

## CORPORATE GOVERNANCE: BOARD RESPONSIBILITIES

### Chartered Banker Institute: Response to May 2015 Consultation Paper CP18/15

#### BACKGROUND: CHARTERED BANKER INSTITUTE

1. The **Chartered Banker Institute** welcomes the opportunity to respond to the Consultation Paper: The oldest professional banking institute in the world, founded in 1875, we operate in all UK nations, and have a significant and growing international presence. The Institute has driven an agenda of ethical professionalism throughout its existence; promoting professional standards for bankers, providing professional and regulatory qualifications for retail, commercial and private bankers in the UK and overseas, and offering professional membership to qualified individuals. It is one of very few educational and professional bodies remaining in the UK to focus stringently on professional ethics, values and behaviours for bankers and in 2000 was the first professional body to introduce formal study of professional ethics for bankers.
2. The Institute received Royal Charters of incorporation in 1976 and 1991. In 2000, approval was received from the Privy Council to award the “Chartered Banker” professional designation to individuals meeting the Institute’s highest standards and qualification requirements for ethical, professional and technical competence. The Chartered Banker Institute is the only body able to award this designation.
3. A Chartered Banker is a highly-qualified, professional banker with a detailed knowledge of the modern banking industry, banking operations, and the ethical and professional requirements pertaining to banking. For an individual to become a Chartered Banker requires Masters-level study of modules in: (a) contemporary issues in banking, (b) credit & lending, and (c) risk management, plus a choice of elective modules in subjects including retail banking, corporate banking and private banking. All students must also complete a Masters-level module in Professional Ethics and Regulation. Qualifications are offered by the Institute itself, as well as by a range of university partners.
4. Post qualification, all Chartered Bankers and the great majority of the Institute’s members must satisfy the Institute’s Continuing Professional Development (CPD) requirements, including mandatory annual ethics refresher training, to continue to use the “Chartered Banker” designation.
5. In addition to the Chartered Banker qualification, the Institute offers a wide range of professional banking and regulatory qualifications, to support individuals at all career levels, all of which involve study of professional ethics. These include the Chartered Banker MBA, delivered in partnership with Bangor University, which aims to prepare the next generation of international banking leaders for the challenges of senior executive and non-executive roles.

6. The Institute has grown rapidly in recent years, and currently has more than 20,000 individual members. In addition, over the past 3 years, approximately 25,000 individuals have participated in a training programme delivered by an employer, university, college or other training provider, accredited by the Institute against our professional and qualifications standards, and providing a pathway to achieving a professional qualification awarded by the Institute.

## **BACKGROUND: CHARTERED BANKER PROFESSIONAL STANDARDS BOARD (CB:PSB)**

7. In 2008, the Institute began work leading to the launch of the **Chartered Banker Professional Standards Board (CB:PSB)** in October 2011, recognizing the need to enhance and sustain professional and ethical standards in banking in the UK prior to the focus on conduct and culture post-LIBOR. The CB:PSB will work alongside the emerging Banking Standards Board, setting professional standards for individual bankers whilst the latter focuses on standards for banks and banking.
8. In October 2011, the CB:PSB published the **Chartered Banker Code of Professional Conduct (Chartered Banker Code)** which sets out, as high level principles, the ethical and professional values, attitudes and behaviours expected of all bankers. Banks supporting the CB:PSB subscribe to the Code and have implemented and embedded the Code's principles in their organisations.
9. In July 2012, the CB:PSB launched its first standard, **the Foundation Standard for Professional Bankers (the Foundation Standard)**. By December 2014, 185,000 bankers had achieved the Foundation Standard– 117,716 in the UK and an additional 69,600 globally. CB:PSB member banks have committed that all UK customer-facing staff will have achieved the Foundation Standard by December 2015.
10. In September 2014 the CB:PSB launched its second standard, the **Leadership Standard for Professional Bankers (the Leadership Standard)**. It is aimed at professional bankers, throughout an organisation, with leadership responsibilities for shaping the strategy, policy and culture of our banks, including executive and non-executive directors. Developed by senior bankers with critical input from our independent Advisory Panel and shaped by public consultation, the Leadership Standard sets out the CB:PSB's, detailed expectations for the conduct and expertise of banking leaders. The CB:PSB is piloting the Leadership Standard across its member firms in 2015/16. At the same time, they are assessing alignment of the Standard with the Senior Managers and Certification Regimes, with a view to the Standard being fully implemented when the new regulatory regimes come into force.

## RESPONSES TO SPECIFIC AREAS

11. We have commented only on those parts of the PRA's supervisory statement which fall within the Institute's expertise and on which we are expected by our members to comment.

**1.3 An effective board is one which understands the business, establishes a clear strategy, articulates a clear risk appetite to support that strategy, oversees an effective risk control framework, and collectively has the skills, the experience and the confidence to hold executive management rigorously to account for delivering that strategy and managing within that risk management.**

12. We welcome this statement but feel an effective board should also consist of individuals who have experienced and, ideally, led successful 'cultural change' in an organisation. We would like to see, therefore, some or all of the language on culture set out in the Appendix included in the description of an effective board, perhaps:

*An effective board is one which understands the business, establishes a clear strategy, articulates a clear risk appetite to support that strategy, oversees an effective risk control framework, **articulates and maintains an appropriate professional and ethical culture**, and collectively has the skills, the experience and the confidence to hold executive management rigorously to account for delivering that strategy and managing within that risk management.*

13. The Institute strongly believes that an effective board requires individuals to have very significant and relevant professional expertise and experience, and that in terms of the banking industry, a significant proportion of Board members should hold relevant professional banking qualifications, and be members of a relevant professional body in good standing. Whilst there is now greater encouragement from regulators for this, we believe much more could be done to incentivise senior executive and non-executive directors to gain relevant professional qualifications.

**1.5 The draft statement underscores the collective responsibilities shared by board members. As such it complements the individual accountabilities which the PRA is introducing through the Senior Managers and Senior Insurance Managers Regimes.**

14. We believe that there should also be oversight of the implementation of the PRA's Supervisory Statement and consideration of the outcomes, particularly in terms of assessing the effectiveness of a board, and of board members, in meeting the PRA's expectations.

## Appendix

### 3: Culture

**3.1: The board should articulate and maintain a culture of risk awareness and ethical behaviour for the entire organisation to follow in pursuit of its business goals. The PRA expects the culture to be embedded with the use of appropriate incentives, including but not limited to remuneration, to encourage and enforce the behaviours the board wishes to see, and for this to be actively overseen by the board. The non-executives have a key role to play in holding management to account for embedding and maintaining this culture.**

15. The Institute strongly supports this statement, but believes that some or all of it should be in the main part of the Supervisory Statement rather than the Appendix, as noted above. We would encourage the PRA to include references to “professional behaviour” and “professional norms” rather than simply “ethical behaviour”, however, as these encompass wider ideas of an appropriate, customer-focused, technically competent culture rather than a more simplistic “good person” approach, e.g:

*The board should articulate and maintain a culture of risk awareness and ethical **and professional behaviour** for the entire organisation to follow in pursuit of its business goals. The PRA expects the culture, **and appropriate professional norms** to be embedded with the use of appropriate incentives, including but not limited to remuneration, to encourage and enforce the behaviours the board wishes to see, and for this to be actively overseen by the board. The non-executives have a key role to play in holding management to account for embedding and maintaining this culture.*

16. In our view, more detail could be given on other appropriate incentives, particularly those that can help establish and embed appropriate professional behaviours and norms. These should include encouragement for individuals to achieve relevant professional qualifications, membership of a relevant professional body, Continuous Professional Development (CPD) and linking career progression to the achievement and maintenance of professional status.
17. The CB:PSB’s Foundation and Leadership Standards can help boards understand and embed the professional norms required to support a positive, customer-focused culture throughout their organisations. They may also be used as a tool to help boards measure culture. In CB:PSB member banks, a designated board member is responsible for reporting to the CB:PSB Board on standards’ implementation, and we believe this should be extended to all UK banks with boards being asked to implement the CB:PSB’s professional standards, or explain publicly why they have chosen not to.

**8.2: The PRA expects non-executive directors to be given adequate support to enable them to carry out their duties. Such support should include appropriate and relevant induction and ongoing training and professional advice (as mentioned above) as well as other practical assistance including office accommodation and staff support. The Corporate Governance Code expects, and the PRA's rules on the Senior Managers and Senior Insurance Managers Regimes require, the Chairman to lead the development and monitoring of effective policies and procedures for the induction, training and ongoing professional development of board members, in particular non-executives.**

18. We believe that the induction, training and ongoing professional development of board members should include relevant professional banking qualifications for those board members requiring them.