £151m.

Advertisements on TV, radio, local newspapers and buses highlight the fact that “nearly one in five Glaswegians across every walk of life enjoy the financial benefits and reassurance associated with their credit union membership every day”. According to the Council, disillusionment with banks has fuelled an “extraordinary surge” in membership of credit unions in the city.

Robert Kelly, General Manager of West of Scotland NHS Employees Credit Union, says he too has seen a 38% rise in new membership applications within the last six months. “People are feeling uncertain about the current banking situation and are placing more trust and reliance in the credit union movement,” claims Kelly. “We are a viable and sustainable alternative to banks and this is exactly what people are looking for just now.”



**Alex Innes**, Head of the Banking & Finance Group of Semple Fraser LLP, commercial law specialists, continues to look at how banks can manage the risk of lending.

## GOVERNMENT HELP

# THE ENTERPRISE FINANCE GUARANTEE SCHEME

**T**he Government has introduced a number of measures to try and stimulate business activity, mostly by attempting to deal with the lack of capital in the market. One of the measures is to make £1 billion available under the Enterprise Finance Guarantee scheme (EFG), designed to assist businesses that would otherwise have insufficient assets to offer as security for bank funding.

The EFG is the successor to the Small Firms Loan Guarantee scheme (SFLG) and has a number of advantages over its predecessor. Both schemes effectively provide a Government guarantee of 75% to qualifying businesses, but the new 'improved' EFG has loosened some of the restrictions that applied to the SFLG to make it more accessible.

The EFG is available to businesses with a turnover of up to £25 million, and covers most business sectors (the main exclusions at present being the agricultural, coal and steel sectors); whereas the SFLG was only available to businesses with a turnover of up to £5.6 million (and in more restricted sectors).

Also, the EFG provides loans up to £1 million, compared to an upper limit of £250,000 for SFLG. Another improvement is that the EFG can be used to convert an overdraft into a loan, and capital repayment holidays of up to two years can be negotiated. Loans can also be extended to a 10-year repayment period.

As with the SFLG, the EFG loans will only be available where the applicant's plans are viable and would meet the usual commercial requirements for a loan. The bank will have to assess the transaction and security cover, before deciding whether the borrower is able to service the loan.

If the proposal is within the parameters of the EFG – and the bank would proceed with

the loan if more security was available – the Government will provide a guarantee of up to 75% of the amount of the debt.

It is important to note that the EFG is not a mechanism for putting beyond consideration any asset which, according to normal commercial lending criteria, might be considered available as security. Furthermore, an existing loan may not be refinanced with a new EFG backed loan to enable the existing security to be released.

As you would expect, there is a cost to the borrower of the Government providing a guarantee, ranging from 1.5% to 2% of the loan per annum – but this is a reasonable charge to ensure that the transaction does proceed.

The EFG is available until 31 March 2010. Over £1 million per day has already been guaranteed since its launch in January 2009, and demand is expected to increase. It is recommended that the first priority is to assess the business proposal, and if that is considered to be viable, and if there is insufficient security, check to see if the thresholds enable the EFG to apply.

Another initiative which the Government has launched in order to help banks continue lending is the Working Capital Scheme, whereby the Government is making available to banks guarantees of up to £10 billion, which will support bank lending of up to £20 billion. The intention for this facility is to provide capital which banks can distribute in order to increase all types of lending to businesses with a turnover of less than £500 million. This should help to stimulate the market, and the flow of money, which in turn shall benefit all businesses.

These initiatives are positive, but will only work to fund viable businesses – they are not a means of shoring up toxic debts – and their impact will depend on responsible lending and realistic borrowers.

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For more information on these topics, please go to [www.semplefraser.co.uk](http://www.semplefraser.co.uk), or contact Alex Innes on 0131 273 3771 or [alex.innes@semplefraser.co.uk](mailto:alex.innes@semplefraser.co.uk)

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It's the latest in the advanced education programme run for more than three years now by a partnership of the Institute, the Financial Industry Regulatory Authority and the International Capital Market Association (ICMA) Centre at the Henley Business School.

The specialist courses, all based in London and usually lasting two days, are designed to benefit a wide range of industry professionals:

- practitioners who want to increase their regulatory and compliance knowledge;
- operational risk and internal audit staff who need greater insight into compliance and regulation;
- lawyers who want a 'real world' view of compliance;
- regulators from abroad who want a better understanding of the challenges of implementation.

Those seeking a formal qualification can complete a specific selection of these short courses to obtain a Diploma in Capital Markets Regulation and Compliance, recommended by the Financial Services Skills Council as a qualifying exam for wholesale regulatory purposes.

Developed with a steering committee of global investment banks, these programmes offer in-depth participation from leading investment banks, legal professionals and other industry representatives who understand the key issues facing capital market professionals.

The courses focus on UK regulation and compliance in the context of relevant EU Directives, international standards and best practices. They are highly practical and based on how compliance issues actually arise at work. Speakers are encouraged to provide specific insights into the way they manage the same day-to-day issues as those shared by participants with in-depth examples and case studies.

For more about this programme, please go to [www.icmacentre.ac.uk/finraexec](http://www.icmacentre.ac.uk/finraexec)

### Financial Crime

Dates: April 28-29

Cost: £825

An introduction to the regulatory and compliance issues relating to financial crime. Topics include anti-money laundering, suspicious activities, bribery, insider dealing, operational risk and data security. Case studies guide you through the relative responsibilities of the compliance, internal audit and risk functions and discuss the impact of principles-based regulation on the overall control framework.

### Conflicts of Interest and Ethics

Dates: May 12-13

Cost: £825

A review of conflicts of interest in today's capital markets and tools for managing conflicts within relevant UK laws and the FSA requirements under the Markets in Financial Instruments Directive (MiFID). Delegates focus on the practical implementation of the FSA's rules, including operational and procedural solutions and managing specific conflicts like those that may arise around investment research.

“These are highly practical courses, based on how compliance issues actually arise at work. Speakers provide specific insights and in-depth case study examples of best practice.”

### Islamic Finance

Dates: June 2-3

Cost: £825

Islamic finance offers an alternative source of investment based on compliance with Sharia law. This course reviews the theory and basic products of Islamic finance and the current status of Islamic capital markets. It discusses the underlying principles and the process of creating asset backed Sukuk (fixed income arrangements), Sharia compliant mortgages, structured products, mutual funds and Takaful (Islamic insurance).

### Supervision & Oversight

Dates: September 22-23

Cost: £825

An overview of the FSA's approach to the supervision of firms and the implications for regulatory risk management. Case studies guide delegates through the practicalities of the FSA's supervisory and reporting requirements and provide insight into the roles of Compliance and Senior Management and their relative relationships with the FSA.

### Advanced Regulation & Compliance

Dates: November 30-December 4

Cost: £2,100

This one-week course addresses a series of advanced-level topics which build on previous courses and is designed for compliance professionals seeking in-depth knowledge of compliance operations and management, instead of regulatory or legal material. It is strongly recommended that delegates working toward the full Diploma complete this course towards the end of their programme.

# Leaders learn the new landscape

The UK's first residential workshop to help bank directors and senior executives map the new 'post-Turner' financial territory.



“the new Zeitgeist requires a re-defined approach to leadership in the banking industry.” That’s the moving principle behind the launch of the UK’s first programme to help banking leaders get to grips with the new imperatives for financial services in the ‘post-Turner’ era.

A joint initiative by the ICMA Centre at Henley Business School and the Chartered Institute of Bankers in Scotland, the intensive three-day residential Performance through Professionalism programme is designed for directors and senior executives to develop and demonstrate an in-depth, professional understanding of the industry’s new landscape.

“The last year has demonstrated a need for a deeper knowledge and understanding of risk management amongst banking professionals,” declares Professor Brian Scott-Quinn, Chair of the ICMA Centre and Henley’s Director of Banking Programmes.

The programme can be tailored for the in-house needs of each senior team, explains CIOBS Chief Executive Simon Thompson.

“A custom-designed programme might include the use of the bank’s own annual report and accounts, other internal documents and case studies. These workshops will be closely relevant to the live contemporary challenges faced by each team of participants.”

The programme is based on a solid foundation of professional and technical expertise.

#### It will:

- ensure executives demonstrate an in-depth understanding of risk management and have a good working knowledge of the new regulatory frameworks;
- develop their ability to understand and challenge the viability of high leverage business models, wholesale market funding and securitisation programmes.

“These workshops will be closely relevant to the live contemporary challenges faced by each team of participants.”

SIMON THOMPSON,  
Chief Executive, CIOBS

#### Programme summary

- The Turner analysis
- Basel II & credit risk management
- Liquidity risk
- Adequacy of capital and liquidity
- Market risk
- Regulation and operational risk
- Product regulation and counter-cyclical tools

#### Logistics

**Structure:** A three-day programme, or as agreed.

**Location:** Greenlands, Henley Business School beside the Thames, or at other agreed venues.

**Participants:** Board directors, non-executive directors and senior management.

**Numbers:** 10-16 for the best learning environment and interactivity.

**Methodology:** Structured discussion, case studies, visiting speakers, risk system demonstrations (participants are encouraged to discuss issues specific to their bank).

**Pricing:** Depends on location, content, numbers and programme length.

#### Full details at:

[www.charteredbanker.com/seniorexecutive](http://www.charteredbanker.com/seniorexecutive) or  
[www.icmacentre.ac.uk/charteredbanker](http://www.icmacentre.ac.uk/charteredbanker)

“This programme will help banks generate more sustainable profits for public and private shareholders.”

Prof BRIAN SCOTT-QUINN,  
Henley’s Director of Banking Programmes.

# Are you hearing me?

## Do bankers listen to our entrepreneurs?

The man with the megaphone is JOHN ANDERSON, Chief Executive of the Entrepreneurial Exchange. The bankers taking him on with a will are:

### JACK OGSTON

Clydesdale Bank's Regional Director,  
Corporate & Structured Finance

### KEN BARCLAY

RBS's Managing Director, UK Corporate  
Banking Scotland

### DONALD KERR

Bank of Scotland Corporate's Commercial  
Banking Director, Scotland

### "Communicate better – and faster"

Businesses need someone to talk to! And banks have been bad at communicating with businesses for a long time. Too many Relationship Managers seem unable to talk to their customer and blame the credit committees. I personally don't see the value in banks providing business advice when trust has been compromised as it has, but improving decision-making response times would make a huge difference. For some reason, nothing has changed so far.

**DONALD KERR:** First and foremost, we have to rebuild the trust that John thinks has been compromised. In the enlarged Lloyds Banking Group, we have the chance to be part of the solution.

“We really get under the skin of a business to help the management team grow and succeed.”  
JACK OGSTON, Clydesdale Bank

We'll do that by sticking to the commitments we've given our stakeholders and make significant sums of money available to UK plc. We are looking forward to working with viable businesses to deliver on those commitments. On John's point about speed, we'd rather give the right answer than simply a quick one.

**JACK OGSTON:** We've always focused on relationships and effective communication: that's the key to mutual success for entrepreneurs and their bankers. We're proud to offer customers access to their own local, dedicated Relationship Partner who takes the time to get to know their business. The Relationship Partner has in-depth expertise and knowledge of the local market to support the entrepreneur's needs, and the power to make fast, local decisions based on the individual, their business and prospects. This isn't the verdict of a faceless person who knows little about the business and its potential.

**KEN BARCLAY:** We communicate more regularly than ever and have increased staff to dedicate teams, rather than a single manager, to each customer so there's always someone to contact who knows their business. The most positive aspect of our feedback from customers relates to the quality of our added value service and communication. In this climate, it's more important than ever to talk to customers and understand their issues. This may mean the credit process takes a little longer, but we believe it's vital to reach the right conclusions for everyone. We always encourage customers to approach us early if additional funding is required, so we can respond in a timely fashion.

**“Improve access to finance”**  
Businesses are suffering from being undercapitalised. Naturally,

the banking relationship is two-way and, as long as entrepreneurs keep to their financial covenants, the banks should keep their end of the bargain. But this isn't always happening – particularly at this stage where businesses have reached 'survival', but need a cash injection to grow to their full potential. We also need some honesty about the Enterprise Finance Guarantee Scheme, which looks like being a politically motivated fudge.

**KEN BARCLAY:** If businesses are undercapitalised, I'm not sure it's always a bank's place to inject cash at the 'survival' stage. Equity is not a traditional method of banking provision, but we're extremely sympathetic to funding cap-ex for growth and working capital, where many companies are being squeezed. The Enterprise Finance Guarantee scheme – for businesses struggling to obtain conventional finance – is a very welcome addition. We always respect compliant loans, but covenant breaches do mean reassessing risk and deal structures. In the vast majority of cases, we'll continue to support businesses who have breached their loan terms and will endeavour to renegotiate our support. RBS is committed to increase UK business lending (£16bn by March 2010), but it's in nobody's interest to lend to businesses that can't afford to service that debt.

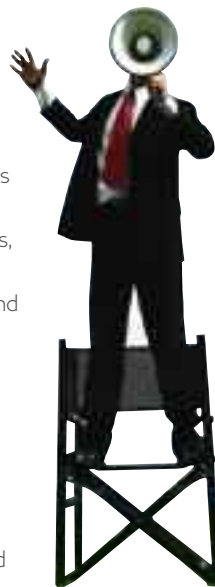
**JACK OGSTON:** We're committed to the agreements we enter into with our customers. We believe in forging long-term relationships and working with customers to help them through any difficulties. We've always taken a prudent approach to lending which has served us well and we're still approving nine out of ten credit applications made to us – the same figure as this time last year.

**DONALD KERR:** Through the Enterprise Finance Guarantee scheme, European Investment Bank funding and the Asset Protection Scheme, we're opening up three new channels of funding for viable companies to grow. We know from our strong market share in Scotland that we'll need to play a major part in helping drive the economy out of recession. And we're willing to do that.

**“Take a risk on potential”**  
Banks should be taking a risk on companies that really can go all the way – well-run businesses with good controls and sound financial management. The banks need to get closer to their customers, really understand their objectives and help them reach their growth goals. All available resources should be channelled into a relatively small number of businesses. That's the way to rebuild an economy.

**KEN BARCLAY:** We agree with much of this. RBS prides itself on being a relationship-focused bank: it's vital we understand the aims and aspirations of all customers through regular open dialogue. We take time to understand their businesses and structure the right financial solutions for their needs. Given our significant market share, though, I'm not an advocate of channelling our capital and energy into a “relatively small number” of businesses.

**DONALD KERR:** We take great pride in being supportive through the cycle. We've always had a relationship management ethos that goes beyond simply providing finance, towards being a trusted advisor. We need to work with clients to understand the risks in their business and their plans to manage those risks. Recent research shows that for one in four people in business, this



**“It's in nobody's interest to lend to businesses which can't afford to service that debt.”**

KEN BARCLAY,  
RBS

will be their first recession: we'll make sure these companies get the support and advice to help them cope.

**JACK OGSTON:** Our approach is designed to recognise entrepreneurs who can deliver to their potential. Each of the 77 Financial Solutions Centres in our UK network is run by a Managing Partner and their team of Relationship Partners. These specialists are dedicated to getting to know how our customers' businesses operate and understand their ambitions. They really get under the skin of a business to help the management team grow and succeed. Our appetite for this has never waned.

**“Stick to your promises”**  
Cash isn't king anymore for banks – the customer is. In recession, when customers trip, the banks have got to be there to catch them, like they said they would. Companies are sometimes being offered good deals but, at a critical point, unilateral changes are made to terms and conditions. And no-one in the bank seems to take responsibility for why this is happening.

**JACK OGSTON:** The customer is at the centre of everything we do – without them, we don't have a business. Our strong focus on relationships means we support our customers through the tough times, as much as the good times. As long as there haven't been changes to the risk profile of a business, we'll deliver on the agreed terms and conditions.

**KEN BARCLAY:** We've always believed the customer is king. We're acutely aware that it's tough out there. That's why we encourage customers to flag-up potential issues early, so we have the best possible chance of helping them through the economic cycle. We'll “catch” our customers wherever possible. We don't make unilateral changes to terms – we're guaranteeing the level and price of small business overdrafts until the end of 2009, where there are no material changes to the risk profile. We price debt to reflect the risk involved and judge each case on its own merits.

**DONALD KERR:** One of the great ambitions in coming together with Lloyds is to help customers through the cycle – specifically, to have fewer customers fail than other banks. To achieve that, we need to work with our customers more closely. And they, in turn, have to be open about the challenges they're facing so that together we can build solutions that work.

**“Give the RMs their head”**  
Some banks are definitely doing some very good, supportive things for businesses. But behaviour internally can often be a problem. I'd like banks to free up the Relationship Managers to do what they're good at. Get the toxic stuff off their desks, give them the autonomy to make their own decisions, see opportunities and go for them.

**DONALD KERR:** I'm less concerned about where a decision is made, and more about getting the right decision for our customers. Our dedicated teams do focus attention on those showing signs of stress. Our primary role is to assist in their turn-around and not simply cutting and running. This is a deep and damaging slowdown and we just have to work hard to minimise the number of failures.

**KEN BARCLAY:** Excellent customer service is at the forefront of everything we do. In MORI's most recent research, we're rated the number one bank for service to small businesses in Scotland. In a recession, it's inevitable that Relationship Managers commit more time to credit monitoring and stewardship: a considerable number of businesses experience cashflow and debt servicing difficulties and it's important to recognise whether that's short term or something more serious. We take time to assess the scale of the challenges companies face and ensure that, if there's a solution, we find it.

**JACK OGSTON:** We trust our Relationship Partners to recognise potential, encourage it, invest in it and ultimately help it to succeed. We work with local credit specialists who make well-informed local decisions. They have the autonomy to make funding decisions and are absolutely committed to maintaining a close working relationship with all of their customers.



“One of the great ambitions in coming together with Lloyds is to have fewer customers fail than other banks.”  
DONALD KERR, Bank of Scotland Corporate

SUSAN HETRICK, People Academy, on managing people in the current financial crisis.

## A PASSING STORM OR A TSUNAMI?

**N**ot that long ago, a Government minister suggested that she could see 'the green shoots of recovery'; whilst the Chartered Institute of Personnel and Development warned employers to 'hold their nerve' in the downturn and make redundancies as a last resort. Susan Hetrick, Director of the business restructuring consultancy, People Academy argues that the situation has never been bleaker. Speaking at a recent conference, Hetrick said that "many banks have been in a state of shock since October. Only now is there a realisation of just how massive the change will be". With that reawakening has come the ever daily announcement of job losses; many analysts expect losses of up to 30 per cent in some organisations.

So how should banks manage their people in the downturn? There are three key issues to confront, argues Hetrick. "First, many HR practitioners and business leaders have little

experience of business restructuring. With the expected upturn in legal claims, this is very concerning. Damages of up to £66,200, plus additional awards for unfair dismissal and unlimited damages in a discrimination claim, could make restructuring very expensive if companies don't get the process right."

The second issue is how to cope with such massive change. Hetrick reveals that some of her clients are addressing this in innovative ways. "Some are looking at delivering a 'shared service' style delivery in managing the transition. Employers are keen to retain their best staff but recognise that the process of managing the transition needs to be a lot smarter." Companies are setting up technical advice centres for line managers and HR practitioner to call for advice and support, as well as providing 'how to' guides and governance frameworks.

The third issue is how individuals themselves will manage the transition.

Outplacement firms are gearing themselves up for the anticipated demand. Yet is outplacement the right solution? Hetrick argues that individuals are going to be looking for far more than traditional solutions. "We are seeing clients looking for a far more demanding and discerning service that enables individuals to look at who they are, what they want and how they can get it. People Academy provides coaching for senior staff: some clients want to focus on their image; others want to take a more holistic approach and consider what they really want to do with their life. All this means that we focus on 'transition coaching' to give our clients what they really need."

So is the current financial crisis a passing storm or a tsunami? According to Hetrick, it will be a tsunami. "At the moment we are waiting for the wave. For companies to succeed, they must be fully prepared to survive".



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## Back to school

As we rush around trying to fix our banking system, argues Corporate Philosopher ROGER STEARE, we're forgetting those human moral values that primary school kids understand so well.



as I write this, I'm keeping an eye on the news. What I see and read makes me really angry. Politicians, regulators, business people and the media are running around trying to fix the car wreck of our banking, financial and economic system. But they haven't stopped to think about what a human economy ought to value.

Here's what I mean. Pete Worley teaches philosophy to primary school kids in the London borough of Lewisham. He talks to them using words they understand. He asks them simple but difficult questions about life and encourages them to think about them in the context of their lives in a multi-cultural deprived urban area. The results of Pete's work and others like him across the world have been very encouraging. Rational and emotional intelligence scores in schools that teach philosophy have increased significantly. So has behaviour.

When Pete and I swapped insights and experiences a couple of years ago, we were very encouraged to find we had similar approaches to teaching people of all ages how to stop and think. He sat in on an ethics workshop I was running on an executive floor of one of the Canary Wharf towers.

**"The only sustainable currencies we have left are the same human moral values that unite our families and friendships."**



Unlike his primary school kids, my audience was full of affluent middle class professionals. What was identical, though, was the humanity that came flooding through when these "greedy bankers" talked about their lives at work.

We discussed how people develop a moral conscience. We shared a common understanding of what "good" looks like. We laughed about the "functioning sociopaths" who fill too many of the top jobs in every walk of life. We worked through tough, daily dilemmas that challenge us all. Pete was struck by how the initial cynicism and scepticism of many people simply evaporated in the first few minutes. By the end of the workshop, he said he felt our shared approach to teaching ethics had already changed the way most of these affluent professionals spoke and behaved.

That brings me back to the car wreck. What those politicians, regulators, business and media people are doing, it seems to me, is not fixing it. They're filling the perforated petrol tank with yet more fuel. They're lining the driver up for a firing squad. But they haven't bothered to tend to the injured – the people all over the world losing

jobs, homes and livelihoods. They haven't realised that the only sustainable currencies we have left are the same human moral values that unite our families and friendships. These values are universal and enduring.

These values are not about "quantitative easing" or "economic stimulus packages" or "free trade". No, our enduring moral values are things that your average child would understand: "honesty", "courage", "love" and "fairness" are the moral values we need to rebuild the trust that sustains all human communities. And, until politicians, regulators, business people and the media start talking the language that a 10-year-old in Lewisham would understand, I'm going to stay angry and keep writing about this stuff.

**Roger Steare is a Corporate Philosopher and Professor of Organisational Ethics at Cass Business School, London.**

**He can be contacted at: [roger.steare@ethicability.org](mailto:roger.steare@ethicability.org)**

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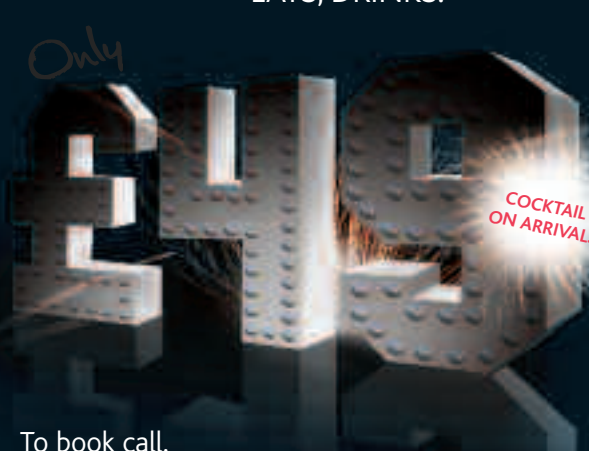


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# What would you do?

ROBERT SOUSTER invites you to challenge your professional integrity with a scenario that will test your ethical decision-making abilities.



**having** traded successfully for many years, JKL Bank plc was

badly affected by the liquidity crisis in 2008. As a result, the Government took a stake in the bank as part of its strategy to restore confidence in the banking sector.

Shirley has accepted a position as a Non-Executive Director of JKL Bank plc. Her initial impression is that the bank has a good reputation, but she would like to see it take a more pro-active approach to promoting a positive image as the banking industry comes under increasing public scrutiny and media criticism. Shirley is an executive with a large company that operates sandwich bars and coffee shops in many towns and cities. The company prides itself on high ethical standards, and has pioneered initiatives such as 100% recyclable packaging, sourcing supplies badged as 'Fairtrade' and distributing unused products at the end of each working

“Shirley suggested that the bank should consider introducing a code of ethics, backed by sound policies that would demonstrate the bank’s high level of integrity.”

day to the homeless.

At her first board meeting, Shirley suggested that the bank should consider introducing a code of ethics, backed by sound policies that would demonstrate the bank's high level of integrity. She cited the example of Cooperative Bank, which has been highly successful in adopting such an approach.

To her dismay, the board was quite divided on this. Three of her colleagues agreed in principle with her ideas. They felt that the bank already demonstrated a principled approach to business, which was right and proper, but there was no harm in reinforcing its efforts in this respect. However, four directors were quite vociferously opposed to her views. They felt that the bank had to be seen to concentrate on its primary economic objectives and that investment in such an initiative would be an unwelcome diversion of resources at a time when all banks were under close scrutiny by stakeholders. They admitted that the Cooperative Bank demonstrated a successful business model, but could only commit themselves to agree to such a strategy if it would produce tangible financial benefits.

Should the board support Shirley?



**“In bringing her suggestions to the board, Shirley is attempting to introduce an overt policy that leaves stakeholders in no doubt as to the ethical credentials of the bank.”**

the divided opinions on the board of JKL Bank plc arise from the differing views of the directors on the company's ethical stance. This is the extent to which an organisation is prepared to exceed its minimum obligations to stakeholders as laid down in its mission and objectives.

The management writers Johnson and Scholes have identified four typologies of organisations in relation to ethical stance. At one extreme, the narrow approach suggests that organisations may take a short-term shareholder perspective. As the primary objective of a public company is to maximise shareholder value, resources should be committed to this end and it is the responsibility of Government to regulate behaviours they feel to be inappropriate.

At the other extreme, Johnson and Scholes state that some organisations will adopt a stance of being 'shapers of society', building ethical standards into their plans as an implicit obligation. In between these extremes, the model suggests that some may adopt the 'long-term shareholder perspective', which admits the benefits of implementing ethical policies if there are benefits to shareholders in doing so, while others may use the 'multiple stakeholder obligations' approach, which recognises the broader claims of stakeholders and not just the shareholders.

In bringing her suggestions to the board, Shirley is attempting to introduce an overt policy that leaves stakeholders in no doubt as to the ethical credentials of the bank.

The responses from her co-directors polarise into what Evans and Freeman refer to as 'normative' and 'instrumental' approaches to the decision.

The normative approach proposes that organisations should act because the action is right. It is based on the perceived duty of the organisation to its stakeholders. The instrumental approach is more mercenary in that it would support actions that promote the economic interests of the organisation. The instrumentalist basically says 'Let's do it if it will create financial benefits'.

Whether Shirley's proposals should be adopted depend on several factors. We are told in the scenario that JKL Bank already has a good reputation, so presumably the bank will not have to adjust its policies radically to implement what Shirley suggests. The board has to consider that customers and other stakeholders will broadly welcome the initiative, but there will inevitably be cynics who will challenge the motives for doing so, and will probably be looking for any evidence at all that actual policies are at odds with the bank's promises. The bank has to consider the costs against the benefits, all within the context of its stakeholders' expectations.

The Cooperative Bank's actual experience is interesting. Its ethical banking strategy was almost certainly born out of a genuine commitment of those who formulated it, but at the same time it has been able to demonstrate through its research and analysis that the policies have also resulted in tangible economic benefits.



## Preserve our reputation

OWEN KELLY, Chief Executive, Scottish Financial Enterprise, argues the skills required to rebuild the industry's reputation have not been washed away.

In recent weeks there has been increasing speculation on Scotland's reputation as a financial centre. Much of it has focused on our capital city, but the question pondered is often whether Scotland as a whole now invokes negative connotations in the financial services world.

I'll get the easy bit out of the way first, and say that my response when asked that question is a definite 'no'. But I want to explain that answer, and say why I think the constant focus on the question is becoming damaging.

Since January, I have spent a good bit of time in the City and overseas as part of SFE's remit to promote and support Scotland's financial services industry. I have also had many conversations with people working in our companies, hearing directly from them.

In the City, people are of course very aware of the problems at RBS and LBG/HBOS and the level of Government support they have been given. They are closely following the fortunes of these restructured banks. But they are equally aware of the other global companies who have suffered difficulties just as severe. And they are looking at global markets, and the worldwide issues of reforming regulation, decreasing volatility and managing the wider economy.

Overseas, in Geneva, the focus is on UBS and banking secrecy. In Brussels, conversations are focused on Fortis. In China, the problems in the West are

seen as emanating primarily from the US. In France, the UK financial services industry is certainly discussed, but at the UK level, not exclusively as a 'Scottish' problem.

Talking to people working in Scotland in the industry itself, I get a range of views, but there is general recognition that there will be no quick fix. On an individual level, that can mean that we see less movement in jobs, as people are more cautious. Some are looking at issues such as risk management and company reporting – they want to ensure their business is as robust as it can be for the future.

People know the industry must change. But the diversity of our industry, its long history, expertise and – yes – its good reputation, are all still there.

There's also been some good news. Last month Tesco Personal Finance announced a major expansion in Edinburgh, and a new HQ in the city. Esure announced 500 new jobs for Glasgow. Heriot Watt University is building on its world-class reputation in financial research to create a new centre of excellence, and is this year introducing a new MSc in risk management. It understands the need for increased skills in this area and has the expertise and the ambition to be at the heart of it.

I don't underestimate the problems, the severe impact on many bank shareholders and the damage to the

**"The banking industry has a lot to do and a lot to answer for. But we need to keep a clear head in these troubled times"**



reputation of the banking industry worldwide.

But I am increasingly concerned about an internal focus on the negative in Scotland, and the tendency to take a sweeping view that says mistakes by some people, in one sector of the industry, wipe out all of the positives in the rest of it.

I am also worried about the turn that some of the anger is taking. People at the head of banks in many global centres made mistakes that cost shareholders dear. But there are no circumstances that justify personal attacks on an individual and his family, in contravention of the rule of law. That rule remains the foundation of social cohesion, as well as commercial success, and it should be defended by all of us, especially our political leaders.

Scotland cannot allow itself to descend into a constant negative. The banking industry has a lot to do and a lot to answer for. But we need to keep a clear head in these troubled times and use our experience to build our collective future as a country and as an economy.

Owen Kelly is Chief Executive of Scottish Financial Enterprise, the representative body for Scotland's financial services industry. SFE's member companies range in size from global organisations headquartered in Scotland to small, specialist support companies.



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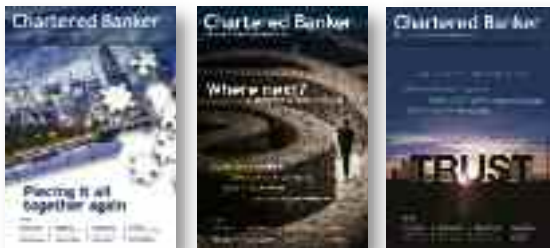


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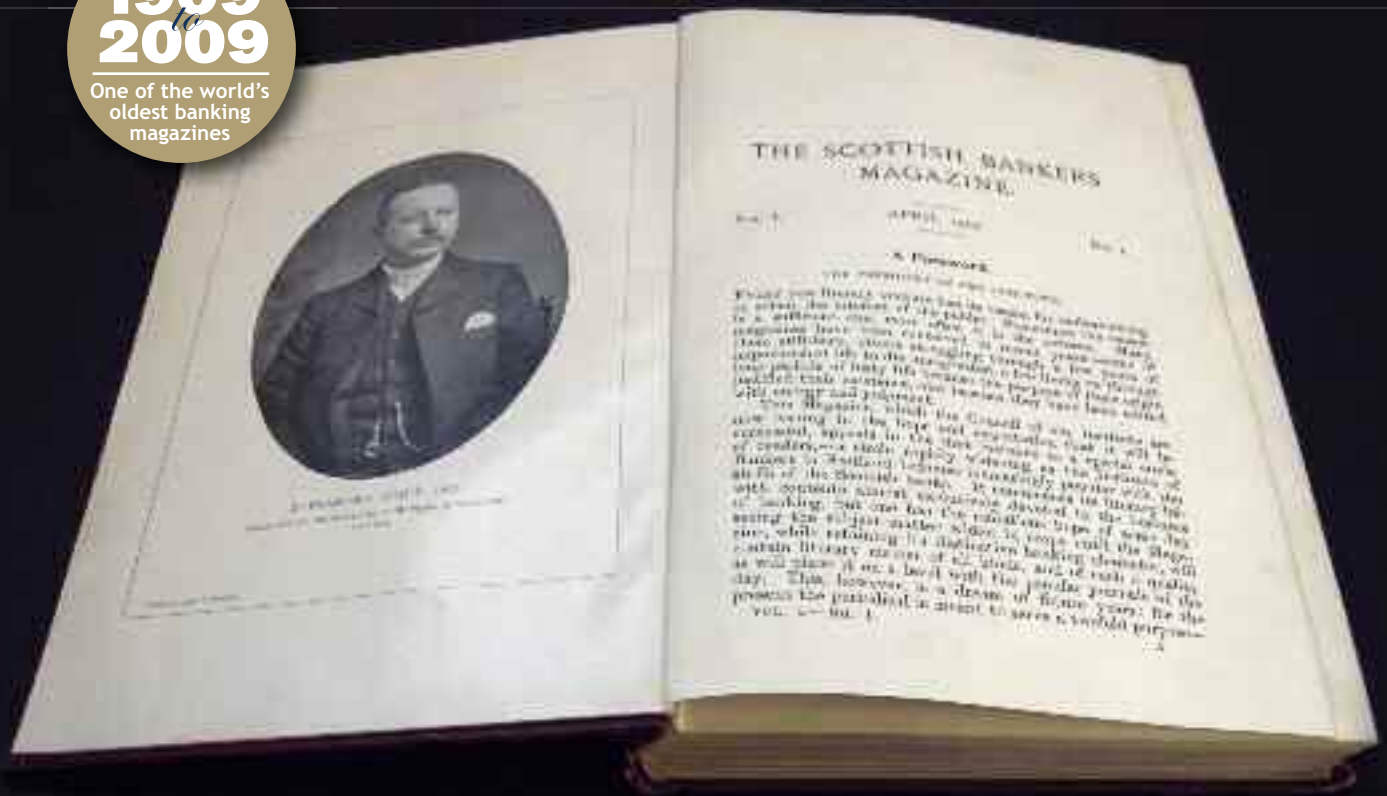


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# The past is a foreign country. They do things differently there.

A century ago this month, the Institute launched what has become one of the world's oldest banking magazines. Despite the changes that have convulsed the industry since then, those early editions have an oddly accidental resonance for today's crisis-riven industry.

“there has been no time in the history of banking,” pronounces Alexander Bogie, Esq., President of the Institute, “more interesting than the present to the student of the great science of finance, no period more filled with problems theoretical and practical.

“It seems as if in Scotland especially we stand at a parting of the ways, when only the ethical principles, which made our Scottish banking system foremost at one time amongst those of civilised people, are to remain to us as the perpetual foundation on which new ideas and modes of practice are to be raised, superseding many of the old ways of accountancy, of trade methods, of profit-making, and replacing the old by new and, in

certain respects, improved plans.”

His proud words in that first issue of *The Scottish Banker's Magazine* in April 1909 have an oddly accidental resonance a hundred years later. Here we are in the very furnace of the biggest banking crisis of all time; and there they were still reflecting on the “The Causes and Effects of the last great banking crisis in Scotland” three decades earlier.

“It may appear,” concedes Kenneth Mackenzie of the National Bank, Dundee, “to be of remote interest compared with the late financial crisis in America, which is fresh in the memory of most people.” All the same, he feels compelled to examine half a dozen 19th century crises, drawing attention to their “periodicity – within regular cycles of about ten or twelve years from 1825 to 1878.” >>



He selects two in particular to deserve his description as the “outstanding banking crises in Scotland”. The first, in 1857, started with “tension in the United States” where an important trust company, with over £1m of deposits, mostly “locked up in dead securities” failed. A “feeling of distrust and uneasiness prevailed,” he says. (Recognise anything yet?)

This led inexorably to the collapse of a handful of high profile traders in Glasgow which “greatly incommoded” the city’s Western Bank. It was initially kept afloat with a loan of £500,000, advanced with considerable ill-grace by other Scottish banks. But when the Western came back for more, the others pulled the plug and it went into voluntary liquidation with liabilities of more than £10.6m.

Mackenzie’s second choice crisis had occurred in 1878, about which this edition of *The Scottish Banker’s Magazine* says tantalisingly: “(To be continued.)” In those days, too, they certainly knew how to whet the serialisation appetite for readers of their quarterly publication.

Yet the Magazine itself was launched at a time of evident commercial self-confidence. The Institute, established 34 years earlier, “to improve the qualifications of those engaged in banking and to raise their status and influence” was busily expanding its reach in Scotland and in a Britain still at the wealthy epicentre of its empire.

This was a time when the Gold and Silver Medal-winning Gentlemen’s Tailors, Stark Brothers, on Edinburgh’s South Bridge (advertising in the Institute’s 1910 handsome book of past examination papers) was offering FROCKCOAT SUITS for 84/- to 120/-, TROUSERS for 21/- upwards, and FULL DRESS SUIT for 5,6 and 7 Guineas – not to mention the intriguing “Dr Rasurel’s Hygienic Underwear Specialities in Wool and Peat”.

The Institute’s mission then was principally among those “lads o’ pairts” (and they were mostly lads) going into banking invariably from school rather than from university. For these youngsters, the exam papers reflect the Institute’s emphasis on the need for a wide and inquisitive knowledge of their community – and of the world about them.

“The British Islands,” observes the introductory text, “and Scotland in particular,

should be studied very closely, both as regards physical characteristics, and with respect to town, industries, and railways and other means of communication. India, the Colonies and Europe claim full and careful consideration”.

So: “Name the Colonial possessions of Germany in Africa and the Pacific Ocean”, asks one paper. “Name the Provinces of the Dominion of Canada, and give the chief town and principal productions of each.”

And then: “A proposal has been brought forward to construct a canal from the Forth to the Clyde via Stirling and Loch Lomond. What, in your opinion, would be the probable result on the trade of Aberdeen, Grangemouth, Leith and Glasgow?”

Excellence in English is sought since “one page of carefully and correctly worded matter is infinitely more valuable than double the amount of loose composition”. Candidates are asked to write an essay on “The qualities that make a great man” or to discuss “Single-chamber versus two-chamber Government”.

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There’s no escape from Algebra. “Two persons invest the same amount of money, the first at 3½ per cent per annum, the second at 5½ per cent per annum. The yearly income of the second is greater than that of the first by £3. How much did they each invest?”

The language is also an Edwardian delight. That first issue is full of the rotund, watch-chain-in-the-waistcoat grammar of the age – single sentences, strewn with elaborate sub-clauses and parenthetical pauses for further edification, that seem never quite to come to any conclusion before you’re gasping for breath.

An unnamed CA is in full flight here explaining “How to analyse a Balance-Sheet” with this early warning to the disingenuous: “A man desiring credit in the shape of an Advance

or an Overdraft as a rule sets about the task of placing his position before his banker in a somewhat optimistic spirit, judging from what comes under one’s observation in such cases, and the tendency is decidedly to introduce assets at their outside value, and to minimise the liabilities by ignoring outstanding obligations in some cases, understating them in others, and making no provision for contingent liabilities, which, though undetermined, may nevertheless be very real.”

But consider this. You need to change only a few errant words in this cautionary tale from 100 years ago, and you have an almost perfectly perceptive allegory for our modern times: “A Banker desiring New Capital as a rule sets about the task of placing his position before his Shareholders in a somewhat optimistic spirit...”

Fifty years ago, however, the Magazine was reporting the start of another revolution. It records the announcement by Bank of Scotland Governor Lord Bilsland that it had recently installed “machinery” to centralise the book-keeping of several branches – “the first official intimation of one of the most interesting developments in this field in Britain.”

Supplied by IBM from its Greenock factory, the installation had a “420” accounting machine at its core supplemented by “a banking device” developed in Milan and adapted to the Bank’s requirements. “This device adds a calculating element to the accounting machine,” explains the Magazine, “and makes it possible to simulate, with punched-card equipment, the operations of a computer system.”

For the uninitiated, it adds a helpful definition: “A computer is a large complex and expensive piece of equipment which can be employed economically only if a great volume of work is available”. The development foreshadows “book-less book-keeping”, and the Bank is applauded for committing itself publicly to the use of computers while still uncertain that a universal coding system to make bank vouchers self-accounting would become available.

“This installation,” concludes the article with just a hint of nervous anticipation, “therefore confronts us with the fact that electronic operation cannot be dismissed as something that will come one day (“But not in my time, thank Heaven”)! ”

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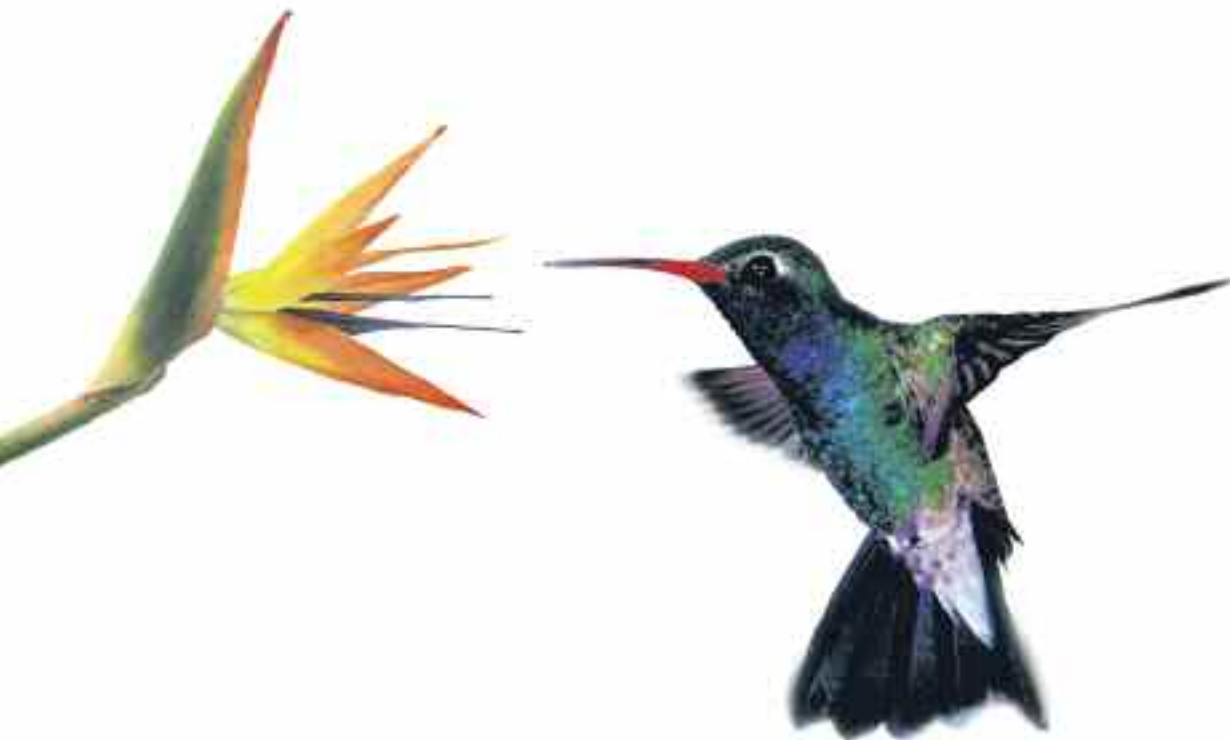
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