CHARTERED BANKER

The magazine for the UK banking profession

Special Report

The COMPLIANCE *balancing act*

RETHINKING REGULATION

This Special Report examines how the compliance function is reacting to growing pressures on the financial services industry to satisfy both regulators and consumers, while ensuring that business can continue to be conducted with minimal interruption.

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The Chartered Banker Institute is helping to rebuild public confidence in banks and bankers by developing and embedding high ethical, professional and technical standards. We also provide world-class professional qualifications for the financial services industry in the UK and overseas. In 2011, the Institute launched the Chartered Banker Professional Standards Board (www.cbpsb.org) to enhance and sustain professionalism in banking.

The Chartered Banker Institute is the only remaining banking institute in the UK. We are unique in being entitled to award the "Chartered Banker" designation to our qualified members. The Institute also offers a wide range of education tools to support members with Continuing Professional Development.

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A challenging environment

SIMON THOMPSON, Chief Executive of the Chartered Banker Institute, explores the challenges banks face in striking the right balance between responding to increased regulation and demand for transparency and accountability alongside managing corporate responsibilities.

Welcome to this Special Report, which looks at the changing landscape of compliance. As compliance departments struggle with the technical and resourcing demands of the heightened regulatory agenda, we highlight how the function must adapt and position itself within an organisation to address its ever-evolving responsibilities. A drive to improve transparency and provide greater investor and consumer protection is central to the host of new rules now confronting the industry.

This environment puts significant pressure on the compliance function, affecting not only its composition, but its role, voice and crucially its location within the business.

Many organisations are daunted by the prospect of complying with rapidly changing requirements, both in terms of their relationship with regulators but also, importantly, with their customers.

And it's no wonder that Boards and CEOs are more focused on managing risk than ever before, as the new rules and regulations continue to intensify. But setting ground rules for all bankers to act with integrity, due skill, care and diligence is something that the Institute has been advocating since its foundation. By working with the Institute, as many organisations are now doing, both in the UK and internationally, banks can enhance and sustain standards and exceed regulators' expectations.

"By working with the Institute banks can enhance and sustain standards and exceed regulators' expectations."

As Chief Compliance Officers (CCOs) prepare to get to grips with the new Senior Managers and Certification Regime (SMCR), which will be fully in force by March 2016, we consider the many implications for senior compliance professionals.

With the SMCR now extending to all financial services organisations and adding to the already lengthy list of expectations they must meet, including having robust technology solutions in place to support an effective compliance programme, the CCO role must encompass a broader skillset to address the demand for professionals who can demonstrate expertise beyond traditional requirements.

This 20-page report explores ways to enhance the value-adding aspects of compliance, while recognising its limitations and areas where its needs can create tension alongside banks' other priorities. It also contemplates whether the function is most effective when deeply embedded throughout an organisation or when managed as a distinct entity.

Past misconduct has made all too obvious the serious reputational damage that can occur when banks ignore their compliance priorities. That's what is shaping today's regulatory landscape.

The changing face of COMPLIANCE

“By placing more emphasis on managing and minimising risks, banks can avoid incurring expensive fines and having to fork out compensation to customers and clients.”

For many years, compliance was regarded as a niche profession, hidden away at the back-end of banking functions. Today, however, as financial institutions wrestle with a constantly evolving regulatory environment, it sits very much at the forefront and in the public eye. A need for the introduction of more rigorous standards became prominent following the high profile scandals involving mis-selling, LIBOR-rigging and money-laundering accusations – all revealing large-scale compliance failures continuing, in some cases, over several years.

As successive revelations have been made public, there has been mounting clamour to implement stricter government policies that force banks to create a more ethical internal work culture. Because of the ongoing legislative changes in the regulatory environment and the consequent societal expectations, banks are spending hundreds of millions of pounds each year on hiring compliance professionals to mitigate risks and educate their workforces on the latest changes.

For this reason, compliance is bucking the current hiring trend, and is the only City specialism for which recruitment is increasing. Even smaller firms are setting up compliance functions. This is partly driven by the FCA’s adoption of consumer credit regulation, which means it now oversees more than 50,000 firms.

By August 2014, HSBC was already employing just over 24,000 people in its compliance and risk management units, spending up to $800m on its compliance and risk programme overall. To put this into perspective, approximately 10% of the company’s employees were responsible for monitoring the other 90%.

Andy Dallas, Director of Financial Services at Robert Half International recruitment, reports that there has been a “shift in demand for compliance professionals as banks focus on supporting business growth through regulation”. But he wonders if this drastic expansion of the compliance function will actually help financial services providers to satisfy regulators, customers and their commercial interests?

“Banks must consider their commercial priorities alongside their compliance priorities to strike the right balance,” he adds. »

WHO ARE COMPLIANCE PROFESSIONALS?

Andy Dallas, Director of Financial Services at Robert Half International recruitment, says his company recruits candidates from “all sorts of backgrounds”, although he recognises that there is a particularly high demand for those who have worked in bank operations and audit. There is also a strong demand for qualified lawyers and other legal professionals, as these candidates “tend to have the right mindset for compliance and risk-management based roles,” Dallas adds.

The specialism is now seen as a career pathway in its own right, and banks are particularly interested in hiring candidates who have the ICA qualification in anti-money laundering, the CFA (Chartered Financial Accountant) qualification, and the CAM Chartered Asset Manager qualification. The number of people taking International Compliance Association courses with ICT has also doubled in two years and the Chartered Institute for Securities and Investment (CISI) has introduced specialist qualifications.

“At Robert Half, we look for people who can adapt and understand the market quickly. Across the financial sector, there is also a demand for overseas candidates who possess strong language skills,” he says. For example, in London there are large numbers of financial professionals who originate from Singapore and Hong Kong. In addition, recruiters are looking for people who come from a regulatory or accountancy background, or graduates who have undertaken exams or can demonstrate an interest in compliance.

Another key skill – or character trait – Robert Half looks out for – is diligence, says Dallas. “We like candidates who are diligent, vigilant and proactive. Banks want employees who can offer valuable information, understand the latest regulations, and immerse themselves in their work environment. That means being able to find your own feet, possessing the right interpersonal skills, having a trusted insight and demonstrating integrity. Since the changes in EU market rules these skills are more important to banks now.”

By placing more emphasis on managing and minimising risks, banks can avoid incurring expensive fines and having to fork out compensation to customers and clients.

Professor Julia Black, Pro Director for Research at the London School of Economics, and Jonathan Bowdler, Global Head of Compliance at International Compliance Training (ICT), both see promising signs that compliance teams are becoming more outward-looking, as they start to consider the big picture of the regulators' likely future agendas, rather than just detailed compliance with current requirements.

Bowdler predicts that political change will continue to keep compliance on its toes.

"If you work in compliance, you are both a risk manager and a change manager," he says. "It's change that creates the issues, and one of the main sources of that is political change."

ANTICIPATING CHANGE

Black sees the "revolving door" between regulators, financial institutions and their advisers as a potentially positive sign. "Consultancies like EY and Deloitte are scattered with regulatory people. They're trying to position firms so that they can act in anticipation of what the next regulatory focus might be," she says.

She was also heartened by the appointment of the high profile Dame Colette Bowe to chair the Banking Standards Board. But she says the

COSTS AND CHALLENGES

The Robert Half 2015 Salary Guide revealed that salaries for Heads of Compliance job titles in London ranged from £88,250 to £202,500 in 2014, increasing by 3.6 percent to between £92,250 and £209,000 in 2015.

This research also shows that 90% of company executives have experienced challenges in hiring compliance professionals, and 58% of companies intend to hire additional interim employees to manage their compliance workloads. Hiring risk managers, compliance managers and anti-money laundering specialists who can analyse and interpret these new regulations, can help banks create new policies to manage their risks and avoid compliance breaches.

"Ultimately, the main method for the banks is to offset compliance costs with fines. The key to achieving this is to find the right people with a forward-thinking attitude – people who know what's important to them," according to Dallas. Compliance roles will continue to be in "great demand", which will mean "higher salary expectations" as banks strive to find and retain the best talent.

> Banks must consider their commercial priorities alongside their compliance priorities to strike the right balance."

effectiveness of new standards body will ultimately come down to the attitude of the industry.

"It will be interesting to see to what extent the banking sector wants to embrace the BSB, or decides to render it an irrelevance," states Black. "That's for the institutions to decide.

"When we start to hear people talking about it as influential, that will be a good sign. If it fizzles out and becomes this well-meaning granny issuing advice to players from the sidelines, we'll know that this way of approaching banking standards hasn't worked."

RING-FENCING REGIME

All major banks – including RBS, Lloyds, HSBC, Santander UK, HSBC and Co-operative Bank – have been forced to change the manner in which they run their retail and investment banking operations to help safeguard consumers from the financial impacts of high-risk investment banking.

According to Duncan Jeffery, manager at the specialist recruitment company Compliance Professionals, banks are facing "real uncertainty" as they restructure their policies to comply with these new regulations. Jeffery believes, however, that compliance professionals with significant experience of managing regulatory implementation projects could emerge as the winners in this scenario, potentially earning as much as £1,500 to £2,000 per day. Because of the shortage in experienced compliance professionals and the demand for people with strong skills in financial control and audit, banks are willing to offer very generous remuneration to the right people.

WILL NEW RULES FORCE FUNCTIONS OVERSEAS?

Some banks have already raised concerns that these new rules could force them to move some of their banking functions elsewhere. Santander, for example, announced that it may move some of its commercial banking activities to Frankfurt, warning that the new ring-fencing regime could make its UK subsidiary commercially uncompetitive. Lloyds Bank also sought an exemption from one of the new policies of the ring-fencing regime – to have another board of directors for its ring-fenced entity, in addition to the board of directors for its parent group.

As the new rules are set to be in force by 2019, it has been estimated that ring-fencing will cost UK banks some £2.5bn, with annual operating costs of approximately £4bn.

Only time will tell how this new policy infrastructure will impact on the growth and resilience of the UK financial sector. One thing is for sure, though: the demand for skilled compliance professionals is likely to show no signs of abating in the foreseeable future.

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Compliance in numbers

Since the financial crisis, compliance functions have experienced rapid growth in response to increasing regulatory and societal demands. Here are some of the prominent landmarks in this constantly changing territory.

COMPLAINTS

40%

proportion of complaints to the FCA last year about credit broking, of which **80%** concerned brokers' upfront fees.*

14m

the number of consumer complaints about the sale of PPI handled by financial firms since January 2011; **70%** were upheld.*

Banks and lenders have paid over

£17bn

to borrowers who were mis-sold PPI.*

TIME

33%+

of global firms spent at least one day a week in 2014 tracking and analysing regulatory change.^

FINES, BREACHES & COMPENSATION

£20.8m

fines imposed by the FCA to the start of March 2015 = just **1.4%** of 2014's total fines.*

59

businesses received FCA attestations in 2014*

SALARIES

3.6%

average rise in London salaries for Heads of Compliance (up from £88,250–£202,500 in 2014 to £92,250–£209,000 in 2015.)#

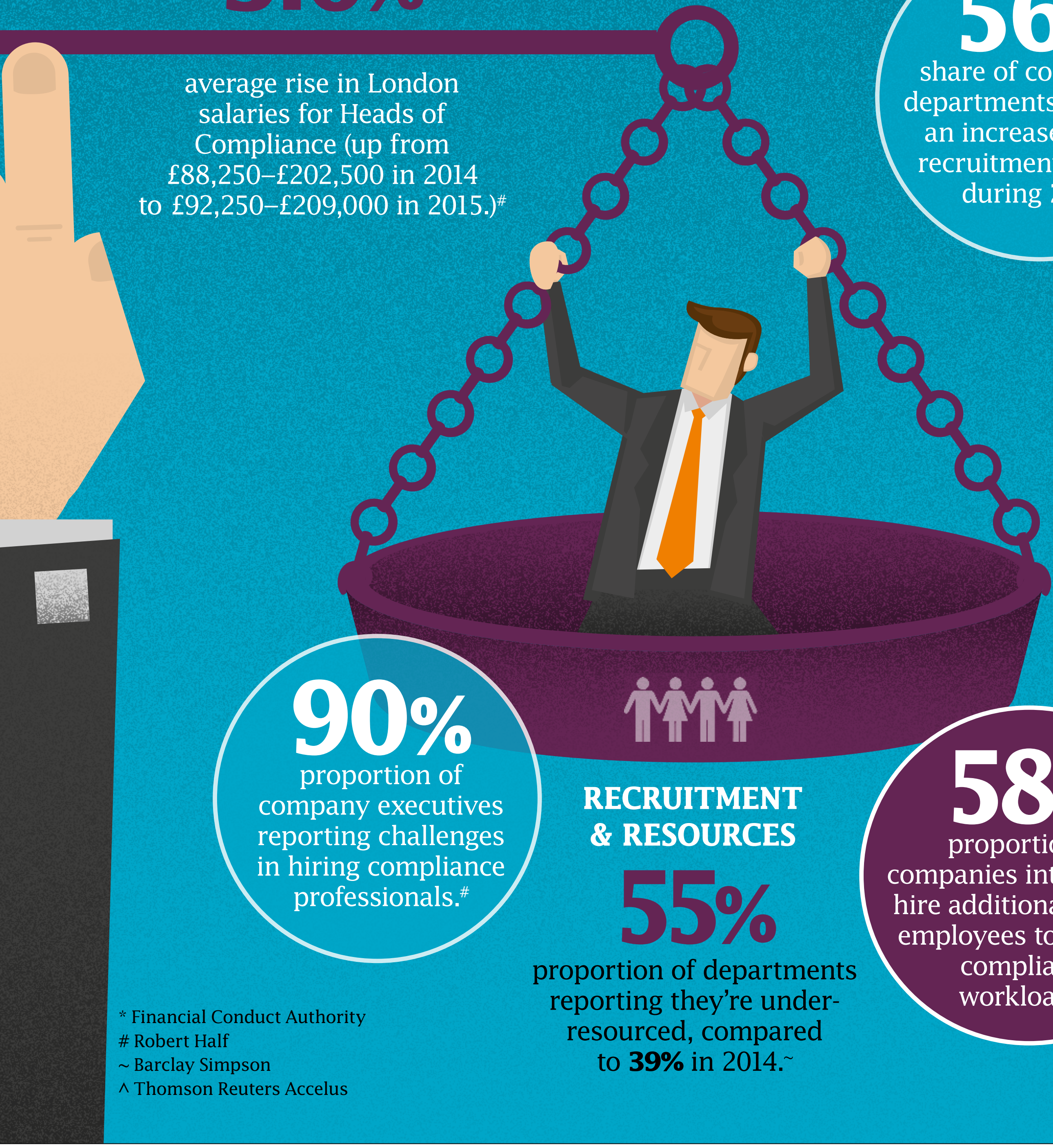
BUDGETS

86%

recruited externally in the last six months.~

56%

share of compliance departments reporting an increase in their recruitment budgets during 2014.~



90%

proportion of company executives reporting challenges in hiring compliance professionals.#

RECRUITMENT & RESOURCES

55%

proportion of departments reporting they're under-resourced, compared to **39%** in 2014.~

58%

proportion of companies intending to hire additional interim employees to manage compliance workloads.#

* Financial Conduct Authority
# Robert Half
~ Barclay Simpson
^ Thomson Reuters Accelus

The CHALLENGE from within

Financial compliance specialists have often been seen as 'business prevention units', viewed with suspicion by colleagues. Are these tensions inevitable, or can they be overcome to create genuinely ethical cultures inside our banks?

In healthcare, the concept of the 'three lines of defence' refers to the different ways in which the human body fights infection. In banking, the same term is used in risk management: frontline operations generally make up the first line, with the risk function providing the second, and internal audit bringing up the rear.

The events of recent years have exposed the holes in this model. Bad behaviour has slipped through the defences with worrying frequency.

One of the main responses of the industry has been to boost its compliance function. Compliance officers have emerged from a traditional backroom role to become one of banking's chief antibodies against the virus of malpractice.

INTO THE BOARDROOM

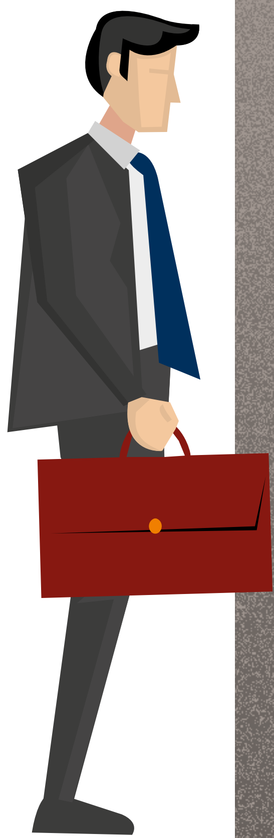
This development has brought power. "Many compliance officers – particularly in banks – have moved from the periphery of management decision-making towards its centre, even to the executive committee," observes Christopher Bond, whose focus as Senior Adviser at the Chartered Institute for Securities and Investment (CISI) is on regulation and compliance.

"With this empowerment comes responsibility for the firm to have a good relationship with its regulators, and to avoid being penalised by them ahead of its peers.

"Many compliance officers have seen their reporting lines move out of the general counsel's office. Typically they have gained early involvement in decisions, bigger training budgets, more staff and priority use of IT teams to support compliance projects.

"There is a down side. With power comes a greater risk of burnout: a headhunter has estimated the bank compliance directors in the USA work an 18-month stint on average. There's also a greater risk of job loss for failure, real or perceived."

No consistent place in the business has yet been established for these newly muscular compliance functions. Some sit within the risk function, some in legal departments, others in entirely separate units. HSBC has set up two distinct compliance functions: one dealing with financial crime, the other with regulatory compliance. »



> *"We have learned that rules alone are not the answer – the FSA rule book expanded significantly during the period building up to the crisis – but did it make people behave better? History would suggest not."*

NO TICK-BOXING

Yet despite increased hiring to grow compliance units, there's no official line on how to structure it. Clive Adamson, Director of Supervision at the FCA, has said: "It is not for the regulator to be prescriptive about the right solution." He did warn, however, that fair treatment of customers could not be achieved by a tick-box approach led by "ever-expanding armies of compliance people".

Tracey McDermott, former Director of Enforcement and Financial Crime and now Acting Chief Executive of the FCA, has warned that one of the biggest risks lies in thinking that compliance alone is the answer. "In the same way as regulators have to stop ourselves reaching for rules, you have to stop yourselves reaching for ever more prescriptive controls to try and fix deeper seated issues," she says.

"We have learned that rules alone are not the answer – the FSA rule book expanded significantly during the period building up to the crisis – but did it make people behave better? History would suggest not," she argues.

So, what should those armies actually be doing? Aidan Paddick, Head of Compliance for ABN AMRO in the UK, says that the role has been transformed in the last decade.

Many compliance heads now cover ethical issues, conduct risk, reputational risk and corporate governance, and weigh up the risks of carrying out business that could compromise the firm or its clients.

"This can mean that compliance is involved more and more in the strategy and control environment of the firm to ensure that business is developed and conducted in such a way as to mitigate all of these risks," he says.

Jonathan Bowdler, Global Head of Compliance at International Compliance Training (ICT), believes the key role of today's compliance function is educating the business, as well as advising it.

ICT has begun to include a strong element of psychology in its courses for senior compliance professionals. "You have to be able to understand the motives of senior management in the business to be able to influence them," Bowdler says.

"In addition, compliance professionals today need to have more business acumen than they did in the past. They need to understand the business's products and services just as well as any other senior manager does, so they can help the business to achieve its strategic objectives."

BUFFER ZONE

Inevitably, there are tensions between compliance and the business units. Professor Julia Black, Pro Director for Research at the London School of Economics, likens the perception of the compliance role to that of the chief financial officer, caricatured as someone who always says no.

"Compliance people are a buffer zone. They have to face outwards to the regulators and inwards to say 'this is what really needs to be done'," she says.

"One just has to think about how to use that tension productively, so that you come up with business solutions that satisfy regulatory requirements, rather than a mutually obstructive stalemate."

Bowdler, who worked in financial compliance roles before and after the financial crisis, sees a big change from

> *"The regulators talk a lot about the need for an ethical culture, but they never define it…if people can see the benefits, that's a compliance culture."*

his early days in the industry, when compliance was pilloried by colleagues as 'the business prevention unit'.

"That is still the case in some places," he says, "but the best banks now see compliance as an enabling function. Good compliance, when combined with governance, can improve business.

"Firstly and most obviously, it reduces costs – good compliance means you get things right first time. You can get adverts or products out more quickly, because there's no going backwards and forwards between the business and compliance.

"And while customers are always led by price, they are also very much aware of a bank's reputation. So if an organisation is constantly in the media for failings, that might sway a customer who has to choose between two reasonably similar products."

ETHICAL QUESTIONS

Fewer internal tensions would exist, of course, had a bank attained a truly ethical culture. The trouble lies in getting there from our current climate and even in defining what ethical means in the first place.

"There is a divide between the retail and wholesale spaces when it comes to ethics," Professor Black believes. "In retail, it's about designing ethical products. In wholesale, there's a wider question about what constitutes fairness."

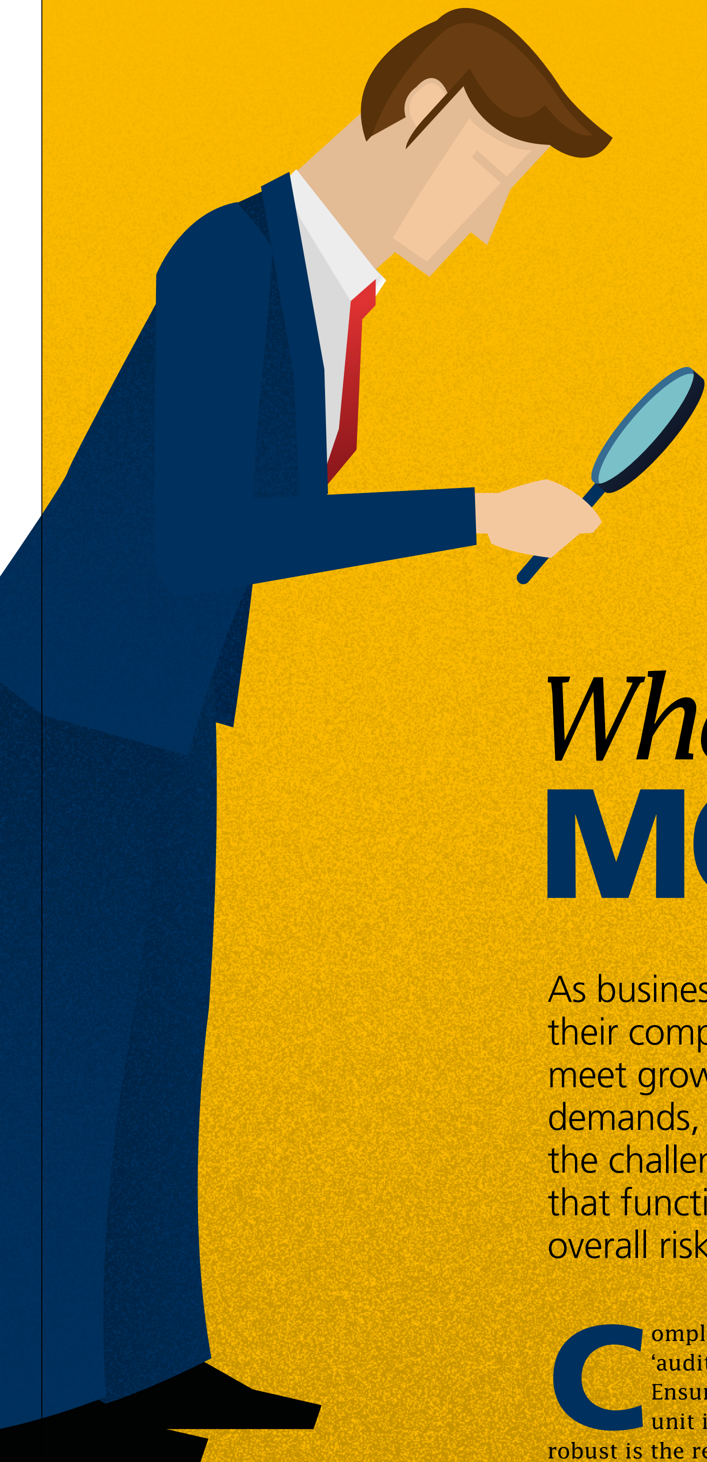
Referring to a case in which banks were investigated for selling products without disclosing to clients that they were profiting from currency trades used to generate the products' returns, Professor Black draws comparisons with the lack of transparency behind a supermarket two-for-one offer. Should Tesco be revealing how it makes a return on such a deal?

"It does get quite difficult. I think there are some genuine grey areas around what the standards in the market should be," she says.

Jonathan Bowdler agrees. "The regulators talk a lot about the need to develop an ethical culture, but they never define it," he says.

"Actually, I think the right answer is that it's when everybody in the business wants to be compliant, rather than just doing it because they have to. If people can see the benefits, that's a compliance culture."

According to Tracey McDermott, banks and regulators have a shared objective: "To reduce the size of compliance teams and perhaps even the size of the regulator, by ensuring that compliance is not something done alongside the business, or to the business, but is instead something which is integral to the business." She continues "because… you cannot have a compliance person sitting on everyone's shoulders. A much stronger, and more commercial, proposition is one where the culture and values drive behaviour, and people are accountable for their own actions".



Who monitors the MONITORS?

As businesses expand their compliance teams to meet growing regulatory demands, they also face the challenge of monitoring that function as part of overall risk management.

Compliance monitoring is ‘audit’ by another name. Ensuring that the compliance unit itself is compliant and robust is the responsibility of the board and senior managers as well as internal audit, which ideally should be independent from the compliance function. Nearly a third of compliance programmes report to the board, with another 40% reporting directly to the CEO, according to a study by Accenture. This growth in stature is significant given that just over five years ago 70% of respondents’ compliance programmes had not been formally charted.

In essence, the compliance team should be concerned with putting practices in place, and communicating changes, to ensure that regulations are met; the audit team then checks that these practices are being followed correctly.

As compliance teams expand in response to an increasing number of new regulations, some companies are finding that their audit resources are being stretched. According to a Grant Thornton study, more than two-thirds (69%) of internal audit professionals in the US said regulation is increasing internal audit costs in their organisation, and 36% said regulation will prevent internal audit from devoting resources to higher-value activities.

With 86% of respondents to Accenture’s study expecting investment in their compliance programme to increase, it is clear that spending time developing efficient processes is worthwhile.

FCA PRINCIPLES OF BUSINESS

The FCA has 11 Principles which are general statements of the main regulatory obligations that apply to firms that are regulated by them. The Principles set out in simple terms the high level standards that all firms must meet. If a firm contravenes one or more of the Principles, it could face enforcement action. This could, for example, result in its authorisation being removed. It is vital to be aware of these Principles and ensure your firm implements them and continually checks that these standards are being maintained. CB

1. **INTEGRITY**
   A firm must conduct its business with integrity.
2. **SKILL, CARE AND DILIGENCE**
   A firm must conduct its business with due skill, care and diligence.
3. **MANAGEMENT AND CONTROL**
   A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
4. **FINANCIAL PRUDENCE**
   A firm must maintain adequate financial resources.
5. **MARKET CONDUCT**
   A firm must observe proper standards of market conduct.
6. **CUSTOMERS' INTERESTS**
   A firm must pay due regard to the interests of its customers and treat them fairly.
7. **COMMUNICATION WITH CLIENTS**
   A firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading.
8. **CONFLICTS OF INTEREST**
   A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
9. **CUSTOMERS: RELATIONSHIPS OF TRUST**
   A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement.
10. **CLIENTS' ASSETS**
    A firm must arrange adequate protection for clients' assets when it is responsible for them.
11. **RELATIONS WITH REGULATORS**
    A firm must deal with its regulators in an open and co-operative way and must disclose to the FCA anything relating to the firm of which the FCA would reasonably expect notice.

Strengthening the DEFENCES

The creation of ethical cultures in our banks, in which individuals are key to achieving compliance, has gained real traction in recent months. But IAN BENSON warns that strengthening the 'three lines of defence' must still be a priority.

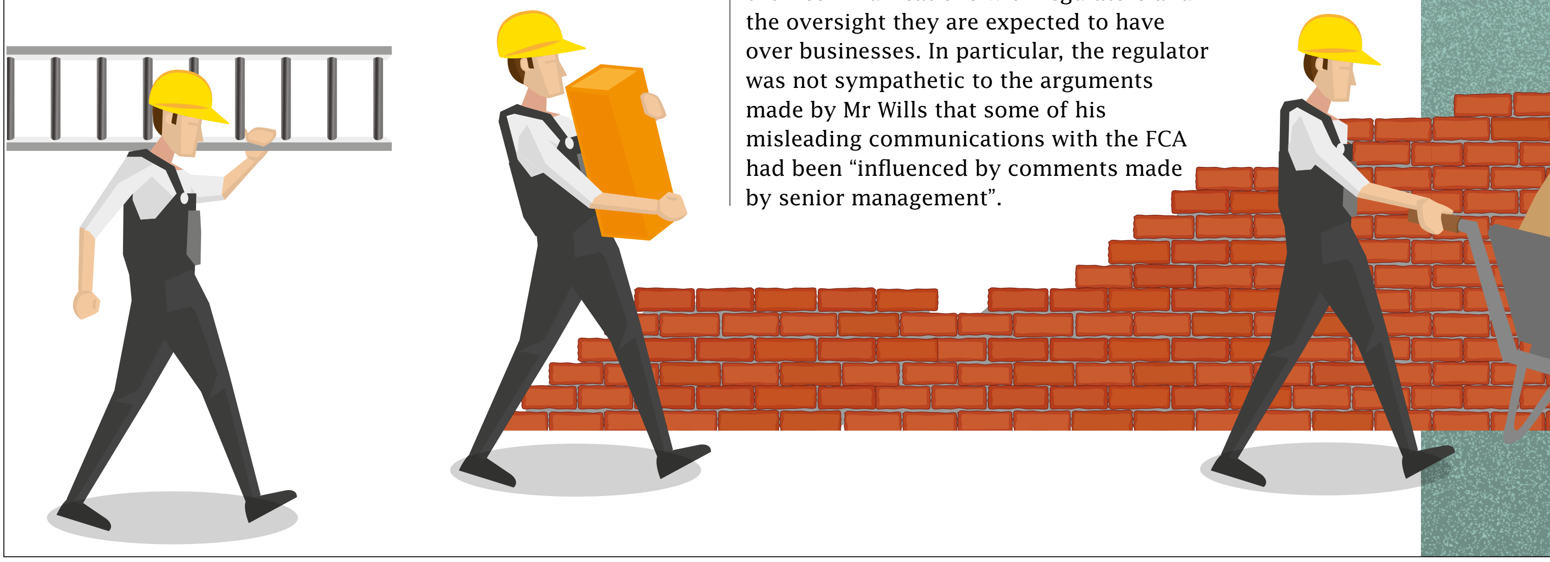
The 'three lines of defence' is the familiar model used to describe the functions of business operations, compliance and internal audit in banks and other financial services firms to ensure they're on the right side of the regulations. Under this model, the business operations should provide the first level of the control environment for routine risk management activities; the compliance oversight function should provide direction, set policy and provide compliance assurance; and the internal audit function should provide independent assurance on the design and operation of risk management and internal control processes.

But what happens if all three lines of defence fail?

An action by the Financial Conduct Authority (FCA) serves as a reminder. Following an investigation, the regulator issued a final notice to the Bank of Beirut (UK) Ltd; Anthony Wills, the bank's compliance officer (CF10 compliance oversight); and Michael Allin, the internal auditor (CF28 systems and controls).

The final notices followed the FCA's finding that it was provided with misleading information relating to the progress of a remediation exercise. As a result, the FCA took enforcement action against the bank and publicly censured and fined both individuals for their actions. The employees were found to have breached Statement of Principle 4 of the Statements of Principle and Code of Practice for Approved Persons (APER). The FCA fined Mr Wills £19,600 and Mr Allin £9,900, penalties that were based on the individuals' remuneration at the time of the conduct in question, with Bank of Beirut (UK) Ltd fined £2.1m for breaching Principle 11 of the FCA's Principles for Businesses (PRIN). The bank was also banned from acquiring new customers from 'high-risk jurisdictions' for 126 days.

The FCA emphasised the key roles played by compliance and internal audit personnel within firms, both in relation to their communications with regulators and the oversight they are expected to have over businesses. In particular, the regulator was not sympathetic to the arguments made by Mr Wills that some of his misleading communications with the FCA had been "influenced by comments made by senior management".



An extreme example, perhaps, but the latest in a number of recent enforcement actions by the FCA against compliance officers and their employers.

So how does an organisation collectively and individually strengthen the 'three lines of defence', especially in difficult and challenging situations?

> *"Compliance can be a lonely, isolated place. It's sometimes important to have a truly independent view of 'standard practice by the competition'."*

To extend the analogy, part of the answer is to call on 'air support' in the form of independent specialist external legal advice, which can play a valuable role, not least in providing external benchmarks and perspectives on market best practice. It is a process that should also extend to the support of all stakeholders, including compliance, internal audit and legal functions, as well as the board and senior managers.

Specialist financial services lawyers know the market, as well as the law and regulation, and can offer an overview and validation of market best practice. Compliance can be quite a lonely and isolated place. It can sometimes be very important to have a truly independent view on what might be claimed to be 'standard practice by the competition' and alternative solutions to a problem, which may be more effective in meeting the objectives of the business and the specific regulatory requirements. This applies irrespective of whether the individual concerned is in the compliance or internal audit functions, an executive or non-executive director, or a senior manager in the organisation.

The value the regulator places on an external expert view is demonstrated by the power of the FCA and the Prudential Regulation Authority (PRA) to require the appointment of a skilled person, pursuant to section 166 of the Financial Services and Markets Act 2000 (FSMA). This was a particular outcome in the case of Bank of Beirut (UK) Ltd. However, being faced with a demand by the FCA and the PRA to appoint a skilled person under FSMA is not a position any bank or financial services institution would wish to find themselves in. It is far better to seek external advice at a much earlier stage and at a point when the opportunity exists to avoid getting into areas that necessitate action by the regulator.

Ultimate responsibility for governance and risk management lies with the board and senior management of banks and other financial services companies, which reflects their duties to shareholders and regulators. As the fines and sanctions in the Bank of Beirut (UK) Ltd case demonstrate, all three lines of defence can fail with very adverse consequences for the organisation and the individuals concerned. While the conduct agenda has rightly focused on some of the softer organisational issues, especially the culture of an organisation, the three lines of defence model is here to stay and needs to be supported.

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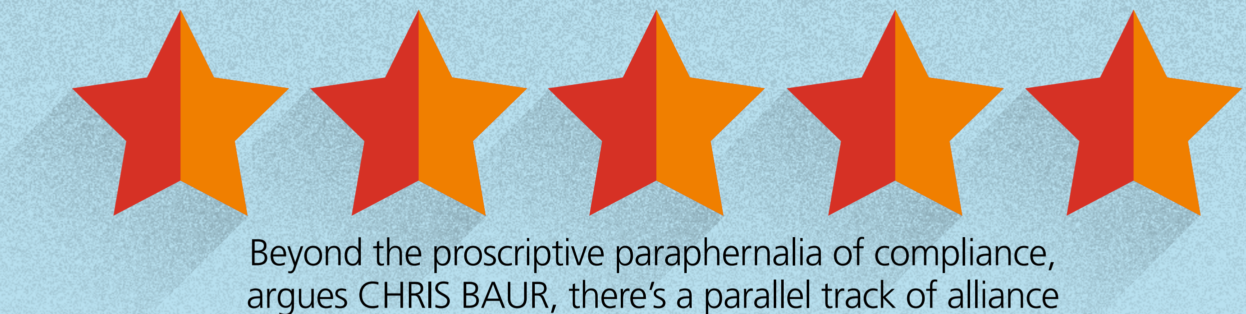
Compliance and the CUSTOMER



Beyond the proscriptive paraphernalia of compliance, argues CHRIS BAUR, there's a parallel track of alliance that's much more characteristic of the loyal relationships professional bankers want with their customers.

Let's be clear: there's nothing acquiescent about compliance. Today's banking regulators may occasionally use the velvet language of voluntary self-discipline but, in the end, there's really no concealing the iron fist of compulsion within the great body of rules and codes and assessments and competencies and prohibitions and sanctions unleashed to enforce good banking behaviour since the 2008 financial crisis.

Let's not be shy: we all know the reasons behind the emphatically proscriptive character of this deluge of corrective commands. The crisis in the financial sector, and the binge of undisciplined greed that precipitated it, succeeded in thoroughly frightening politicians, regulators and customers alike. So, rule one: never again.

Let's also admit: it would nevertheless be a shame if today's elaborate command-and-control regimes enshrined in the very word "compliance" came to be accepted as the only definition of good banking. Actually, they aren't. Beyond all the unavoidable paraphernalia of regulatory embargoes and penalties, there's a parallel track of essentially voluntary endeavour that better characterises those key relationships which professional bankers seek to have with their customers.

This is the pivotal point at which defensive compliance, which is all about abiding by the rules, transforms itself into persuasive alliance, which is all about earning trust – that indispensible component of banking professionalism. They really are two sides of the same coin.

The regulators recognise this. Vital to any contemporary judgement of a bank's behaviour, says the Financial Conduct Authority (FCA), is its fair treatment of customers. One of its central expectations is that "firms put the well-being of customers at the heart of how they run their businesses".

The Authority acknowledges the risks for consumers generated by today's challenging banking environment of historically low interest rates and depressed returns on investments. Banks are cutting costs and seeking to boost revenues at the very moment when customers –

> *"Whatever the economic and financial conditions, firms should not focus on their own risks to the detriment of their customers."*

some struggling to maintain pre-crisis commitments – are themselves seeking to reduce levels of household debt and are hunting for enhanced levels of service.

This is why the FCA insists that ensuring a fair deal for customers is one of its central objectives. "Whatever the economic and financial conditions may be," it declares, "firms must put and keep consumers at the heart of their business. Firms should not focus on their own risks, where to do so may be to the detriment of customers. Customers can expect to get financial services and products that meet their needs from firms that they can trust."

And meeting these "fair and reasonable expectations", the FCA argues, "should be the responsibility of firms, not that of the regulator". To this end, it describes six core operational standards which it says it will use as "an important factor in guiding regulatory decisions and actions":

> *"Standards of ethics and professionalism cannot be created by written rules alone: ultimately, ethical banking depends upon personal integrity."*

Fairness: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.

Focus: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.

Clarity: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.

Suitability: Where consumers receive advice, the advice is suitable and takes account of their circumstances.

Expectation: Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.

Facility: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

The FCA adds that it expects firms to use a range of suitable numeric and descriptive management information to monitor the results they're achieving for customers. Whatever the methodology, "it's important that it is forward-looking – enabling management to identify risks to customer outcomes rather than dealing only with known issues – and that it is acted upon when necessary".

For its part, in addressing customer needs, the Institute supports the FCA's overall approach to rules and guidance on the fitness and propriety of individual bankers. Ideally, it would like to see the rules enhanced to require those subject to the Senior Manager and Certification Regimes to hold an appropriate professional qualification, or be a member of a relevant professional body – an invitation that the regulators have so far declined.

The Institute is confident, it says, that many account-holders are already beginning to experience "a more professional, customer-focused culture and service from their banks". And it adds this clarion declaration: "Standards of ethics and professionalism cannot be created or maintained by written rules alone: ultimately the ethical conduct of banking depends upon the personal integrity and behaviour of those engaged as professionals in the industry – which implies adherence to generally accepted principles of honesty and fair-mindedness." CB

VIEW FROM THE INSTITUTE

Across the sector…

The Institute is by no means alone in its key objective of helping banks to put customers at the heart of banking. In 2011, it was instrumental in launching the Chartered Banker Professional Standards Board (CB:PSB). This joint initiative serves as a public demonstration of banks' collective commitment to restoring trust in the banking profession.

Current members of the Chartered Banker Professional Standards Board are Barclays plc, Clydesdale Bank, HSBC Bank, Lloyds Banking Group, The Royal Bank of Scotland Group, Santander UK, Tesco Bank and Virgin Money.

…and the professions

The Institute works with a growing range of non-banking professional bodies to align our work on professional development, making it easier for individuals and their employers to see how everything can fit together.

The aim is to help others to understand the core disciplines of banking and to gain recognition for this within our framework, using their existing professional qualifications as a platform for study with us.

To this end, the Institute works closely with the International Compliance Association (ICA), a leading global provider of qualifications and training in anti-money laundering, compliance and the prevention of fraud and financial crime.

We formally recognise the ICA's Diploma qualifications as a pathway for entry to achieve Chartered Banker status. There's a streamlined membership route for those holding both The ICA Diploma and the Institute's Chartered Banker designation (details at www.int-comp.org).

The Institute pools its expertise with others too. It has worked with the Institute of Chartered Accountants of Scotland (ICAS) and Scottish Investment Operations to deliver a unique qualification to support the discipline of fund accounting (details at www.investmentaccounting.org.uk).

How the Chartered Banker Institute is building professionalism

Coverage of **ethics** and **professionalism** for bankers at all levels

Code of **Professional Conduct** for members

THE **ONLY** BODY ABLE TO CONFER **CHARTERED BANKER STATUS**

4 levels of study programmes – all with a focus on **core banking skills**

3 accelerated routes to professional qualification for senior/ experienced bankers

3 modules specific to **credit**

2 modules specific to **risk**

Support and **monitoring** of member CPD

Certificate in **complaints handling**

Supporting **financial literacy** of future generations of customers via the Financial Education Partnership (FEP)

Established, with support of **8 major banks**, the Chartered Banker Professional Standards Board

Chartered Banker
The voice of financial professionalism