

CHARTERED BANKER

The magazine for financial professionals

Special Report

Rebirth of a **Big Idea**

**Banks reach
for a new
professional
agenda**



ROADS TO REFORM

CODES AND SANCTIONS

The challenge of
new regimes

OUR "TIPPING POINT"

Industry's drive for
professionalism

A PIVOTAL PARTNERSHIP

Key role for our
HR colleagues

BANKS AS CATALYSTS

Innovative new
business models

PROFESSIONAL VERDICTS

Balancing risk
and opportunity

EXTENDED HORIZONS

Demand grows at
home and abroad

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"WE'RE BEING CHALLENGED TO KEEP HAVING THE COURAGE OF OUR CONVICTIONS. AND THE TRUTH IS THAT THE BANKING INDUSTRY IS ITSELF NOW PICKING UP THIS GAUNTLET."

Simon Thompson p4



A challenge – and an historic opportunity

SIMON THOMPSON explains how the Parliamentary Commission on Banking Standards reinforces the Institute's mission to extend the key precepts of professional behaviour and ethical conduct to all bankers.



This summer, we reached an important threshold in the development of this country's banking sector. We'll look back on it, I think, as an historic moment. And rightly so.

The report of the Parliamentary Commission on Banking Standards, many have been tempted to say, changes everything for bankers

here by committing the industry to develop and embed high professional standards. Actually, of course, it doesn't. Many in the industry, led by the Institute and the Chartered Banker Professional Standards Board (CB:PSB), have been doing just this long before others recognised the importance of rebuilding banks' human capital alongside their financial capital.

I say that the report hugely encourages us in our long quest to reinvigorate that innate sense of professionalism which, in reality, has never deserted thousands of good folk working in banking, for whom customers have always come first.


Lady Susan Rice, I see, (p8) calls it a "tipping point" for the industry. That's a wise judgement from someone who has herself played such pivotal role in winning wide endorsement for the CB:PSB initiative from key leaders of eight major banks

employing some 75 per cent of those working in the UK industry, and from a wide group of industry and bank customer stakeholders.

In my own mind, what the Commission does so valuably and so trenchantly is to set us all a tough challenge – which is, simultaneously, a unique and exciting opportunity. Its challenge is for the industry to establish a strong, unified professional standards body. We've already begun this: the

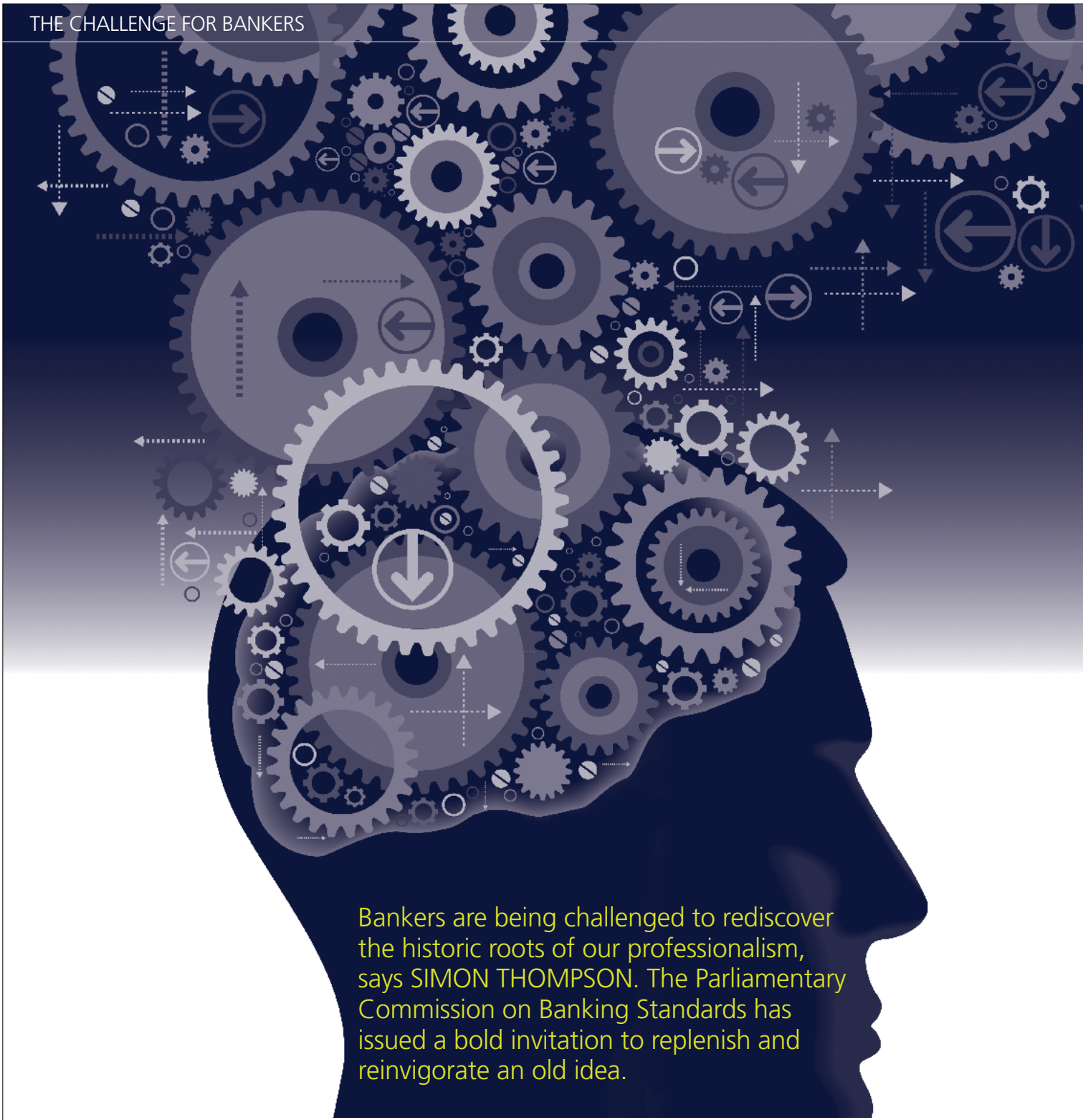
Chartered Banker Institute is the only professional body, and the only professional standards body for bankers in the UK. The opportunity for us all now is to widen its reach, enhance its independence and embed professional standards at the heart of banking.

How will the Institute lead and shape this journey? This publication aims to show how. Here, we explain how we're

pressing forward with our decades-long mission to extend the key precepts of professional behaviour and ethical conduct to even more bankers as they acquire their core skills. It's a mission, you'll discover here, that now also excites a growing interest and support, within banking and financial services, both at home and abroad. 

*Simon Thompson,
Chief Executive,
Chartered Banker Institute*

"The challenge is for the industry to establish a strong, unified professional standards body. We've already begun this. The opportunity for us all now is to widen its reach, enhance its independence and embed professional standards at the heart of banking."



Bankers are being challenged to rediscover the historic roots of our professionalism, says SIMON THOMPSON. The Parliamentary Commission on Banking Standards has issued a bold invitation to replenish and reinvigorate an old idea.

Rebirth of a **Big Idea**

Today's Chartered Bankers – and tomorrow's aspirants – will find little to fear and much to gain from the recommendations of the Parliamentary Commission on Banking Standards, now broadly endorsed by the Government. I'm in no doubt that this helps to strengthen the drive towards professionalism.

We're being challenged to keep having the courage of our convictions. And the truth is that the banking industry is itself now picking up this gauntlet.

Bankers ought to be encouraged by the route to professionalism described in the Commission's historic report.

As an Institute, our immediate task is to consolidate the substantial industry support already secured for the Chartered Banker Professional Standards Board (CB:PSB) initiative, support the establishment of the CB:PSB on a fully independent basis and widen its scope.

The target of both the Commission and the Government is crystal clear: they want our industry to demonstrate its own commitment to high professional standards by starting work urgently on establishing a professional standards body.

And the credibility of that body depends, in the Commission's words, on its ability to demonstrate its independence from the banking industry and claim "comprehensive coverage of all banks with operations in the UK". That's a tough threshold, with upwards of 400 banking and affiliated financial institutions to be embraced by a professional standards body.

But it's certainly achievable. As Lady Susan Rice, who chairs the CB:PSB explains (p8), we're already 75 per cent of the way there with the eight major UK banks whose Chairmen or Chief Executives took the bold step in October 2011 to launch the initiative with its clear Commitment to Professionalism in Banking. They cover some 350,000 of the 450,000 people now working in UK banking.

Our task now is to extend that initiative beyond its Founders – Barclays, Clydesdale Bank, HSBC, Lloyds Bank, RBS, Santander UK, Tesco Bank and Virgin Money – and bring the institutions covering the remaining 25 per cent of UK-based bankers within the CB:PSB ambit.

The out-reach effort now focuses on high-profile retail banking players like the Co-operative Bank and Metro Bank to see if they, too, are minded to add their influential endorsement to the CB:PSB objectives.

We must also work with the trade

PATHS TO PROFESSIONALISM

The Government welcomes the Commission's support for the creation of a professional body funded by the industry to promote higher professional standards in banking "which might over time demonstrate that it could be given a more formal role".

COMMITMENT: Work to establish such a body should begin immediately, says the Commission. This would demonstrate the industry's commitment and its expectation that individuals would abide by higher standards than those enforceable through regulation alone.

DEVELOPMENT: The onus to develop a unified professional body should lie on the industry. It should:

- demonstrate its independence from the banking industry
- claim comprehensive coverage of all banks operating in the UK
- be funded by banks and qualified members, with no public subsidy.

BENEFICIARIES: The operations that would benefit most from professional standards, the Commission says, "would include retail banking, the most senior levels and specialist areas such as insolvency and debt recovery".

associations representing the bulk of the remaining 390-plus players with significant banking operations here. The two key organisations are the British Bankers Association (BBA) with over 200 member banks, and the Association of Foreign Banks (AFB) representing more than 175 institutions providing financial services through UK branches, subsidiaries and representative offices.

Our priority now is to widen the coverage and status of the one professional standards-setting body which the industry itself has already set up. We've laid the firm foundations. Indeed, as Helen Bogan points out (p10), some

“We're being challenged to keep having the courage of our convictions. And the truth is that the banking industry is itself now picking up this gauntlet.”

70,000 individual bankers have already completed the journey to meet the Foundation Standard. And, beyond this Foundation Standard for all bankers, we'll be publishing details of our Advanced Leadership Standard for experienced and senior bankers.

Some wonder if banking's huge range of specialisms militates against an industry-wide endorsement of core professional standards. I don't share that doubt. After all, in medicine, your GP, your brain surgeon and your consultant obstetrician all engage in perfectly distinct specialisms. But there's a core body of knowledge and skill that everyone in the medical profession acquires before they specialise. This is precisely what we're now establishing with banking.

The big challenge now is for our industry itself to embed agreed standards of professional competence across the sector so that consumers see a noticeable difference. It will take time, but the Institute's portfolio of qualifications already provides precisely the focus on >>

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core credit and lending skills that the Commission seeks.

As an Institute, we're working increasingly intimately with individual banks to ensure that their own training modules are tailored to attract the accreditations their young bankers seek on their paths to full Chartered Banker status. As Giles Cuthbert and Mark Roberts explain (p16), these professional partnerships are attracting increasing interest at home and abroad. Key components include:


- the revised, relaunched Chartered Banker Diploma and the introductory qualifications leading to it with its focus on the core banking skills – we'll promote this very strongly now
- the SMART Chartered Banker qualification to provide a route to qualification for senior and experienced individuals without a "grandfathering" process about which the Commission has reservations
- the Chartered Banker MBA programme, equipping the next generation of banking leaders with the banking skills they need alongside the leadership and strategic competences they're also developing.

In this work, we've anticipated many of the Commission's key recommendations. We're clearly doing the right things. Our Members and current students can feel very reassured that they've either achieved or are working towards qualifications with the practical scope and technical standard that both the Commission and the Government want to see.

In the drive towards greater

professionalism, it's clear that the Chartered Banker qualification will simply become more valuable and more desirable. The direction of travel is now unambiguously towards professionalism in the provision of core banking skills.

What we've seen since the financial crisis is very significant and growing support from a wide range of banks to develop professional standards and for a

greater number of individuals to take professional qualifications. There's clearly an emerging consensus for this within our sector. Our position is that banking *should* be a profession – and will certainly become one once more. 

SIMON THOMPSON is Chief Executive of the Chartered Banker Institute.

WIDER CHOICE. NARROWER REWARDS. MORE ACCOUNTABILITY.

In domestic retail banking, the Government broadly endorses the Commission's argument that high market concentration and substantial barriers to entry are compounded by generally low levels of customer understanding of financial products and services. Its key decisions include:

CUSTOMER CHOICE:

- **Portability:** The regulator will be asked to conduct and publish a full study of the case for and against account portability.
- **Tax incentives:** It "is engaging with the peer-to-peer industry to examine their current tax treatment" following Commission pressure for "a level taxation playing field with established competitors".
- **Deadline:** It is discussing the Commission's recommendation that major banks be given a year to agree minimum standards for basic bank accounts and "will provide further details later this year".
- **Transparency:** It "notes" the recommendation for independent checks to ensure customers understand transactions. An FCA report on ways to

increase transparency is due shortly.

- **Competition:** The Office of Fair Trading is bringing forward its review of banking services and lending to SMEs. It will also assess how new "challenger banks" created by Lloyds and RBS divestments may strengthen competition in small business banking.

REMUNERATION:

- **Code:** It "broadly accepts" a new Remuneration Code to ensure that incentives and disincentives more closely reflect the balance between business risks and rewards.
- **Deferability:** More remuneration will be deferrable for up to ten years; and more deferred remuneration will favour a firm's long-term performance and soundness.
- **Cancellation:** There will be regulatory

powers to recover remuneration or cancel deferred remuneration in the light of "reckless misconduct" or where a bank requires state assistance.

RESPONSIBILITY:

- **Access:** It agrees that Heads of Risk, Compliance and Internal Audit within banks should have direct lines of access and accountability to the Board and more protection for their independence.
- **Soundness:** It accepts that each director should be responsible for a bank's safety and soundness, with the law amended "to prioritise financial safety over shareholder interests".
- **Whistleblowers:** It is reviewing the strength of evidence about the protection of whistleblowers on which employment law changes might be based.

“The big challenge now is for the industry itself to embed agreed standards of professionalism so that consumers see a noticeable difference.”

Codes and sanctions

There's much still to clarify, but SIMON THOMPSON likes most of what he sees in the proposals to sharpen the standards to which bankers are expected to adhere.

Much essential detail remains to be clarified, but the Institute broadly endorses the framework of banking codes and operational penalties which both the Commission and the Government want to create.

SENIOR PERSONS REGIME: It looks sensible to replace the current Approved Persons Regime with a Senior Persons Regime covering those accountable for key assigned responsibilities.

The Commission wants to deploy "the full range of civil sanctions against Senior Persons and other employees who are guilty of misconduct" including a new criminal offence of "reckless misconduct in the management of a bank".

More detail is needed about the fairly small number of top directors and executives covered by this new Regime, but it's clear that the current Approved Persons Regime hasn't been drawn with sufficient rigour. So it makes practical sense to have a more precise definition of the new Regime's reach and responsibilities.

LICENSING REGIME: It looks potentially elegant to bring within the regulatory regime a larger number of staff whose conduct could harm a bank's customers, the bank itself or its reputation.

We clearly still need to define the scope of a Regime covering so many more individuals than now. But it should help professional bodies like ours to monitor and enforce standards.

In future, for example, it's possible that only Licensed Bankers might be eligible for a Chartered Banker or other professional title, and that non-licensed



“We’ll encourage the Regulator to look closely at what we’ve achieved with our Chartered Banker Code of Professional Conduct, to which all the main banks subscribe.”

bankers might have affiliate or similar membership as they work towards Chartered status.

BANKING STANDARDS RULES: We welcome the proposed single set of Standards Rules to replace the present statements of principles and associated codes of practice. The proposed new Rules sound as though they'll be a principles-based Code of Conduct rather than detailed prescriptive rules – perhaps not dissimilar to a more detailed Chartered Banker Code of Professional

conduct, or a Code with more guidance.


That's very positive. We're particularly pleased the Financial Conduct Authority is being urged to ensure those bodies that have successfully implemented Codes – which clearly includes this Institute – should be deeply involved in helping to draft it. We have much to offer in these consultations.

As with the Chartered Banker Code of Professional Conduct, the Commission suggests that banks themselves be responsible for ensuring staff comply with Banking Standards Rules and for identifying and dealing with breaches. We'll encourage the Regulator to look very closely at what we've achieved with our Chartered Banker Code of Professional Conduct, to which all the main banks subscribe.

SINGLE REGISTER: The Commission wants a new Single Register to cover both categories of staff, with banks obliged to inform regulators if they discipline an employee for breaching the Banking Standards Rules.

For customers, we think the value of the proposed Register is its authentication of an individual's status as a Licensed Banker. The "stick" behind it will be the Financial Conduct Authority's power to strike people off that Register, which it alone holds.

Banks will have to ensure their systems and processes can identify and deal with transgressors.

Our one reservation is about the practicality of the proposed "negative Register" of transgressors. The key thing is to have a Register of those who are Licensed Bankers. That's what people want to check. If wrongdoers are struck off the Register, then they'll no longer be licensed as bankers. We can't really see the regulators wanting to keep a "blacklist" of those who've been disbarred. We'd rather see a Register setting out what individuals are proud to have achieved. 



“UK banking has reached a tipping point”, argues Lady SUSAN RICE – “a moment when we can create genuine change in our industry. We need to act.”

“Talking isn’t enough”



Lady Susan Rice

The Parliamentary Commission on Banking Standards has made several bold and far-reaching recommendations. These now have to be embraced by a range of stakeholders including the industry, the regulator and Government itself to begin to make them tangible. The intent here is positive.

The UK is known around the world for its leadership in matters of governance, self-regulation and good corporate practice. There’s every reason to believe that, if some of these recommendations are implemented thoughtfully, we will continue to earn that reputation.

As Chairman of the Chartered Banker Professional Standards Board (CB:PSB), I welcome in particular the Commission’s focus on professionalism in banking – something I’ve been directly engaged with since December 2010, when the development board for the PSB first convened.

There’s been much debate over the last five years about what went wrong with banks. That debate is important and I think most of us believe we’re now at a tipping point – a moment when we can create genuine change within our industry. However, talk alone isn’t sufficient. We need to act.

It’s that desire which initially



prompted our work on the CB:PSB and its launch by the eight founding banks in autumn 2011. We've since seen a groundswell of interest in what we're doing, both in the UK and indeed outside it. People are watching us closely.

And in this, the Commission's recommendations are helpful in going beyond the rules to begin to address what we all call "culture". Members of the CB:PSB are similarly focused on culture, motivated to enhance behaviours and decision-making within banks. We hope our work will lead to greater pride in the industry amongst bankers, and greater trust amongst customers and clients.

I welcome this confluence of thinking, partly because I believe in the efficacy of carrots alongside sticks. Legislative sticks leading eventually to constraints and punishment will undoubtedly impact behaviours.

But I don't believe that's sufficient to prevent bad things happening. It's just as important to help bankers raise the standard of the positive things they do.

We need more than punishments for failures, and more than rules about process. If we rely purely on rules, we

risk ceasing to think about what we're doing and failing to use judgement. To develop judgement, bankers need to understand something about the wider financial market, the general legal background for financial services, how different parts of the industry operate, the role of the central bank.

And they need to know what behaviours are to be encouraged and what behaviours are simply not acceptable. With that kind of knowledge, encompassed in each of our Standards, I think we have the potential for genuine culture change.

We hope our standards will encourage bankers to use judgement, to consider the impact of every decision on customers or other stakeholders, helping them feel bold enough to raise their concerns in discussion, above all to act professionally at all times. As bankers, what we do certainly matters – how we do it matters even more.

“If we rely purely on rules, we risk failing to use judgement. As bankers, what we do certainly matters – how we do it matters even more.”

The dominant approach to banking that many of my colleagues and I want to see is one where we work for customers through the cycle – in the good times and bad. Where we seek to build long and lasting relationships, taking time to understand the future plans of an individual or a business.

We want to give guidance, not just sell products; we want our customers to thrive and prosper. Good banking is about knowing what product is needed for tomorrow, not only today. And it's not just about an immediate


deal or profit, it's about delivering those things within a framework of responsibility and fair play. The way that bankers act is critical.

But banking is one of those few arenas where a common understanding of shared professional and ethical standards has never existed. There are plenty of qualifications and exams and certifications and accreditations – but these alone don't constitute the industry-wide recognition of professionalism we now seek.

I've been enormously impressed with the way very senior bankers have embraced the work of the Professional Standards Board over the last couple of years – they've done this with enthusiasm, belief and genuine desire to make real change happen.

And we've done it knowing that change – the drive to professionalise those working in our industry – simply can't wait. So we continue to develop our standards and the banks continue to roll them out. And we've speculated about our future agenda, adding more members to our external Advisory Panel, talking about making the Board itself fully independent.

Our challenge in all of this is to ensure that what we have is fit for purpose when the overarching programmes which grow out of the Commission's report are developed and put into place.

The Parliamentary Commission trained an important spotlight on many issues that matter and proposed ways to address them. The work of the Chartered Banker Professional Standards Board, I am convinced, should be a major factor in achieving them. We all share the same vision. 

Lady SUSAN RICE is Managing Director of Lloyds Banking Group Scotland and Chair of the Chartered Banker Professional Standards Board.

Professional showcase

HELEN BOGAN traces the evolution of a unique initiative to develop and implement ethical, technical and behavioural professional standards for the banking industry.

The focus on professionalism in banking over recent years has led many to ask: "What's the industry doing to improve standards?" The Parliamentary Commission on Banking Standards shone a light on this critical area, and the industry was able to respond positively by showcasing the work of the Chartered Banker Professional Standards Board (CB:PSB).

Launched in October 2011, the CB:PSB is a voluntary initiative bringing together eight leading UK banks* and the world's oldest banking institute, the Chartered Banker Institute. It's also the only initiative to be developing and implementing ethical, technical and behavioural professional standards for the industry.

Established by the Chairmen and Chief Executives of the eight banks involved, who signed a Commitment to Professionalism, the CB:PSB aims to:

- develop a series of professional standards to support the ethical awareness, customer focus and competence of those working in the banking industry
- facilitate industry and public awareness and recognition of the standards
- establish mechanisms for the implementation, monitoring and enforcement of the standards
- help build, over time, greater public confidence and trust in individuals, institutions and the banking industry overall, and enhance pride in the banking profession.

Led by a Board of senior industry representatives and chaired by Lady Susan Rice, the CB:PSB is aided by an independent customer-focused Advisory Panel and a Professional Standards Committee of banking and educational practitioners. It's supported by a dedicated CB:PSB team, based at the Chartered Banker Institute.

CODE OF CONDUCT

At its launch, the CB:PSB published the Chartered Banker Code of Professional Conduct – a common code to which all its members subscribe. The Code underpins CB:PSB professional standards which, as they are developed, will set out the knowledge, skill, values, attitudes and behaviours for bankers at Foundation, Intermediate and Advanced levels.

FOUNDATION STANDARD

In July 2012, the CB:PSB published its first professional standard – the Foundation Standard for Professional Bankers. Member banks agreed a collective target, to implement the Foundation Standard to a pilot group of 70,000 individuals by July 2013.

Each bank benchmarked the Foundation Standard against their learning and development pathways including external qualifications and accreditation programmes, performance management and conduct regimes. Based on this benchmarking, member banks devised comprehensive implementation plans to embed the Foundation Standard within their organisations.

*Barclays plc, Clydesdale Bank, HSBC Bank, Lloyds Banking Group, The Royal Bank of Scotland Group, Santander UK, Tesco Bank and Virgin Money. Original member bank ING Direct UK became part of Barclays plc in 2013.

INFORMATION ON INSTITUTE MEMBERSHIP

Affiliate membership is open to those who have achieved or are working towards the CB:PSB Foundation Standard and/or have completed an Institute Accredited Programme. Affiliate members are expected to adhere to the Institute's Code of Professional Conduct and are able to:

- **describe** themselves as an *Affiliate or Affiliate member* of the Chartered Banker Institute
- **access** relevant online resources
- **receive** news and information about events
- **access** the bi-monthly magazine *Chartered Banker*.


TWO-STAGE EVALUATION

There's a robust review process to ensure the initial 70,000 bankers progressing through the Foundation Standard satisfy the CB:PSB's requirements. Member banks complete a two-stage Self Evaluation and Critical Evaluation of their commitment to the CB:PSB and to assesses the robustness of their implementation approach.

Following this, the Chartered Banker Institute conducts an Independent Review of each member bank to independently verify their implementation and monitoring processes and reported numbers.

Meeting the Foundation Standard enables bankers to demonstrate to colleagues and customers that they have the knowledge and skills to perform their role, that they take responsibility for acting ethically and professionally and that they adhere to the Chartered Banker Code.

MAINTAINING MOMENTUM

As a public demonstration of banks' collective commitment to restoring trust and confidence in the banking profession, the CB:PSB is maintaining its momentum by developing further professional standards with the focus on an advanced level Leadership Standard. As the post-Commission landscape takes shape, the CB:PSB remains at the centre of efforts to re-professionalise banking. 

HELEN BOGAN is Head of Professional Standards, Chartered Banker Institute.



Instinct for partnership

In the debate about the weaknesses in our banking system, argues JONNY GIFFORD, the Commission has finally put paid to the view that “culture change” is a soft option.

Calls for ‘culture change’ in our banks have invited a good deal of scepticism – and understandably so: it’s all too easy to insist the problem is cultural, and then do nothing. Indeed, to some it looks suspiciously like a pre-emptive argument to evade tighter regulation: keep talking about the need for “more leadership” and “values”, and avoid commitments to tangible outcomes that can be pinned down by regulators.

But the longer the discussion has gone on, the more it’s shone a spotlight on what drives and reinforces culture and where the weaknesses in the current banking system lie. Now, the report from the Parliamentary Commission on Banking Standards has finally put paid to the view that “culture change” is a soft option.

On shared values, for example, the Commission says there’s been ample discussion: “Poor standards in banking are not the consequence of absent or deficient company value statements... [but] are, at least in part, a reflection of

the flagrant disregard for the numerous sensible codes that already exist.”

The CIPD’s recent survey of finance sector employees supports this, pointing to a substantial misalignment of values: while most respondents say they’re aware of their organisation’s corporate values, only one in three thinks these values are generally meaningful to employees.

Edgar Schein’s classic work on organisational culture explains that espoused values compete with more powerful underlying assumptions.

“It’s wrong to assume that banking employees’ instincts are all out of kilter. We also need to harness and protect people’s desire to behave ethically.”

These deeper values typically work without our realising it. They shape our thinking and influence our day-to-day behaviour on the basis that “this is how we do things around here”.

Clearly, a primary reason for banking’s “values misalignment” has been incentives. Our survey found that 65 per cent of employees think the way some people in their organisations are rewarded incentivises inappropriate behaviour. So one can imagine many bankers endorsing the Commission’s recommendation to limit the use and scale of sales-based incentives.

Non-financial incentives are also important. As proposed by the Commission, an industry-wide professional body may exert peer pressure and potentially shame and discipline miscreants. But we should also take a leaf out of the Government’s Behavioural Insights Team (aka the “nudge unit”) which has put behavioural science into practice in the policy realm with some impressive results.


Behavioural science opens up more subtle approaches to incentivising and influencing. It could be very relevant in banking. Dan Ariely’s research, for example, shows that our physical and psychological proximity to hard cash >>

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“Tougher lines on transparency, standards and prosecution will undoubtedly reinforce desirable behaviour. But regulation alone will only do so much.”

influences how honest we are. That's a fundamental problem with complex derivatives: they feel so far removed from cash as to seem almost abstract. So reminders of how such transactions relate to real money could be one small way to nudge bankers to behave more responsibly.

However, it's wrong to assume that banking employees' instincts are all out of kilter. We also need to harness and protect people's desire to behave ethically. Perhaps the most worrying finding from our survey is that, within the last two years, one in six bankers have felt bullied or under excessive pressure to go against their own ethics or the interests of customers. So the Commission is constructive in proposing that a Senior Persons Regime requires board level responsibility to protect whistleblowers.

Arguments for culture change take nothing away from demands for more regulation. Tougher lines on transparency, standards and prosecution will undoubtedly reinforce desirable behaviour. But regulation alone will only do so much. This is where talented HR and organisational development functions will come into their own, leading the way to help gauge and shift organisational culture. With their understanding of incentives, learning and values, and the tools they have at their disposal, they are ideally placed for this role and a vital part of improving banking standards. 

JONNY GIFFORD is Research Adviser, Chartered Institute of Personnel and Development.

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Intuition

Our vital HR challenge

The HR profession has a pivotal role to play in leading and implementing the cultural change that's needed in the banking sector, argues SIMON THOMPSON.

There's one thing above all I'd like to see our HR profession do – to take the banking profession as seriously as we do ourselves. And I say this not just as Chief Executive of our own Chartered Banker Institute, but also as a proud member of the Chartered Institute of Personnel and Development (CIPD).

Together we share a responsibility for delivering the change customers and communities want, and to help banks and bankers rebuild their professional pride.

Banks themselves are already doing a great deal: the “Helpful Banking” initiative of RBS, the “Transform” programme of Barclays and HSBC's “Courageous Integrity” project are just three examples of strategies to re-set and embed the right individual attitudes and behaviours, and the right corporate cultures.

And here's where the HR profession itself could encourage banks to go further. For instance:


- one bank offers graduate trainees HR qualifications, but not banking qualifications
- another pays CIPD membership fees, but none for staff who belong to banking institutes
- several insist on HR staff with CIPD

or similar qualifications, but don't require banking staff to hold banking qualifications – although 90 per cent of customers expect this.

As employees, we all rely on the professionalism of HR practitioners, which the CIPD has done much to build. But, as customers and communities, we all rely on the professionalism of banks and bankers much more.

A rebuilt, revitalised banking profession must be something we should all strive to achieve, both at the strategic level – CEOs and Boards have never been more open to this – and in the way we go about our daily work as HR professionals.

At this Institute, since well before the banking crisis struck, we've been drawing attention to banking culture and standards – the need for banks and regulators to support the industry's efforts to rebuild its human capital alongside its financial capital.

Banks and bankers need to publicly demonstrate a strong, individual, institutional and industry-wide commitment to those customer-focused, ethical and professional standards on which our industry must be founded. The support of HR professionals is indispensable in developing and embedding these standards and rebuilding our banking profession. 

“We share a responsibility for delivering the change customers and communities want, and to help banks and bankers rebuild their professional pride.”

DID YOU KNOW?...

The Institute has accredited more than 45 internal training programmes over the last three years, many of which lead to formal recognition within the Institute's professional qualification framework.



Prof Birgitte Andersen

“Banks must become genuine catalysts in growing a sustainable economy – as they were historically”

Instead of chastising bankers and their culture, argues Prof BIRGITTE ANDERSEN, we should be debating how banks can innovate to unleash tomorrow’s winners and provide the new jobs with which to rebalance the economy.

Banking culture is a symptom of the wider problem within financial markets – specific regulations regarding bonuses and the recommendations of the Tyrie Commission are not enough to address the dysfunction of financial markets or change the behaviour of bankers.

In most cases, bankers have responded to the incentives they encounter within the system – but, to truly “fix” and address the systemic problems with financial markets, new business models for banking and finance are needed.

One of the primary drivers for the crisis was that banks and other financial intermediaries were unable accurately to value underlying assets: in some cases, these assets had been hugely overvalued; in others (like knowledge capital) the financial system was unable to value the asset at all.

This inability to understand the value of their assets resulted in a banking culture and incentive structures within banks heavily focused towards short-term profit – not long-term

sustainable growth. Investment managers had an overriding incentive to drive excessive risk-taking for short-term profits and bonuses: the bonus system worked like a one-off reward for high-risk banking, unconcerned with the long-term implications for the bank or the economy.

Another adverse consequence of this business model is that economic cycles become increasingly volatile since the incentive structure exacerbates booms and busts. The impact of this volatility is felt not only in the banking sector

“Banking culture will change when banking business models change – bonus caps and other regulations curtailing banking will not alone bring the transformation that’s needed.”

but also in the real economy because of the systemic importance of financial intermediaries.


The big question we need to address is: What do we want our banks to do?

Instead of chastising bankers and banking culture, we should be debating how banks can innovate to unleash the winners of tomorrow that could provide the new jobs, rebalance the economy and provide a better quality of life for all.


Banks as currently organised are poor at assessing lending risks and spotting opportunities. They’re largely blind to the value of a firm’s intangible assets, patents, brands, strategic networks and people. Even local banks are not properly equipped to serve local regions.

Banks must instead become genuine catalysts in growing a sustainable economy, as they were historically. They were once drivers for growth, widening innovation and investment opportunities in past industrial revolutions by financing railways, electrification, chemistry, and mass-production.

But today, the Big Innovation Centre estimates that only about 1% of the total assets of banks are used to finance our most innovative and high-growth sectors – from the digital to life sciences, energy, green growth as well as skills and research. Indeed, banks use less than 0.1 per cent of assets to fund highly innovative SMEs in these areas.

Banks must better understand the needs, opportunities and challenges of their clients, including how they anchor into the networks, regions and markets in which they are located. There is a long way to go. Banking culture will change when banking business models change – bonus caps and other regulations curtailing banking will not alone bring the transformation that is needed. For that we need the banks to innovate themselves and re-engineer their entire business model. Innovation begins at home. 

Professor BIRGITTE ANDERSEN is Director of the Big Innovation Centre, an initiative of The Work Foundation and Lancaster University.



Financial services professionals cautiously welcome the recommendations of the Parliamentary Commission on Banking Standards, but foresee an arduous route ahead before the sector regains widespread trust.

Sharing the expertise

“The right approach”



Achieving a healthy and sustainable banking system is key to securing the green shoots of economic growth we’ve recently seen emerging. The Commission has paved the way for change and the response from the sector and the wider business community has been broadly supportive.

Shifting culture through greater individual accountability and a robust corporate governance framework is the right approach, if balanced against the risk of blurring the lines around directors’ responsibilities, or pushing talent out of the sector.

Having long advocated a single code of conduct, the CBI is encouraged by the work of the Chartered Banker Professional Standards Board and business is enthusiastic about the changes already underway within banks.

MATTHEW FELL, CBI Director for Competitive Markets, a member of the Advisory Board of the Chartered Banker Professional Standards Board

“The heat is rising”



The Chancellor’s acceptance of many of the key recommendations of the Tyrie report is confirmation that the UK will now have one of the toughest banking regimes anywhere in the world.

However, the Government has not ruled out making the new Senior Persons Regime applicable to the whole financial services industry, not just banking. Whilst this would not include the possibility of jail – that is reserved as a threat for bankers only – this would mean that executives in insurance and asset management would also be under a greater spotlight to be accountable and responsible for their actions. This would open the way for tougher scrutiny of pensions and investment product mis-selling. The heat looks likely to rise for the whole of financial services in Britain.

BILL MICHAEL, Head of Financial Services, KPMG

“Just the beginning”



The Banking Bill should be the trigger for the shift from discussions about policy to concrete proposals for change. However, in reality, the Bill raises a number of important issues which need more work. The further studies into the future of RBS, account portability, payment systems, competition and leverage will all result in more regulatory change and the industry needs to follow the debates around these issues closely

Implementation of the Bill won't be straightforward – we need changes to the Companies Act and a Special Measures regime needs to be created before the Bill can be effective.

Perhaps most importantly, we recognise that

implementing the measures in the Bill in good faith is just the beginning. There are limitations to what policy action can achieve. The technical measures announced in the Banking Bill simply fix some of the plumbing. Consumer perception remains a significant barrier to competition and, while the increased personal accountability and sanctions for bankers will go some way to reassuring the public about professional standards in the industry, they do not fully address the challenge of rebuilding trust in the sector.

Creating competition and rebuilding trust still remain big challenges for the industry over the next few years and we cannot rely on the policy and technical standards in the Banking Bill to fix them.

OMAR ALI, Partner, UK Banking & Capital Markets Leader, EY

“Hopes – and deterrents”



The Commission says “a great deal can and should be done” to raise standards, and make individual responsibility in banking “a reality”.

The headlines were all about the prospect of “reckless” bankers going to jail. But this is unlikely to happen at all often. By contrast, changes to the regime for senior management, and the new supervisory standards for bankers not otherwise in regulated positions, will be more pervasive.

The replacement of the Approved Persons Regime with a new Senior Persons Regime (covering a bank's most significant functions) and a Licensing Regime (for others whose conduct could damage their bank or its customers) are intended to clarify individual responsibility and deter rule-breaking.

The Government is also considering whether to amend the Companies Act to make bank directors prioritise “safety and soundness” over the interests of shareholders where these conflict.

Unsurprisingly, pay is also covered by the Commission – “much more” should be deferred “for much longer” (up to ten years), and paid with instruments such as bail-in bonds.


While the Government has expressed general support for the report, in the absence of draft legislation we don't know what the all-important detail will look like. The hope is that by making [these changes, trust in UK banking will return. The risk is that by increasing the downside for senior management, this will deter precisely the risk-averse individuals that the Commission wishes to encourage to run banks in the first place.

CLIFFORD SMOUT, Co-Head, Deloitte Centre for Regulatory Strategy

“Military grade obstacles”



The Government, banks and regulators will welcome the conclusion of the Commission's work, if not all of the recommendations. Although the recommendations address the need for better functioning markets, the Commission could have gone further. Despite attempts to make barriers to entry lower, new entrants will find

it very difficult to succeed in the short to medium term. Overall, the obstacle course is military grade with some big challenges to leap over, including the overall regulatory regime, the difficulties of establishing successful branch networks which include internet and mobile banking, improving lending to the SME sector and retaining managerial talent in the sector while it remains deeply out of favour. 

KEVIN BURROWES, UK Financial Services Leader, PwC



Expanding
our
Big Idea



Giles Cuthbert



Mark Roberts

In the new drive for professionalism, insist GILES CUTHBERT and MARK ROBERTS, what's critical in today's dynamic environment is the capacity to tailor-make courses consistent with professional standards for individual banks.

We broadly welcome the Commission's reform proposals in helping to raise the profile of professional and ethical issues within the industry.

What's positive is the push the Parliamentary Commission provides towards core banking skills such as credit and lending and the study of professionalism and ethics.

For the Institute, the over-riding message at this stage is that the range of our courses, particularly at the higher levels around the Chartered Banker Diploma, are already well orientated towards those Commission recommendations which focus particularly on ethics and professionalism and on credit and lending skills – all compulsory throughout our structure.

In the drive for professionalism, what's immediately critical for all banks in today's fast-changing environment is adaptability – the capacity to tailor-make courses to fit the particular training approaches of individual banks and blend these with an externally benchmarked qualification framework.

What's distinctive about the Institute is the way we structure our learning programmes to allow full integration of banks' own in-house programmes either through accreditation or through the development of bespoke routes to professional status. It is very clear that a qualification alone is no longer enough. We have to work with banks' programmes to ensure our products fit with the requirements of the Professional Standards Board and also with the ethos and priorities of individual organisations.

We're a career partner for people in banking at whatever point they've reached – those who've just left school to embark on an apprenticeship, those seeking a Masters qualification, and experienced

individuals who've been in banking for 10-15 years already. For all of them, the pinnacle is becoming a Chartered Banker, the "Gold Standard" in terms of professionalism and status.

But this isn't about academics sitting in some dark room dictating what bankers should know. It's much more about having a dialogue with client banks to define how our courses and qualifications can be fully embedded alongside their own in-house learning and development programmes. Our aim is to blend the core banking competences in Institute programmes alongside those programmes developed by banks to meet contemporary needs and enshrine professional standards.

“It's not about academics sitting in a dark room dictating what bankers should know. It's about blending the core banking competences in Institute programmes alongside banks' in-house programmes.”

What's encouraging is the widening recognition of this work. Institutes in other countries are increasingly looking to the Chartered Banker standards to set their curricula around our frameworks resulting in linked awarding structures. Despite the reputational damage to banking inflicted by the financial crisis, we're encouraged that UK values and standards of professionalism are still held in very high esteem internationally.

What's also encouraging is that universities and >>

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“Institutes abroad are increasingly setting their curricula around our frameworks with linked awarding structures. We’re encouraged that our professional values are held in very high esteem internationally.”

Other academic institutions are now approaching us in greater numbers than ever to explore ways in which industry recognition of their degrees in banking and finance can be enhanced by integrating into our examination structure.

These institutions clearly want their graduates to be entering the banking workforce equipped with high-level academic qualifications which critically demonstrate that they’ve also attained something of high practical value in this industry. To that end, they’re increasingly keen to gain credits within our structure wherever they can. A fast growing area of collaboration for the Institute is recognising MSc programmes which then lead to professional status with the Institute.

Although the demand for professional qualifications is still significantly institution-led by HR and other departments, what’s also interesting is the extent to which we’re now seeing career-conscious individuals in banking starting to wake up to the future and realise that three years from now being an unqualified banker in a senior position may well be untenable.


There’s a growing grass-roots interest from people who realise that, if they want their career to go places, they need the credibility of being a professionally qualified banker. More and more dedicated individuals are now self-motivated to progress up the

ladder of professionalism to become full Chartered Bankers.

And that chimes with the dynamics of the industry itself. Professionalism is never a static accomplishment in any field. In banking, too, you can only call yourself a “professional” if you constantly renew your knowledge and skills. Change is part of the excitement that’s driving this freshening personal interest. Banking now is certainly not what it was just five years ago, and it’s set to change vastly in the next five. So, individuals recognise how absolutely vital it is to maintain their Continuous Professional Development.

The Parliamentary Commission has gone some way to reinforce this expectation – although it must be said that we’d certainly have liked that message to be articulated even more

strongly. After all, when independent financial advisers and mortgage advisers, for example, are being required to meet defined qualification levels, we can’t help being disappointed that no similar stipulation was deemed necessary for specified banking functions.

It’s a pity that the attainment of professional qualifications wasn’t prioritised by the Commission as a “must do” for bankers, rather than more timidly as a “nice to have”. But that simply reinforces the essential catalytic role of the Institute in supporting the development of a unified professional body for the industry. 

GILES CUTHBERT is Managing Director, Chartered Banker Institute and MARK ROBERTS is Head of Qualifications, Chartered Banker Institute.

TAILOR-MADE PROFESSIONALS

The Chartered Banker Institute works closely with banking partners in the UK and abroad devising a comprehensive range of accredited in-house learning programmes leading to full professional qualifications for staff.

RBS GROUP

Accredited “hallmark of professionalism”

In 2011, the Institute completed the accreditation of a complex programme of professional development implemented by RBS Group Corporate Division across its Business & Commercial Banking teams. At the time, over 4,000 Relationship Managers received this “hallmark of professionalism”; many more have followed since. In its national TV advertising campaign this summer, the bank refers to the success of the programme in demonstrating its commitments to higher levels of banking professionalism.

LLOYDS BANKING GROUP

Leadership in complaints handling

Working with the Institute, Lloyds Banking Group has sponsored the development of an innovative eLearning module to widen staff access to training in dealing with customer complaints. The

Certificate in Complaints Handling leads into the Institute’s Professional Banker Diploma. “What’s really terrific,” says SHONA MATTHEWS, the Institute’s Head of Strategic Implementation, “is the leadership Lloyds has shown, not just to enhance their own service but also to benefit the whole sector”.

NATIONAL AUSTRALIA GROUP

Disciplines in key operational areas

National Australia Group worked closely with the Institute to tailor-make a route to the Institute’s Professional Banker Certificate qualification. This involved accreditation of the Group’s compliance-based e-learning programme for personnel in its UK Clydesdale & Yorkshire Banks. Covering disciplines like anti-money laundering, fraud, and Code of Conduct, it included a combined three-day workshop and examination for some 1,500 staff in three key areas – retail, contact centres and operations & IT.

How the Chartered Banker Institute is building professionalism



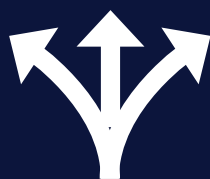
Coverage of **ethics** and **professionalism** for bankers at all levels



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

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.

Stay connected and join us on twitter (@charteredbanker) and in our official LinkedIn group (www.linkedin.com)

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