Chartered Banker

The future of banking

Winter 2021

Open mic: How banks can rebuild trust.

Davidson: A united approach to combat pension scams.

Country spotlight: Hong Kong's economic and financial influence.

Young Banker: What is responsible banking?

The next frontier

Banks strengthen their defences as fraudsters profit from the pandemic

A perfect storm COVID-19 and fraud.

Blurred lines Who is accountable?

Joining forces The regulators' approach.

CBILS and BBLS Support scheme fraud.

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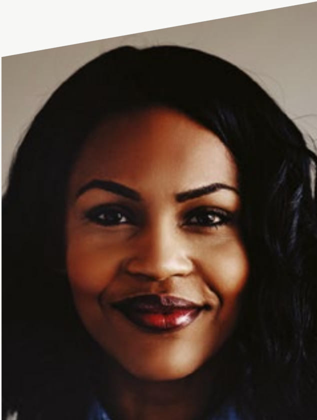
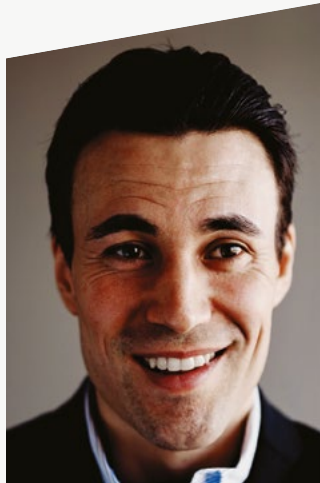

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Chartered Banker
The future of banking

The front line

We should approach 2021 with some confidence – and pride in what we have achieved.

Simon Thompson, Chief Executive

Twelve months ago, you would have needed something much more powerful than 20/20 vision to accurately predict how the year 2020 would play out. We have all been tested, if you'll excuse the pun, both personally and professionally and as never before in most of our lifetimes. With multiple vaccines on the way, however, we should look forward with a degree of confidence – as well as back with a sense of pride as to what we have achieved this year.

UK Finance reports that – to mid-November 2020 – more than £65bn had been lent to nearly 1.5 million businesses through the three COVID-19 lending schemes: the Bounce Back Loan Scheme (BBLS), the Coronavirus Business Interruption Loan Scheme (CBILS) and the Coronavirus Large Business Interruption Loan Scheme (CLBILS).

Lenders have supported individuals and families with approximately 2.5 million mortgage payment deferrals, plus payment deferrals on personal loans and credit cards. Working with the government, the extent and rapid deployment of support to individuals and businesses – during a period of what we must remember was huge disruption for banks and bankers themselves – is a great credit to our banking profession.

> "The extent and rapid deployment of support to individuals and businesses is a great credit to our profession."

While we all want to look forward to 2021 with optimism, as bankers we also need to approach the New Year with caution and prudence. The extent of the economic challenge faced by many individuals, families, businesses and communities will become clear over the coming months, and many will need continued support for an extended period. And, as we explore in this issue, the financial support quite rightly provided to so many is being exploited by a few to profit from the pandemic.

Banks and bankers are in the front line not only supporting customers and businesses needing help but also seeking to prevent and stamp out fraud. This is an ethical duty as much as a legal, regulatory and financial obligation. It is a duty that must be shared with government, law enforcement and customers themselves, but our role, and our financial expertise, is key.

Fraud has risen alarmingly during the year as criminals have taken advantage of rapid growth in online transactions, COVID-19 lending, furlough support schemes and an increase in the numbers relying on Universal Credit. According to the National Audit Office, more than £3bn may have been lost through the furlough scheme alone. In addition, a very large proportion of COVID support loans may never be paid back – perhaps more than £30bn, according to some commentators.

The costs of the pandemic, then, will be with us – customers, communities and the banking sector – for some time to come, and they will mount in the year ahead. Our professionalism will be tested again, but I know that once again we will rise to the challenge and be justifiably proud of our individual and collective contributions to 'building back better'. CB

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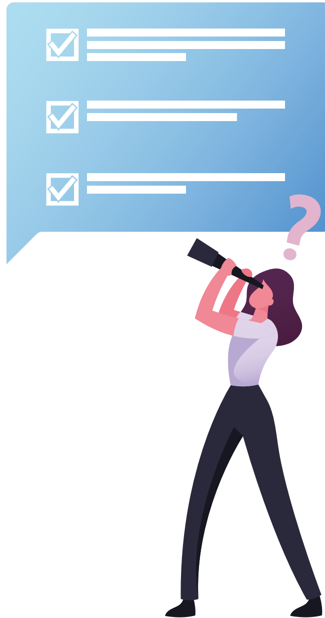

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The professionals in this issue

Arun Chauhan founded Tenet Law in 2016 and is Deputy Chair of the independent Fraud Advisory Panel. He specialises in financial crime compliance, investigations and litigation arising from fraud. **p14**

Jonathan Fisher QC is a practising barrister at Bright Line Law and a Visiting Professor who teaches theory and practice around financial crime at the London School of Economics. **p17**

Mark Steward is Executive Director of Enforcement and Market Oversight at the Financial Conduct Authority (FCA). He joined the FCA from the Hong Kong Securities and Futures Commission, where he was a member of the board for nine years and Executive Director of Enforcement. **p20**

Rafael Campos Valdez is Diversity and Inclusion Manager at AXA Investment Managers. He has been listed in the Economist’s Top 50 Diversity Professionals and was shortlisted in the British LGBT+ Awards’ Corporate Rising Star category. **p46**

Rhian-Mari Thomas OBE is Chief Executive of the UK Government and City of London Corporation-backed Green Finance Institute. She was awarded an OBE for services to green banking. **p50**

Simone Dettling leads the Banking Team of the UN Environment Programme Finance Initiative (UNEP FI), a global partnership between the UN and more than 350 member banks, investors and insurers. **p50**

Joe Wiggins is Fund Manager at Aberdeen Standard Investments. He also holds the CFA Charter and an MSc in Behavioural Science at the London School of Economics, from which he was recognised for outstanding performance. **p54**

People & numbers

UK ahead in boardroom gender balance

The boardrooms of British banks have better gender balance than their US and European counterparts, according to research by New Street Group.

Women account for 37% of board members in UK banks, compared with 35% in Europe and less than one third in the US. It's an increase from 28% in 2015, when female representation in boardrooms trailed behind that in Europe.

"Banks know that gender balance isn't just a public relations objective," said Andrew McIntee, Managing Director, New Street Group. "It's part of finding a competitive advantage.

"A growing body of evidence suggests that a better gender balance on the board can lead to greater diversity of ideas, better and more informed decision-making, and increased board effectiveness."

7,500 finance jobs relocated amid Brexit exodus

At least 7,500 finance jobs in the UK were relocated to Europe in the months leading up to Britain's exit from the EU.

EY's Brexit Tracker also found that, as of November 2020, firms had transferred assets worth a total of more than £1.2tn into European markets. Experts from EY also predicted a 'flurry' of staff and operational announcements in the final months of 2020.

Dublin tops the list of the most popular destination for new financial hubs, followed by Luxembourg, Frankfurt and Paris.

The number of jobs and assets being transferred have, however, remained a fraction of those within the UK sector.

"The concern over the longer term is that there may be additional costs and there may be additional friction [for UK firms] and that's why having a good [Brexit] deal in place would be beneficial for both sides," said Miles Celic, Chief Executive, TheCityUK.

Facts & Figures

£5.73bn

Edinburgh's financial services output (25.2% of total economic output)

£3.09bn

Decrease in value of cash withdrawn from ATMs in London in summer 2020 (versus same period in 2019)

44%

Fall in loans from family and friends during lockdown

Skeoch stands down at SLA

Stephen Bird, former CEO at Citigroup, has replaced Keith Skeoch as Chief Executive at Standard Life Aberdeen (SLA).

It comes as part of a major boardroom reshuffle following the merger of Standard Life and Aberdeen Asset Management in 2017. Skeoch spent five years in the role and 14 as a director within the organisation.

"Stephen is an inspiring leader with a great track record in leading businesses to harness digital technology to improve both productivity and the client and customer experience," said Sir Douglas Flint, Chairman, SLA.

New Year, New CEO for UK Finance

David Postings, formerly of Bibby Financial Services and Moneycorp, has been appointed Chief Executive of UK Finance.

Postings assumed the role on 1 January 2021, and has described the challenges faced by the financial services industry during COVID-19 and its vital role in pulling the UK through the "difficult economic situation".

UK Finance Executive Chair Bob Wigley said: "David will bring wide and deep experience of our sector and, crucially at this time, a real understanding of the vital role our members play in supporting SMEs and consumers across the UK."

New guidance for 24 million vulnerable people

The Financial Conduct Authority (FCA) has released new guidance for financial services providers to offer better support to vulnerable consumers and protect them from exploitation.

Incorporating feedback from consumer organisations, firms and trade bodies, the guidance says more could be done to help protect the 24 million people displaying one or more characteristics of vulnerability – just under half of adults in the UK.

These include physical and mental illness, low capability and those who have gone through recent life events such as bereavement. The FCA says it wants to see such consumers being treated "fairly and consistently across financial services sectors".

It also highlighted the many examples of good practice already evident across the industry, and praised the firms taking a proactive approach to protecting vulnerable consumers.

"We know many more customers will be struggling with their finances as a result of the impact of coronavirus," said Christopher Woolard, Interim Chief Executive, FCA. "Supporting vulnerable consumers is a key focus for the FCA, and the coronavirus crisis has only highlighted its importance.

"While many firms do excellent work to support their vulnerable customers, we will not hesitate to step in where others do not."

'Dynamic' Edinburgh enters world top 20

Edinburgh has fought its way to number 17 in the most recent Z/Yen Global Financial Centres Index, which ranks finance hubs by future competitiveness.

It is the first time the Scottish capital has reached the top 20. London remains second globally, making it the most prominent financial centre in Europe – and runner-up to New York.

"Edinburgh's ranking will be no surprise to anyone who has done business in Scotland," said Miles Celic, CEO, TheCityUK. "The city hosts one of the most dynamic and vibrant financial and related professional services industries in the world, based on deep pools of talent and experience."

Meet the Forum

Helen McKay and Mark Saunders are members of the Institute's Membership Forum.

HELEN MCKAY
Credit Assurance Manager, LendingCrowd

Helen joined LendingCrowd in 2014 as the FinTech lending platform's first employee, having spent 30 years gaining invaluable banking experience in customer service, regulated activities, business credit and anti-money laundering. She received her Fellowship of the Institute in 2017 and was appointed as Chairperson of the Edinburgh, Fife and Lothians District Centre and Vice Chair of the Membership Forum in 2019. Innovate Finance named Helen on its Women in FinTech Powerlist 2019.

MARK SAUNDERS
Director of Business Banking, RBS

Mark is a career banker of 32 years, with experience spanning retail, corporate, commercial and business banking. He currently manages a team of relationship managers across North and East London who support owner-managed SME clients to mitigate risk, grow their businesses or save money. Mark is also a Director of Enfield Enterprise, a London Enterprise Agency, and is active on the advisory committee for the North London Chamber of Commerce.

Turn to Institute Advocates on page 48 to read Helen and Mark's views on fraud risk management.

People & numbers

Carney: Link exec pay to climate goals

Mark Carney, former Bank of England governor, has spoken out at a UN Summit calling on banks to improve transparency and accountability around climate goals.

Speaking on the wider issue of building an aligned, industry-wide approach to tackling climate change, Carney said banks should link executive pay to climate risk management. In such an absence, he believes there should be, at the very least, full disclosure around the decision.

It came as a number of organisations – including HSBC and J.P. Morgan – made public pledges aligned with the objectives of the 2015 Paris Agreement. Its main aim is to step up measures in order to keep the global temperature rise this century to below 2˚C above pre-industrial levels.

"It would be a severe mistake to try to steer bank decision-making on reducing their climate impact solely through getting the right financial incentives or disincentives in place for individual bankers," said Johan Frijns, Director, BankTrack.

"If internal motivation to stop financing climate destruction were that shallow, we wouldn't stand a chance. That said, tying executive pay to delivering a credible phase-out plan from the fossil fuel industry, or achieving a steep decline in financed emissions, may well knock a few heads together."

Begbie appointed CEO

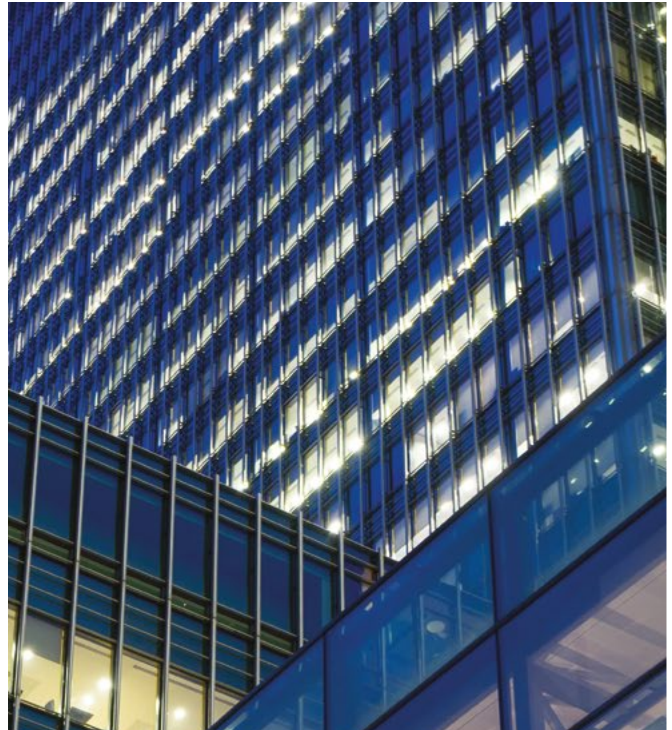
Sandy Begbie CBE, the former Chief Transformation Officer at Tesco Bank and a Fellow of the Chartered Banker Institute, has joined Scottish Financial Enterprise (SFE) as Chief Executive.

Begbie, who was awarded a CBE in 2018 for services to busines and social inclusion, has been working closely with the Scottish government to help fight rising youth unemployment as a result of the COVID-19 pandemic. He has held previous roles with Standard Life, Aegon, Scottish Power and the Royal Bank of Scotland.

Begbie takes over from Graeme Jones, due to retire this winter after five years in the role. Jones has been credited with growing SFE's membership by 25% during that time.

Sandy Begbie CBE

"Graeme's leadership has transformed SFE," said Philip Grant, SFE Chairman. "He has built the firmest of foundations from which we can continue to develop and build the capability and impact of SFE in representing the interests of our members and developing the value of financial services for Scotland."



Majority of City firms reviewing office space

Almost 75% of City-based organisations – in particular banks and insurance firms – are reviewing their office space requirements as a result of the COVID-19 pandemic.

The surge in remote working following lockdown has led to a major rethink around the type and size of offices required, with many bosses hoping to reduce them or modify their purpose, according to a joint report published by the Confederation of British Industry and PwC.

Nearly half of the 133 financial services firms surveyed said that 90% of their staff could feasibly do their jobs remotely. J.P. Morgan is among a number of organisations which have spoken up about the potential drawbacks of an increasingly remote workforce, including the lack of mentorship for young staff and a small dip in productivity.

The report, which gathered data in winter 2021, also found that 71% of firms were investing in IT in order to support staff working remotely. With uncertainty ongoing around the pandemic and the aftermath of Brexit, many organisations are also looking for more cost-effective ways to create office space.

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Institute agenda

Financial Services Register update

In the Winter 2020 issue of *Chartered Banker*, we highlighted changes the Financial Conduct Authority (FCA) was making to its Financial Services Register [register.fca.org.uk]. The updates included ensuring better visibility of all those individuals falling under the Senior Managers and Certification Regime [SMCR].

From 14 December, the Register is due to start publishing data on individuals who are assessed by their firms as Fit and Proper, in line with the Certification Regime, as well as Senior Managers as it does at the time of writing. The FCA Register is expected to, for first time, include information about the professional affiliations of Senior Managers and those in Certification roles (including qualified retail mortgage advisers) where firms have already submitted this data.

Firms and individuals that only came under the SMCR from 9 December 2019 have until 31 March 2021 to ensure the FCA receives this data. However, for those who have submitted their data early, as well as those for whom the SMCR has long applied, we understand that this additional information will be incrementally displayed from 14 December.

We encourage all members in Senior Manager (SMFs) and Certification roles to check that their employer is aware of their professional membership status.

It is our expectation that the FCA will continue to provide a link to our Register of Banking Professionals. Introduced in December 2019, this service enables interested individuals to find a qualified member by keying in only a few details about their name. You can find our Register of Banking Professionals at: **bit.ly/36QEg3p**

Member discount

As we begin a new year we'd like to remind all Chartered Banker Institute members of the concessions available to you through our ongoing partnership with UK discount card TOTUM PRO.

The TOTUM PRO card from OneVoice Digital and the National Union of Students (NUS) is designed especially for members of professional bodies and gives access to a wide range of discounts, offers and vouchers on both famous brands and local independents. Previously, the TOTUM card was only available to active students.

What if I already have a TOTUM card?

Existing TOTUM cardholders will continue to enjoy the benefits of their TOTUM card until its expiry date and at renewal can apply for a TOTUM PRO card. All new applicants will be able to purchase TOTUM PRO to access the discounts.

How much does it cost?

At the time of writing prices start from £14.99 for one year, but there are options for two- and three-year cards.

Please note that TOTUM PRO only delivers purchased cards within the UK (England, Wales, Scotland and Northern Ireland). A charge of £1.50 applies for home delivery.

How to apply

Log into your account at charteredbanker.com/login.html, go to 'My member area' and then 'Exclusive membership offers'. Click on the TOTUM button to get your verification code then click on the link to apply. Alternatively, go to cards.totum.com/join. A photograph is required, so you'll need either a digital photograph or a webcam.

How do I find out about discounts?

All the information about current discounts is available from users' accounts at totum.com. You can also download the TOTUM app from both the Google Play store and the Apple App store.

INSTITUTE APPOINTMENTS:

New Board members

Following a Special General Meeting (SGM) of the Institute on 19 November, we were pleased to appoint four new members to our Board of Trustees for the period December 2020 to June 2023:

- Ian Henderson (Member) – NED, Metro Bank
- William MacLeod (Member) – Director, Scotland, Allied Irish Bank
- Anders Bouvin (Independent) – Former President and Group CEO, Handelsbanken
- Sue Primmer (Independent) – Chief Marketing Officer, Sionic.

Bill McCall, FCBI, Chair, Chartered Banker Institute commented:

"On behalf of the Board, I am delighted to welcome our four new Trustees who I am sure will bring great expertise and experience to our Board. Our Board of Trustees comprising both Fellows and members of the Institute, and independent Trustees, plays a key role alongside our Membership Forum to ensure the direction and activities of the Institute continue to be a beacon for responsible banking in the UK and around the world.

"I would also like to pay tribute on behalf of all Fellows and members of the Institute to Lynne Burns, who stood down as Vice-President in September and special thanks to Susan Younger, Hugh McKay and Brian McCrindle, who agreed to stay on beyond their term of office, due to the COVID-19 lockdown restrictions, and help shepherd and steer the Institute through the course of this year."

EXECUTIVE TRAINING:

Leadership programme in Taiwan

Working in partnership with Strathclyde University Business School, the Institute was invited to design and deliver a highly successful online senior executive training programme for the Taiwan Academy of Banking and Finance (TABF). Our relationship with TABF goes back more than 20 years and we are delighted and honoured to have collaborated once more.

TABF's mission, which is very similar to our own, is to promote financial education and research, enhance professionalism and improve financial literacy through the modernisation of finance; underpinned by the need to build a sustainable banking profession championed by senior executives.

The programme, which took place late last year, was attended by leading senior executives from more than 20 Taiwanese banks. The line-up of speakers comprised senior practitioners, industry experts and academia, all sharing their expertise and practical insights on FinTech and sustainable finance.

NEW E-LEARNING:

Professional and Responsible Banking in a Digital Age

Technological innovation has transformed the way we bank – and will continue to do so in future. Yet the core principles of professional and responsible banking remain essential to our banking practice. The global banking profession needs people who understand the fundamentals of banking, as well as the forces transforming the way we bank and changing expectations of customers.

Our new suite of e-learning modules contained within 'Professional and Responsible Banking in a Digital Age' will support you to consider the purpose and functions of different types of banks and banking in a digital age, the role that banks, banking and bankers play in society, and the ways in which the UN Principles for Responsible Banking provide the framework for sustainable banking.

These modules are free to members in the Responsible Banking toolkit at: bit.ly/2Jctdly

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- Will join the rapidly growing global Chartered Banker Institute of more than 31,000 members and gain industry recognition.

MORE INFORMATION

For further information and guidance about the eligibility criteria please visit: www.charteredbanker.com/CBBE

Alternatively please contact the Institute's Membership Engagement Team via: info@charteredbanker.com or +44 (0) 131 473 7777.

SPECIAL REPORT

The next frontier

The COVID-19 crisis sparked a new wave of fraud, with criminals quickly identifying novel avenues through which to exploit vulnerable individuals and businesses to profit from the pandemic. As we enter 2021, *Chartered Banker* examines the fraud landscape – and how the financial services, government and public sectors can work together to improve fraud controls and help protect customers from new and evolving threats.

> "The main driver for fraud is not usually greed but pressure."
>
> Arun Chauhan,
> Deputy Chair, Fraud Advisory Panel and Founder, Tenet Law

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SPECIAL REPORT

Fraud in the time of COVID-19

From impersonation scams to fictional truffle plantations, growing economic pressure is creating new opportunities for fraudsters. Here, we explore how COVID-related shifts in consumer behaviour have transformed the fraud landscape over the past year, and how the finance sector is – and should be – preparing.

As the battle against COVID-19 drags into a new year and the UK continues to adjust to the challenges of a new normal, the finance industry is waging a war of its own. A new wave of fraudsters, galvanised by falling interest rates and changing consumer behaviour, are finding novel ways to target consumers and businesses, causing a headache for increasingly under-resourced compliance teams.

With millions continuing to work from home and a resulting drop in footfall across Britain's town and cities, it's perhaps unsurprising that certain types of fraud are on the decline. Instances of contactless card fraud, for example, fell by 20% in 2020 – the first year-on-year decrease since 2013, according to industry body UK Finance.

But look elsewhere and a new generation of scams are coming to the fore. According to UK Finance, there were 15,000 impersonation scams reported in the first half of 2020, an increase of 84% on the previous year.

UK Finance defines impersonation fraud as a situation in which the victim is convinced to make a payment to a criminal claiming to be from a trusted organisation. This could include the police, a bank, a utility company, or a government department. These types of scams cost the industry £58m between January and June 2019. This can also include Authorised Push Payment (APP) fraud.

The new face of fraud

"The significant impact of COVID-19 has been how it's driven the online behaviour of not only consumers and businesses but equally the fraudsters out there," says Arun Chauhan, Founder of Tenet Law and Deputy Chair, Fraud Advisory Panel.

"If you go from the consumer level, many people are being driven to dealing with everything – from their investments to their shopping – predominantly online. What that's done is present the opportunity for well-versed, dishonest individuals to really advance the opportunities of cybercrime."

Chauhan describes an increase in instances of consumer fraud in terms of online sites, and the impersonation of genuine market traders or sites selling experiences.

"Places like Airbnb and Facebook," he says. "Those types of environments are being mimicked and there is a sort of corporate hijacking occurring where images are being stolen, goods are being mimicked and consumers are being left in a position where they can't go out and inspect before buying."

A truffle odd

It's not just impersonation and scams that are on the rise. Elsewhere, sluggish interest rates are creating new opportunities for investment fraud, enticing many to move their money into increasingly unusual, duplicitous funds.

"I have a range of cases that I'm investigating at the moment, from old-fashioned wine investment fraud to eco-friendly investment

> **"We've seen the interest rate drop from a meagre 1% to a situation where investors are lucky to get anything. There's a growing risk of people chasing returns."**
>
> Mark Wilson,
> Head of Special Investigations, RSM UK

> **"You have to balance the need to get support to the businesses that are affected quickly, but also recognise that there is a risk in not having the levels of control in place that you normally would."**
>
> Mark Wilson,
> Head of Special Investigations, RSM UK

in forestry in South America," says Mark Wilson, Partner and Head of Special Investigations, RSM UK. "We've even had investigations into truffle plantation investments in the UK, Spain and South Africa.

"We've seen the interest rate drop from a meagre 1% to a situation where investors are lucky to get anything. What that means is that there's a growing risk of people chasing returns. It's often in the realms of pension or savings fraud, where people are persuaded to transfer their savings into some form of fraudulent investment scheme. They are lured in by attractive rates of return."

Hijacking hope

Wilson says his generation, those in their 50s or older, is the classic age group most at risk from attack through investment fraud, as investors can remember interest rates of up to 8% but also have the accumulated savings to make them attractive targets.

"They understand that you have to invest your money to earn a return," he says. "There is then the temptation to move into an investment that's basically unsustainable."

Chauhan agrees, saying that opportunities to make money from investments have been severely hampered by the current economic climate.

"What we're seeing is a number of well-known FS [financial services] organisations having their livery hijacked," he says. "Fraudsters are offering 3 to 4% on an individual's savings. It sounds perfectly feasible nowadays against the backdrop of the past two years, but in this environment you won't get that.

"People are being given what look like great opportunities by fraudsters who are very good at persuading you to enter into transactions. Banks, in turn, are being used as a conduit to be persuaded by using their livery. Many people are looking for good news and believing what sounds too good to be true, to be true."

A pile-up of pressure

Aside from a slump in interest rates and more time spent online, there is another reason that the pandemic is creating new and unrivalled opportunities for fraudsters: a growing pressure on banks.

Chauhan says there's a natural tension between the requirement for banks to carry out the necessary checks in a time-sensitive environment while also juggling an increase in the number of transactions.

"If you're in compliance, you're under pressure to make sure you're not a barrier to the business, but equally you have heavy regulatory constraints in terms of identifying money-laundering risks, suspending transactions and reporting sufficiently," he says.

"The volume of those transactions has exponentially gone up because of COVID-19, so the pressure, as I see it, is a far higher volume of online transactions. Banks' profits may be struggling, and the functions that tend to take the first hit are the cost functions more than profit functions.

"Compliance teams might feel the pinch first but they're actually getting more work because of the pandemic, so there's an increasing risk of accounts being misused by fraudsters."

Increased pressures on banks, he says, as well as that on their customers, is also creating opportunities for CEO fraud, whereby fraudsters impersonate senior team members in order to rush through faster payments.

Bouncing back

With many British businesses under unprecedented financial pressure, financial services providers, and the government, are still feeling their way through a situation that Wilson likens to an overseas aid programme.

"There's a balancing act involved in what a government has to do," he says. "If you make the checks too rigorous when you're putting measures

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into place, you'd be delaying the provision of funding to companies that really need it and the effectiveness of what you're providing is reduced.

"You have to balance the need to get support to the businesses that are affected quickly, but also recognise that there is a risk in not having the levels of control in place that you normally would. This makes such schemes more vulnerable to fraud."

An inside-out approach

So how are organisations – and the finance sector more broadly – responding to the changing nature of fraud in the time of COVID-19? One measure has been the implementation of the Banking Protocol, a scheme that enables bank branch staff to alert police to suspected scams. According to UK Finance, the new measure prevented an estimated £19m of fraud and led to more than 100 arrests in the first half of 2020.

Banks and other FS institutions are also working with the mobile phone industry to intercept scam text messages from fraudsters looking to use the pandemic in their favour.

But it's within organisations, experts say, that an honest, ongoing review into the prevention of, and response to, fraud is required, now more than ever.

"I think the FS sector generally can do more to respond and react quicker to an alert of fraud from a customer," says Chauhan. "If we can see that the volume of fraud is increasing, teams need to be expanded to deal with it. Banks also need to look at their ability to respond quickly, and a part of that for any customer is the ability to speak to a human being and understand what will happen as a result."

People first

There must, Chauhan says, be a focus on simplicity, and ideally a more aligned approach for the reporting of fraud across the industry. And, while management should consider expanding teams to deal with the increased fraud threat, this should be balanced with the additional training and background checks required for new staff.

"Firms need to ensure they have up-to-date policies on their intranet and that staff are given training to observe systems for verifying whether instructions and requests are genuine," says Charles Lazarevic, Director of forensic accounting firm Vero Consulting. "This particularly applies to new and temporary staff.

"Not enough verification of past employment and background checks is carried out before full-time and temporary staff are taken on. This is another area of vulnerability, in my view."

A time to adapt

While many organisations are reviewing their defences, remaining vigilant against fraud during a pandemic is about cultivating a similarly mercurial ability to adapt.

"Many of our clients are reviewing their defences – looking at their cyber policy, reviewing their controls, making sure that people are using secured internet connections and things like that," says Wilson.

"Where existing procedures no longer work, they need to be amended to ensure your business remains secure. It's about reviewing your processes and adapting them where needed, and inevitably the larger organisations are going to be more in tune with that."

"Many people are looking for good news and believing what sounds too good to be true, to be true."
Arun Chauhan,
Deputy Chair, Fraud Advisory Panel

The long road

While a pandemic doesn't last forever, it looks as though many of the changes in consumer behaviour seen over the past year might be here to stay. This brings with it the potential for things to get worse before they get better.

"I think fraud will increase, but I also think it will increase because we'll discover more historic fraud," says Chauhan. "We'll certainly see more data breach risks, which will lead to personal data being compromised; phishing and malware will increase for businesses and individuals.

"I also think we'll see an increase in insurance fraud. Money is so short for so many businesses that people will do desperate things to survive. The main driver for fraud is not usually greed but pressure."

It paints a bleak picture, but there is some good news to come out of 2020 namely, Chauhan says, that the topic of fraud is now higher up the agenda in boardrooms across the country.

"Banks are doing a lot more around educating their teams to make sure they're helping customers," he adds. "I think the issue has been heightened to the point that they're also doing more in terms of additional implementation of warnings for customers and education around what staff need to do if a customer reports an issue.

"My crystal ball prediction, though, is unfortunately more litigation on fraud for banks, and increasing fraud more widely. People are desperate to have good news stories in their life; a good deal, a good investment – so they're often parting with money without seeing the usual warning signs." CB

SPECIAL REPORT

Catch-22: Data protection and the fight against fraud

With the government facing calls to appoint a minister for tackling scams due to rising fraud, the conversation around where the accountability should lie is heating up. *Chartered Banker* examines the balance of responsibility when it comes to fraud prevention and detection, and what banks' obligations are in ensuring their customers have the necessary skills to identify a scam before it's too late.

"What COVID-19 has done is provide fraudsters with another avenue to use," says Jonathan Fisher QC, a practising barrister at Bright Line Law and Visiting Professor at the London School of Economics who teaches theory and practice around financial crime.

"It's given them an opportunity to make false representations about projects; organised criminals claiming to be involved in producing drugs and supplying medicinal products for COVID-19. In short, the pandemic is another vehicle for fraud. I'm not going to say that it's going to lead to much more fraud than we would otherwise have; I just think it presents different ways of doing it."

With an increase in instances of certain types of fraud, including impersonation and investment fraud, a number of experts and commentators are warning about the various opportunities available to criminals seeking to profit from the confusion caused by the disruption to normal life.

"First-party fraud, in particular, is a key area of concern," says Jake Plenderleith, Editorial Manager, International Compliance Association. "As the financial impact of the pandemic bites, including job losses and extended furlough schemes, the number of those committing first-party fraud will increase.

"It's also likely that some individuals within firms struggling under the difficult circumstances caused by COVID-19 will be tempted to commit fraudulent activity. New threats spawned by remote working were particularly prevalent during the initial lockdown. As people have grown accustomed to working remotely their understanding of potential fraud has improved, but the threat remains."

Scam-infested waters

The new opportunities for scammers are reigniting the conversation around where responsibility for preventing, investigating and detecting fraudulent activity should lie. With online investment platform AJ Bell urging the government to appoint a minister for tackling scams – in response to a Work and Pensions Committee inquiry launched in April 2019 – the industry is struggling to pinpoint who should be responsible for these kinds of attacks.

"When it comes to fraud, we've got to be careful in this country not to abandon the notion of the public sector role for policing."
Jonathan Fisher QC, Bright Line Law and LSE

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"The financial uncertainty created by the COVID-19 outbreak is like blood in the water for scammers," Rachel Vahey, Senior Technical Consultant, AJ Bell, told the Work and Pensions Committee in October. "Millions of people face the prospect of unemployment, losing their main source of income and staring down the barrel of serious financial hardship. Such turmoil will inevitably see more people targeted by scammers, with their hard-earned – and sizeable – retirement pots likely to be a prime focus.

"We need, as a society, to take scams more seriously; to put our money where our mouth is. Creating an overarching role in Parliament – such as a Minister for Scam Prevention whose sole focus is stopping the ever-growing swell of scams – could be an effective way to help people protect their hard-earned wealth."

Banks are, naturally, obligated to publicise their fraud-prevention and detection strategies. Last year, the Financial Conduct Authority (FCA) published a resource "to compare how banks protect their customers against fraud, and to help customers make bettered informed choices about their banking providers".

But how far, exactly, should their fraud-fighting measures extend, and is there a danger of putting too much responsibility for criminal activity on private firms?

"Society has forged banks a privileged position in the marketplace and, of course, the banks benefit society by playing their role in the capitalist system," says Fisher. "There does, however, have to be something in return. The directors of banks have a duty to safeguard the banks' assets. I don't have any problem conceptually with the banks being under an obligation to prevent fraud, but we've got to be careful in this country not to abandon this notion of the public sector role for policing."

Window into the future

According to Fisher, those appearing to apportion the blame for fraudulent activity on the banks themselves must remember that they are the victims, not the perpetrators.

"I'd use the analogy of the homeowner who leaves a window open," he says. "It's not a clever thing to do and it may be a breach of your responsibilities, but if a burglar gets in there would be an onus on the police and law enforcement to support and investigate. They wouldn't turn around and say they weren't going to do anything because you left the window open."

Plenderleith agrees, and says while banks cannot be held fully responsible for their customers' behaviour, it does not absolve financial institutions of their duty to "furnish their customers with a thorough understanding of the threats they face, and the skills required to detect and prevent them".

He continues: "Banks have, over the past few years, been vocal in raising awareness of fraud to their customers. This dissemination of information is among a bank's chief responsibilities to its customers, not all of whom will be well informed on fraud. Banks must also have the

"Data sharing between government, banks and anti-fraud bodies is of inestimable value."
Jake Plenderleith, International Compliance Association

appropriate safeguards in place to make fraud harder to commit, simpler to spot and easier to report.

"Perhaps more could be made of case studies; there exists no more powerful a tool to inform a bank's customers of the terrible damage fraud can inflict than real-life examples."

A question of cash

It comes back, Fisher believes, to the investment that organisations and institutions are making in fraud prevention and detection – or the lack of it.

"I think the problem we've got is a resource problem," he says. "There are limits to how much money is available and the way we've configured our investigation framework is such that we're not really permitting the investigating authorities to take directly any benefits from any money recovered, so the level of resource they have is finite.

"It's well known that fraud has not been prioritised throughout the constabularies. There's been a lot of discussion about Action Fraud being under-resourced and not delivering. The budgets of the Serious Fraud Office and the City of London Police are not as high as they should be.

"If you look across the board, there are resourcing issues that have been around for a very long time and are probably going to get more acute. I think it's true of the revenue as well. The revenue in terms of their investigation are under-resourced, so they struggle to deliver."

An artificial intelligence?

Arguably the biggest challenge going forward, regardless of where the responsibility lands, is the speed of technological advancement and the opportunities it presents to tech-savvy scammers.

"Criminals are typically among the first to assess these for weaknesses to commit fraud," Plenderleith says. "The challenge for government and financial institutions is to keep up with these technologies and ensure the appropriate measures are in place to prevent fraudulent activity, as well as educate the public on such threats."

'The old-fashioned way of doing things, when you went into your branch and spoke to someone who knew you, is gone now and the reliance for fraud prevention is almost completely on artificial intelligence [AI]," says Fisher.

"Now, although the banks do their due diligence in order to know their clients, they're not really able to know their clients as the result of relying heavily on AI and an algorithmic approach to loan and finance requests. Not enough is being done to analyse from a human perspective the information that banks have in their possession."

Catch-22

As banks face growing pressures to step up the fight against fraud, the reality, according to some experts, is a catch-22 situation in which they are obliged to capture data but often unable to use it effectively.

"When I've raised the issue of the Data Protection Act to crime, I've always been told that everything's done in a way to avoid data protection problems," Fisher says. "I'm sure that's right, but it makes it difficult to have coordination between the private sector and the public sector in a way that's transparent.

"I think it raises other issues. I think it's difficult for the banks. They're almost having to speak out of both sides of their face. One the one hand they want to cooperate and want to present a position to the public and the authorities that they are cooperating, but on the other hand a bank does have a relationship of confidence with its client.

> **"Not enough is being done to analyse, from a human perspective, the information that banks have in their possession."**
>
> Jonathan Fisher QC,
> Bright Line Law and LSE

"If I go to my bank, I frankly expect my financial arrangements to be held confidentially and to be revealed only as a result of a court order. I certainly don't expect my bank to be trading in information. And so I think they have a difficult role to play. They have a legal obligation to customers – commercial and individual – and also want to be socially responsible in dealing with the public in preventing a crime. There is scope for private sector and public sector cooperation, but it has its limits."

Sharing's caring

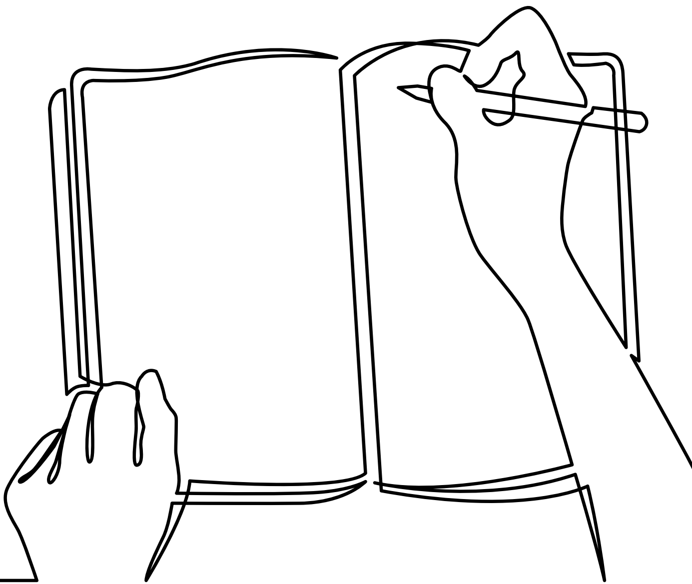
While financial institutions and government bodies face conflicting pressures over the use of customer data, what is evident is a need for a more joined-up approach across the board in order to more effectively predict, detect and minimise fraud.

"Data sharing between government, banks and anti-fraud bodies is of inestimable value. By collaborating, these groups can merge ideas and resources to create a strong, united front to prevent fraud," adds Plenderleith.

"Such collaboration also helps disseminate the message not only to staff in institutions but also the general public. A simple awareness of the risk posed by fraud can go far in preventing it from occurring." CB

SPECIAL REPORT

Joining forces



As opportunistic criminals continue to find ways to exploit a period of economic uncertainty, we ask what is being done from a regulatory perspective to tackle additional fraud risks. How are the Financial Conduct Authority and others working with government departments, the industry and fraud prevention organisations to identify and prevent sophisticated new threats?

A rise in cash-strapped businesses, government-backed support schemes and low interest rates are creating new opportunities for fraudsters to profit from the pandemic.

With impersonation and Authorised Push Payment (APP) fraud on the rise, financial commentators are also predicting a loss of billions through the Bounce Back Loan Scheme (BBLS) and Coronavirus Business Interruption Loan Scheme (CBILS).

Figures released by HMRC in September estimated that 5-10% of cash set aside for furlough schemes had been wrongly awarded, amounting to £3.6bn. Almost 10 million people across the UK had been supported by the scheme.

It's been an unprecedented time for many businesses, many of which are not only facing enforced closures and loss of income but are also navigating an application process for support that has been hurriedly implemented and presents a potentially high margin for error.

While much of the loss will be a result of what HMRC has called 'legitimate mistakes,' there is a growing number of criminals exploiting weaknesses in the system, which has received criticism for prioritising speed over adequate security checks.

Educate to regulate

There has also been a rise in investment scams, as investors and those hoping to grow their pension pots are – in the face of low interest rates – looking elsewhere for opportunities.

Regulators have, as a result, stepped up their fraud-awareness initiatives, including the ScamSmart campaign launched by the Financial Conduct Authority (FCA).

"The FCA was concerned from the outset that COVID-19 might increase the incidence of fraud, in particular, leading to a rise in 'too good to be true' scams and pension transfer frauds, with consumers prepared to take greater risks as a result of harder economic circumstances," says Mark Steward, Executive Director of Enforcement and Market Oversight, FCA.

"As a consequence, we have issued much higher numbers of alerts through our warning list. We also launched our ScamSmart campaign against pension transfer fraud with advertising across all media. The best way to frustrate fraudsters is to educate potential victims and our ScamSmart site is full of good, sensible advice on how to spot a scam and to avoid becoming a victim. The ScamSmart site is not only useful for consumers but also for firms looking to understand the different typologies of scam that we are seeing.

"Getting accurate fraud data is not easy. Reports of fraud to Action Fraud [the UK's national reporting centre for fraud and cybercrime] might suggest the incidence of fraud is increasing. Alternatively, that consumers are more likely to spot and report fraud than they were before, as not all reports to Action Fraud come from victims. Losses from unauthorised card transactions appear to have fallen during the pandemic compared

with the same period last year. But this may be because the opportunities for this kind of scam have reduced during lockdown."

There has also been updated advice from The Pensions Regulator calling on trustees to provide the first line of defence against COVID-19 related scams, prompted by the "instability of their employer or the financial markets". It has also pressed the need for pension managers and administrators to follow the Pension Scams Industry Group (PSIG) code of good practice when assessing transfer requests.

Calling it in

Another way regulators and various arms of the government are fighting against fraud during the pandemic is by making it easier for people to report suspected fraudulent activity.

The free COVID-19 Fraud Hotline was set up by the government in partnership with independent crime-fighting charity Crimestoppers in late 2020 to capture instances of suspected fraud and protect public cash.

"Fraud against the public purse denies access to vital funds that benefit us all," said Mark Hallas OBE, Chief Executive of Crimestoppers, in a government statement released in October 2020. "It's crucial that anyone who has information or knows of someone who has fraudulently claimed government grants or loans to contact our charity completely anonymously and tell us what you know."

Cabinet Office Minister Julia Lopez said in the statement on her website it was a "gross injustice" that fraudsters were taking advantage of measures set up to help support people who work hard to pay their taxes to get through lockdown.

"We suspect that criminals have been stockpiling cash during the pandemic and that some will attempt to invest it in legitimate, distressed businesses… for the purposes of making fraudulent applications."

Mark Steward,
Executive Director of Enforcement and Market Oversight, FCA

"We cannot let criminals profit from the COVID crisis, as every pound stolen by fraudsters could be invested in our vital public services," she added.

Stronger together

As regulators, fraud specialists and law enforcement grapple with a rapidly changing threat, the FCA says it is working closely with the National Economic Crime Centre (NECC) and the City of London Police to mount a coordinated defence.

"The NECC has coordinated and published centralised advice on behalf of its members, warning the public of potential COVID-19-linked scams," says Steward. "The NECC is running Project OTELLO, a campaign targeting fraudsters responsible for duping members of the public and businesses out of billions of pounds. The campaign is being led by the City of London Police and the FCA is supporting it."

Steward says the FCA is also busy with a number of fraud-related investigations and pending prosecutions, which can be difficult due to the challenge of locating evidence and persuading witnesses to speak out, often after the money has already been lost.

"We try to alleviate losses by taking proceeds of crime action against those who have been convicted," he adds.

"We suspect that criminals have been stockpiling cash during the pandemic and that some will attempt to invest it in legitimate, distressed businesses when opportunities arise. This includes organised attempts to gain control of otherwise legitimate businesses for the purposes of making fraudulent applications for loans under the CBIL and BBL schemes.

"We expect firms making loans under these schemes to manage these risks, including by carrying out appropriate customer due diligence and reacting to relevant flags and alerts, such as applications by new businesses." CB

SPECIAL REPORT

Countering CBILS and BBLS fraud

Government schemes to support ailing businesses forced to shut down operations as part of the coronavirus pandemic have barely been out of the headlines since being launched. With government loan schemes estimated to cost taxpayers £26bn in unrepayable debt, including millions unwittingly handed to fraudsters, how can both industry and individual institutions counter the threat?

The Bounce Back Loan Scheme (BBLS) and Coronavirus Business Interruption Loan Scheme (CBILS) have provided a lifeline for millions of businesses across the UK at a time when the pandemic forced operations for many to grind to an unprecedented standstill.

It has, however, come at a price. £26bn, as the National Audit Office has estimated, is the amount of taxpayers' money that many small businesses will be unable to pay back, as the full impact of almost a year of restrictions continues to be felt.

And, within that figure, a more sinister one. That of the billions of pounds that could have been lost to fraudsters cashing on the schemes, which have garnered some criticism for their hasty roll-out and flimsy onboarding processes of those businesses applying.

It's not just in the UK. Figures released by the US Small Business Association (SBA) and Office of Inspector General (OIG) revealed that, by July 2020, $14.3bn worth of Economic Injury Disaster Loans (EIDLs) were approved for applications in which the recipient bank accounts differed from the accounts listed on the loan applications. In addition, a staggering $58bn was distributed to applicants who had made multiple EIDL applications using the same IP addresses, email addresses, bank accounts, or businesses listed at the same address.

Bill Trueman, Joint Chief Executive, Association of Independent Risk & Fraud Advisors, has been advising on fraud strategy for more than three decades, and says that government-led schemes always come with an additional risk.

"What happened with the BBLS and CBILS is that the government has said it needs to get money out there to the people who need it," he says. "It's told banks to lend the money, which it will underwrite, and lenders have been told not to be discriminative because it wants to get the money out there.

"If it rolled out a scheme that everybody applies for and nobody gets because of the controls and processes within the banks, it would get huge criticism from the media and the opposition for not getting the money out there fast enough. Now it's getting criticism for sending money out the door. You can't have it both ways. You can't hand over money that quickly, in a social context, without making all the necessary checks, and not lose money."

The right motivation

While BBLS and CBILS had a bumpy launch – including a month-long period in which no system was in place to prevent businesses receiving loans from multiple lenders – experts say the schemes must be considered in the context of motivation.

"No one can deny that these schemes were properly motivated to respond quickly to SMEs and the people who are being affected most by COVID-19 in reaction to having to restrict business activity," says Alex Zuck, Head of Compliance Products at entity data specialist Bureau van Dijk, a Moody's Analytics company.

"The idea was obviously to move quickly to make sure the funds were distributed or set aside in order to support those businesses. However, these schemes have quickly become a target for fraud. Much like other government schemes, which are quickly put together with regards to rules and processes, not everything was thought through perfectly because timing was of the essence."

Can't pay/won't pay

It's important to point out, says Trueman, that much of the money predicted to be lost through BBLS and CBILS is not taken with fraudulent intention, and there are

"Taxpayers' money is at risk and it's critical that we are able to deter and detect as much fraud as possible, as often as possible."

Alex Zuck, Head of Compliance Products, Bureau van Dijk

increasingly murky waters between fraud, opportunism and plain ignorance.

"I think the vast majority [of loss] is going to be people taking it like a handout and not paying it back, not because they don't want to, but because they can't," he says.

"Alternatively, the money might have been spent assuming things will go back to normal within a couple of months. Many people believed that and would have taken the loans out on the basis that they just had to get through two or three months and then the loan would be repaid.

"There are going to be people who take the money knowing that they will not repay it, which is fraudulent. There are others who might apply because everyone else is doing so and the loan will help them limp on in a failing business, which really leans more toward abdication of responsibility."

Harnessing data

With awareness of fraudulent activity growing, public sector representatives including Meg Hillier, Chair of the Public Accounts Committee, are shaking their heads at the 'eye-watering loss of public money'.

But, as businesses struggle on through a financially brutal winter, how can industry and individual institutions counter the growing number of fraudsters cashing in on these schemes?

One step that can help protect lenders – and the public money in the pot – is leveraging data to analyse risk at the application or onboarding stage.

"Best practice involves knowing as much as you can about your customer at the first step," Zuck says. "That can take a really long time, but there are ways to leverage ready-made data sets, whether that is adverse media data sets or ownership data sets, which can really accelerate the initial onboarding process. It's about being very focused on understanding your relationship with your counterparty as you're onboarding.

"The concept that's emerging within the market is one of continuous monitoring. It's not sufficient just to know who you're doing business with and what risk they pose at the beginning onboarding step. What matters now is how to monitor that behaviour over time, to understand what changes about that relationship the next day and the next."

Zuck also says the vast numbers of applications that institutions are processing for BBLs requires a strategy that enables the segmentation of risk.

"You can't watch everyone the same way, especially for financial institutions that have lots of customers. You have to be able to segment the type of risk that you think you have within your portfolio. That's become increasingly important, especially as we are seeing rapid amounts of onboarding through these programmes, which is accelerating the new business relationship.

"Taxpayers' money is at risk and it's critical that we are able to deter and detect as much fraud as possible, as often as possible."

Damned either way

For many commentators, schemes supporting businesses through a crisis the scale of which we saw in 2020 come with unavoidable risk, and one that will continue to present challenges as we contemplate post-COVID-19 life.

"The only way to protect against fraud – and detect fraud earlier – is to introduce proper lending criteria," says Trueman. "This is what banks do anyway, but in this instance it was not what the government wanted.

"The government can't say they're going to hand out money because that's a bottom-line cost, so they make it a loan rather than a handout. They've done it probably for the right reasons, but the reality is that they're damned if they do and damned if they don't." CB

NO CASH, NO VOICE

Protecting the unbanked from the move to digital

The journey towards a cashless society has been supercharged by the coronavirus pandemic. What does the future hold for the 1.7 billion citizens worldwide who, according to the World Bank, don't have access to a bank account, including more than a million in the UK?

Cash is king, as they say. According to the World Bank, an estimated 230 million people continue to pay cash into the private sector, and more than a billion use cash when paying for utilities.

But, as retailers shut down cash payments and the pandemic pushes us towards digital transactions, economic and policy experts are issuing stark warnings about where the death of hard cash could leave more than a million Britons unbanked.

Link reported that ATM transactions fell by 62% year-on-year at the start of lockdown, with the majority of customers content to switch to digital payments and contactless technology for their everyday essentials.

But the Access to Cash Review, published in March 2019, found that one in six people were not ready to go completely cashless and were finding already challenging economic circumstances made worse by logistical restrictions and an unprecedented turn away from cash.

Cash-free zone

"I think the pandemic is accelerating a trend that we were already seeing, whereby more people are conducting more transactions without cash," says Oliver Pearce, Policy and Propositions Manager, the Money and Pensions Service.

"In some cases, we've seen that retailers are not accepting cash any more, and that's clearly a concern for people who are reliant on it. Quite often we see that peoples' vulnerabilities are multiplied so it might be elderly people, people living in rural areas, people living in poverty, and they're dealing with lots of different kinds of issues. If they can't get a hold of cash, because there are fewer bank branches and fewer ATMs, and they haven't got someone who can help them out, then they're going to be in difficulty."

Margaret Miller, Lead Economist, World Bank, says such a rapid shift to increased reliance on digital payments brings risks as well as opportunities.

"For those consumers who have remained outside of the formal financial system and lack either a bank account or mobile money account, they may find it more difficult to conduct business, receive government transfers or take advantage of new opportunities such as shifts toward ecommerce and other digitally enabled business models," she says.

Miller references a recent report by the World Bank and the Cambridge Centre for Alternative Finance (CCAF) and supported by the UK Foreign, Commonwealth and Development Office. The report showed that 60% of financial regulators across 114 jurisdictions had seen

increases in digital payments and remittances as a result of COVID-19.

Pearce adds: "I think there is a danger that, if the trend for cashless payments continues, those people reliant on cash could be left high and dry. Yes, it makes life easier for most people to go cashless, but for those who are unbanked and/or reliant on cash, we need to ensure that extra support is given."

The shift risk

Over the past decade, FinTech has provided new ways to extend financial inclusion to many of the unbanked demographics across the world. Findex data has shown that, between 2014 and 2017, the share of adults in Sub-Saharan Africa with a mobile money account nearly doubled, reaching 21%, while the increase for traditional financial institutions was only 4%.

> **"A rapid shift to digital channels creates challenges for consumers who are new to these services and may be accessing them through unsecure Wi-Fi connections."**
>
> Margaret Miller,
> Lead Economist, World Bank

As in all aspects of life, however, COVID-19 has had an impact.

"One of the ways it is impacting risks related to adoption of digital payments is through cybersecurity, since a rapid shift to digital channels creates challenges for consumers who are new to these services and may be accessing them through unsecure Wi-Fi connections," Miller says.

"Further economic hardships many people face due to COVID-19 impacts can increase vulnerability to fraud and scams. Strengthening financial consumer protection regimes as well as awareness-raising efforts and enhancing the financial capability of consumers who are new to digital finance are critical complements to other policy initiatives during COVID-19."

There is also, Miller says, the added pressure of regulators whose ears have pricked up due to the speedy expansion of digital finance. In particular, those related to data protection and privacy and the aggressive marketing of digital credit products.

Give and take

It's a changing landscape, with online banking options making life easier for many while leaving those reliant on cash out in the cold.

"If we see this trend continuing, and retailers no longer accepting cash, we're going to see some people who are already vulnerable finding it even harder to make purchases and do simple, everyday things," says Pearce.

"There are government initiatives and sector initiatives to try to support what is generally an agreed principle that cash should remain an accepted method of payment and that those who rely on it, and want to use it, can still use it as freely as any other method."

Community-led solutions

One initiative to support those reliant on cash – and hampered by a lockdown – was a government-led system by which those unable to access cash or a benefit such as a pension from the Post Office were able to have their cash delivered to them at home.

The Community Access to Cash Pilots (CACP) is another scheme aimed at supporting communities where it can be difficult to access cash as a result of branch closures or other logistical challenges. Launched last autumn, the pilots will be run in nine towns and cities across the UK, including Essex, North Yorkshire and Lanarkshire, to trial and test scalable solutions to keep cash viable.

"We know that, in many communities, people would also like to use digital payments, but there is a reason that they can't," a CACP spokesperson said. "Our aim is to keep cash viable and also to give people choice. Some solutions might be to help give people confidence making digital payments through support or training by a trusted provider.

"People may not be aware of services that exist already, such as getting cashback or making a deposit at a Post Office. For small businesses that need to deposit takings, there are solutions other than going to a bank branch, such as deposit-taking ATMs, or even persuading a large local retailer to take in cash. These are just a few of the options available."

Pearce adds: "The focus (of CACP) is on communities where there is a known problem with people not being able to access cash very easily. It is trying to work with local retailers, financial institutions, and other types of organisations to see how access to cash can be improved."

NO CASH, NO VOICE

Throughout 2020, the Payment Systems Regulator and Financial Conduct Authority collaborated on a single database of cash access points in order to map out access to cash 'cold spots'. The database, which captured data on 19,000 bank, building society and Post Office branches and 60,000 ATMs, aimed to help coordinate a response to ensure cash-reliant individuals weren't denied access to their money.

Closing the gap

While access to cash remained at pre-COVID-19 levels for 99% of the population, it may prove a moot point in a situation where cash payments are increasingly rejected. So how can the banking industry itself connect with those who remain unbanked, and what role does technology have to play?

"Financial services providers of all types – banks, microfinance organisations, mobile money providers, ecommerce platforms and others – are working to close the gap in access to formal finance, leveraging technology for greater convenience and lower cost services," explains Miller.

"One of the ways policymakers are responding to these difficulties [faced by the unbanked] is by making it easier to open small-balance accounts remotely. For example, the Central Bank of Egypt launched an e-KYC [know your customer] solution to facilitate the electronic opening of bank accounts, while simultaneously increasing transaction limits for mobile financial services."

Temporarily waiving fees and increasing transactions limits are other policy responses that have been adopted to facilitate increased use of digital payments and help protect vulnerable groups within societies that are moving away from cash.

A targeted approach

While there has been a rise in the number of people opening basic bank accounts in the UK, Pearce says the pressing concern is for the more than one million who still don't have any type of account.

"For people who maybe have a Post Office card account and don't do much formal banking, setting up a new account might be quite tricky," he says. "There is a job for all of us across the sector to support that kind of a transition."

Miller, meanwhile, says it will require targeted interventions and significant market knowledge to ensure that people aren't left behind in a post-cash world.

"The unbanked are increasingly found among the 'last mile' and especially hard to reach due to geography, culture, accessibility/disability or other issues," she adds.

"Targeted interventions will be needed to continue to close the gap and this will require a keen understanding of these markets and consumers. Demand-side analysis and data, including qualitative data from focus groups, interviews and other similar techniques, will be important for understanding needs and delivering digital financial products that provide sustained value.

"Access to technology will also be a critical factor including low-cost mobile phone options, reliable access to cell phone signals, affordable internet connections and even reliable access to electricity to power phones and payment networks." CB

> **"I think there is a danger that, if the trend for cashless payments continues, those people reliant on cash could be left high and dry."**
> Oliver Pearce, Policy and Propositions Manager, Money and Pensions Service

THE DAVIDSON COLUMN

Protecting people's pensions

By raising awareness, working in partnership and supporting people's financial well-being we can help protect people's pensions and retirement savings from scammers says Sir Hector Sants, Chair of the Money and Pensions Service.

According to the Financial Conduct Authority and The Pensions Regulator, more than £30m has been extracted from people's pensions by scammers since 2017. For those affected the amounts are life changing. The terminology may imply that pension scammers are simply opportunists, operating in an uncertain climate and tempting people who should know better. The reality is that we are dealing with highly organised and sophisticated criminals who prey indiscriminately on our deepest financial fears and exploit our insecurities.

I use the words 'life changing' deliberately as the after-effects of pension and investment scams are devastating. Many victims are filled with shame and never tell anyone and, in many cases, this has a significant and lifelong impact on their physical and mental health and their financial well-being.

When I became Chair of the Money and Pensions Service (MaPS) two years ago, I was told that 24 million adults didn't feel confident talking about money and our recent survey of 5,200 people in the UK showed that the lack of conversations was still a major issue.

"Everyone's financial well-being can be vulnerable at some point in their lives. This is something that scammers will rely on."

Prior to the COVID-19 pandemic we released our 10-year strategy, focused on improving the UK's financial well-being and working with the sector to enable people to tackle complex money challenges. Improving financial well-being is a key component of the UK's economic recovery, not least because of its impact on productivity. Research from Aegon found that businesses lack both confidence and knowledge to deal with this issue, despite the fact that 4.2 million days of work are lost each year due to poor financial well-being. This is estimated to cost employers £626m per annum.

Everyone's financial well-being can be vulnerable at some point in their lives and we know that around 47% of people don't feel confident making decisions about financial products and services. If a person's financial well-being is low, it may make them vulnerable to pension scammers, who are adept at manipulating their victims to gain access to their pension pots. The pensions market is worth around £4.5tn, so there are ample opportunities for scammers to try their luck.

MaPS' aim is to improve financial well-being, to help people feel secure, in control and build resilience for when things go wrong. We want to create an environment where people are more engaged with their money, pensions and planning for their future. We want them to know how and where to seek expert guidance before making big decisions. We also want them to be able to spot the tell-tale signs of scams. We want people to feel confident enough to question what they are being told and be empowered to take key decisions safely.

The financial well-being agenda is complementary to the retail banking sector's focus on customer vulnerability and financial inclusion and we believe these inter-connected agendas must be tackled together.

Through the UK Strategy for Financial Wellbeing we are working with a range of partners from diverse sectors, including retail banking, which is uniquely placed to help millions of customers take control of their money. To support that work, we set up Challenge Groups earlier this year comprising 140 leaders from across the financial services, the third sector and beyond.

The groups were put in place to create solutions to drive progress towards five ambitious national goals set out in our 10-year strategy: meaningful financial education, creating a nation of savers, everyday use of credit, better debt advice, and getting more people planning for the future and in retirement.

A key part of the MaPS strategy is the 'Future Focus' agenda for change. With retirement potentially lasting more than 30 years, and with the current climate being so uncertain, more people will have to make complex decisions about their spending, savings, investments and pensions. MaPS will be working with its partners and stakeholders to ensure that as many people as possible have access to the guidance and tools they need to make the best choices.

We can beat the pensions scammers by continuing to raise awareness of the issue and guiding consumers to The Pensions Advisory Service, which runs a dedicated scams appointment service. CB

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INVESTING IN A BETTER WORLD

The new generation making an impact

Experts believe we are entering the biggest transition of global wealth in history, with trillions of dollars to be inherited by the families of high net worth [HNW] baby boomers in the coming years. As a new generation of investors prepare to take the helm, and demand for ESG-linked impact projects grows, how should private banks and family offices be adapting?

While commentators disagree on the exact timing and amounts involved, a giant wealth transfer between the generations of high net worth [HNW] families is under way. Baby boomers are predicted to transfer between US$40-US$68tn over to the next generations over the next couple of decades.

Viola Steinhoff, Head of Global Next Generation and Families, Credit Suisse, predicted it will be "the biggest transition of global wealth in history". And, while Gen Xers are expected to inherit most of it, a sizeable chunk will also go to millennials – the generation often considered to be the most concerned with issues such as climate change and sustainability. It is this shift in priorities, it has been argued, behind a growing demand for a greater variety of options linked to environmental, social and governance (ESG) concerns.

"There is definitely an increasing demand for sustainable and impact investing," says Paddy Lewis, Partner at specialist consulting firm Sionic. "That's increased exponentially over the past two years, and that curve has got steeper as a result of COVID-19. Everybody, from governments to corporations, is taking this enforced stop to have a proper look at what

"There is simply so much demand that impact has become impossible to ignore."
Douglas Hansen-Luke,
Exec Chairman, Future Planet Capital

INVESTING IN A BETTER WORLD

we're doing here and how this ultimately looks from the perspective of sustainability and climate-change issues.

"I think it is being partly driven by the younger generation urging the older generation to do something, and events like the climate summit and other forms of activism and the outpouring from people around the globe has definitely had an impact. I don't necessarily believe, however, that it is the next generation that's solely responsible for driving that message."

A shared vision

The idea that younger generations have a conflicting set of priorities when it comes to investment, and their older counterparts aren't interested in impact projects, is arguably a crude analysis. Often, families are working together across generations to realign their values and the ways in which they hope to use their investments in order to create a healthier, more sustainable world.

"Interestingly, we're seeing that millennials have the full support of their parents and the older generation in their quest for a better world," says Douglas Hansen-Luke, Executive Chairman, Future Planet Capital.

"The proportion of billionaires who are self-made has increased substantially over the past decade. These individuals may have been too busy to follow up on impact and philanthropy during their early careers, but it doesn't mean that it's not important to them. Now that they near retirement they work in partnership with their children and grandchildren on impact causes. A clear example of this would be the numbers whose families support them to attend the Harvard Next Generation classes or organisations like our own, where we work with all members of the family once they invest."

private banks and family offices is the difference in risk aversion between two – or even three – generations.

"If you think of a 60-year-old investor reaching retirement age, they want their investments to be doing well," says Lewis. "If those investments have been in an ISA or a SIPP, there's no reason why they couldn't just switch their focus from their current strategy, which may have Godless investments in it. They could flip that across to entirely virtuous investments and wouldn't have to suffer any type of capital gains tax or liability to do that.

"But if that money isn't sitting within one of those structures, are they going to be prepared to pay potentially large amounts of tax in order to change that investment portfolio and reflect their views from an ESG and sustainability perspective? I think some people absolutely would; that it would be a sacrifice they were willing to make. For other people, that could be a lot of money and they would question how that fitted with their ability to live in later life."

Regulation for innovation

Ultimately, Lewis says, what will change cross-generational investment behaviour is a greater shift from the regulators.

"The big drivers of change are tax and regulation. That is what will ultimately change behaviour faster than many other things."

"When I talk about regulation, I talk about it in the context of the organisations that work on behalf of private investors. From 2021, they will be required to ask if investors want to take ESG issues into account in their investments and the mandate they have with them. The answer, I think, will predominantly be yes. The difficulty

"The big drivers of change are tax and regulation. That is what will ultimately change behaviour faster than many other things."

Paddy Lewis, Partner, Sionic

will be the ability to provide investment solutions that match those requirements."

The onus, then, is being placed on the institutional asset management industry because, Lewis says, "they ultimately control a very big share of investor assets".

He continues: "You're not going to solve the issue of climate change by ensuring that you and I are making sure that what we invest in is in line with the

Frédéric Rochat, Managing Partner, Lombard Odier, made a similar point. "While older generations are sometimes divided over issues such as climate change, with the new generation of HNW individuals, they are all aligned on climate change being real and the need for it to be addressed," he says.

The long and short of it

While Gen Xers and millennials are increasingly leaning towards ESG-linked projects, one of the challenges for

UN sustainability goals. The big majority of private investors are investing through funds run by asset managers, so they ultimately have to lead on this."

Supply-demand imbalance

While there are a growing number of private banks operating in the ESG-impact space – and many traditional banks operating forward-thinking products and platforms – one of the barriers to sustainable investment is a lack of available products.

"There is plenty of client demand but the market is product or supply-constrained," says Hansen-Luke. "The biggest challenge for private bankers is that impact is something that the majority of their clients want to talk about, but there are few investable products in this space. Impact funds tend to be in niche areas and run by relatively new managers.

"The combination of insufficient scale and lack of track record has become a hurdle. Our own solution has been to link impact with innovation from top universities and centres of innovation. This provides track record, branding and significant deal-flow. That is our strategy to deliver scale, but for every manager and for every bank I'm sure there'll be a unique supply-side solution. There is simply so much demand that impact has become impossible to ignore."

Raising standards

One of the challenges of bringing such products to market, says Lewis, is a lack of consensus around standards, including naming conventions and the criteria for what is a deemed a 'true' sustainable investment, rather than what could simply be an attempt at greenwashing.

There is also the grey area of investments in traditional companies, which may not be environmentally friendly but are themselves investing in the transition to a cleaner, greener future.

"It's the old question of would you invest in an oil company that's spending a lot of money on renewables in order to produce the renewables that will eventually replace the traditional energy sources supplied by oil companies?" says Lewis. "Some would say yes and some would say no."

Evolve or die?

As the investment industry reaches a crossroads, private banks and family offices are feeling growing pressure to adapt to the preferences of new generations of clients. The past decade has, however, seen a substantial move in the direction of greener, more sustainable finance.

"I think offerings are reasonably well advanced," Lewis says. "If you look at the UBS Global solution, they put sustainability at the forefront of everything they do. It is not just a satellite solution; this is front and centre. I think that's potentially a game changer.

"The biggest challenge for private bankers is that there are few investable impact products in this space."
Douglas Hansen-Luke,
Executive Chairman,
Future Planet Capital

"Groups like BlackRock and Schroders have a fairly advanced core offering, then you have the likes of Rathbones, with their Greenbank Investments platform, which has been around for a very long time. To the question, 'do banks need to evolve?' I think a lot of that is already happening."

Hansen-Luke agrees, and draws on the example of the work his team is doing with Barclays Private Bank around infectious diseases and climate change.

"Their clients have shown strong interest in this area and have begun investing as well as simply learning and listening," he says. "In our experience, Barclays has been a leader in this.

"For the banks as a whole, impact has moved from being the preserve of a specialised department to becoming a concern of top managers and their department heads. The next step will be incorporating impact and profit at all levels so that relationship managers actually have products that enable them to prove the mantra of 'doing well out of doing good'.

"To be sustainable you have to be able to pay the bills year after year. There's nothing sustainable about a loss or laying off employees and disappointing customers. To grow, impact investing needs to emphasise profits and prove that it can be sustainable financially as well as in all other aspects."

The industry, it seems, is in agreement on the need for an investment redesign in favour of putting ESG issues at the forefront.

"The bigger question," adds Lewis, "is do private banking clients necessarily want to change the way they invest for the purpose of having a better world? That remains to be seen." CB

REVOLUTION TO EVOLUTION

Banking partnerships realigned for the future

What started out as rivalry between traditional banks and their FinTech disruptors may have turned a corner, thanks to the catalysing effects of a global pandemic. Will more progressive partnerships now define our post-COVID future?

In August 2020, the 10-year-old 'new bank on the block', Metro Bank, announced that it had agreed the terms for acquiring the RateSetter peer-to-peer lending platform in a bid to enhance its reach with unsecured lending capability. As a sign of the enduring viability of RateSetter – itself a decade old – Metro Bank's potential spend totalling more than £10m by year three of the transaction is to be closely tied to a series of key performance criteria.

While not in itself an industry first, Metro Bank's move is just one example of how dynamic the challenger banks and FinTech environment has become. Technology-led challenger banks have grown in confidence, custom and regulatory clout over the past decade, and while it makes business sense to expand and diversify offerings, strategies like this are at least as much, too, about the access to better technology and how that can help future-proof the business.

Indeed, Daniel Frumkin, CEO, Metro Bank, described the prospect of acquisition as giving them access to a "strong technology platform and a talented team [with] deep experience in the consumer unsecured lending market".

Not all challenger banks are seeking to increase market share by focusing on a specialist lending proposition. The fiercely ambitious Starling Bank has embraced a more holistic banking model in its six short years of existence, preferring to woo both retail and business depositors as well as forge its own tech-led path in the payments and lending space.

For Starling's CEO, Anne Boden, recognition (and ultimately a FTSE listing) as a respected and serious player in the UK banking market is not currently going to be achieved by riding the technological tide in an effort to lift all FinTech boats. For her, the target is profitability for Starling alone, and the company's priority remains one of competition over collaboration.

Both banks' cases do, however, reveal a clear direction of travel that has dogged incumbent banks for a number of years. Whether focusing on one market-leading offering, or taking on the 'old guard' at their own game but with new and improved tech, they have repeatedly been seen to set the recent agenda while the established banks fight to get their oversized oil tankers to change course and reset their own propositions.

The COVID effect

Enter 2020, however, and what might have happened to change the market dynamics? A fair conclusion to draw is that digitally native challengers and FinTechs have been able to capitalise on the near-wholesale evacuation of banks' customers from the high street to the home during the pandemic – not to mention the dramatic drop in use of hard cash. It's a view echoed by Iana Vidal, Head of Policy & Government Affairs, Innovate Finance, the independent industry trade body tasked with supporting the future of FinTech in the UK.

"Interestingly during this pandemic," says Vidal, "we have seen a significant cohort of customers rejecting mainstream banking services. Some people don't have bank accounts because of socio-

economic circumstances, but they may not want one either, so will use payment providers instead.

"This market has grown during the pandemic and industry regulators have noticed that it's the challenger banks that are trying to think more about being inclusive to customers like these. There's a financial inclusion element they're trying to meet, for sure, but equally they're being smart about the fact that they're developing something new that the larger institutions either just don't have the capacity for, or have just historically ignored."

The data for current account switchers, Vidal adds, also shows that even circumstances such as COVID-19 haven't hindered the defection of customers to challengers – particularly in business banking – as they discover that many are also able to offer government-sanctioned business interruption or bounce-back loans. "We can see that churn and disruption in the market."

There is another angle to the dynamics of 2020, however – one that focuses more on the disruption being seen in the economic cycle. Tom Macdonald, Banking and Securities Partner, Deloitte UK, argues that the 'neobanks' could experience greater challenge in the current economic downturn because many are by nature pre-profit businesses.

"It's fair to say that COVID-19 has disproportionately challenged neobank models," Macdonald says. "It hasn't been good for any banks, of course, but it has caused more of a dislocation for neobanks, for example, in product areas such as travel money.

"The foreign exchange rates they can offer alongside multi-currency facilities are very attractive to today's demanding consumer, but because people are travelling less, payment volumes across Europe are down. It's just one example, but it demonstrates how the adverse trading environment is currently very unhelpful for pre-profit businesses like neobanks."

"It's fair to say that COVID-19 has disproportionately challenged neobank models. It hasn't been good for any banks, of course, but it has caused more of a dislocation for neobanks."

Tom Macdonald,
Banking and Securities Partner at Deloitte UK

Certainly the investment figures for FinTechs don't look great in the UK. A joint report by Qadre and techUK indicated in May 2020 that "68% of founders say they have missed out on up to £500k in funding. Extrapolating that by the number of FinTech businesses in the UK, it is estimated that over £1bn of UK FinTech investment could be lost because of COVID-19".

Incumbents: fundamentally strong

In the gloom that characterises current market conditions, though, what does the community of traditional banks have in their own armoury that gives the industry room for optimism?

Simon Moss, a US tech commentator and CEO of Symphony AyasdiAI, a financial services-focused artificial intelligence company, puts the incumbents' strength down to a wealth of "domain expertise". It's their very caution about where and how to strategically invest in tech that demonstrates how much they understand the material business value of such a commitment – typically more than newcomers who are all too easily wrapped up in abstract technology to have a plan.

Despite the prudent approach we see on the outside, he argues, traditional banks are either exploring or investing in tech and data science on a scale that dwarfs anything the newer industry entrants can match.

Innovate Finance's Vidal also sees data as a core weapon that incumbents need to exploit. "Large institutions are sitting on a gold mine [of data]," she says. "Now that they see players like Google, Apple and Facebook moving into financial services, payments and cloud, they are recognising what large institutions with access to vast amounts of data can do.

REVOLUTION TO EVOLUTION

"I'm certain that they are thinking how they can emulate Big Tech. The regulatory argument on where they should sit is happening very publicly, but equally we know they are all working on how they can harvest data and use it smartly."

Macdonald adds: "The banks have their own due diligence teams to ensure they're looking in the right areas of tech before investing. Their ultimate aim might be outright acquisition, but more commonly it's a minority investment or joint venture – or even just a commercial contractual agreement."

Partnering for change

The conclusion we might draw from this is that both sides – challenger FinTech and incumbents alike – have had to weather the headwinds of pandemic, economic, technological and regulatory pressure in the fight to advance their own causes. However, there is a growing and common realisation that their future success is likely to be more connected than has been appreciated to date. Enlightened, progressive partnerships are the most likely route to future prosperity.

Financial guru Chris Skinner, writer, blogger and businessman who is sometimes dubbed the 'Godfather of FinTech', encapsulates succinctly where he thinks the industry sits at present.

"There are two things happening in the industry right now. Firstly, it's quite obvious that the FinTech community began with the naïve attitude that they could destroy banks. Then they grew up and realised that they actually needed to work with the banks. Once they learned that lesson, they realised that banks are actually managed and regulated in the way they are for a reason. It's all to do with trust and security.

"So they moved in phases from a 'we will destroy banks' position, to 'we want to work with banks', to 'we will partner with banks in many cases', to the point where we'll move in a few years to a market where we no longer talk about FinTech – but banking integrated with technology."

While Skinner is more ambivalent about the speed and success of UK incumbent banks in transforming their models to adopt FinTech ("they are still trying to work out who they are in the wake of the 2008 financial crisis"), he cites a number of foreign incumbents as demonstrating a smarter partnership model – most notably BBVA.

BBVA adopted a carefully managed five-stage FinTech engagement model that took the business through exploration of the market opportunities; discussion with those attractive prospects; investment in a particularly well-performing business; integration of the business as a strategic partner; and finally, wholesale acquisition of the business.

In 2019, BBVA had been taking such steps, leading to the potential acquisition of the UK digital-only bank, Atom Bank. The long-familiar subplot of Brexit and its related uncertainties, however, meant that BBVA stopped short of full acquisition, keeping its stake in Atom at 40%.

In her work at Innovate Finance, Vidal sees more of a groundswell of UK-based partnering activity already: "We all know that, if you're a large institution like HSBC or Barclays currently embarking on an digital transformation programme, it's something that takes an enormous amount of resource and staff time, and which will take a number of years at least to come to fruition.

"With such tech transformation projects, you never quite know where they're going to end up. But many of the larger institutions are now looking to the FinTech sector with their proliferation of B2B FinTechs as well, and looking at what their challenger bank competitors such as Monzo and Starling are doing to attract current account switchers."

Partnering, she adds, is also important in the context of understanding the difference between banks' back-office operations such as onboarding customers with KYC (know your customer) screening checks or adopting cloud providers, and the customer-facing propositions that benefit product choice and functionality.

The latter approach is well demonstrated by the work that Barclays is doing with Scalable Capital on investment products for their customers, where the aim is to boost inclusion for the retail customer looking for a simplified way to grow their wealth.

A different partnership with the front end in mind has been cultivated between NatWest and New Zealand-based FinTech, CoGo, to enable customers to calculate the carbon footprint left behind by their current account spending activity.

A future defined by collaboration

The premise of partnering between FinTechs and incumbents, then, is widely understood to bring benefits of a particular nature to each party. But it is also clear that the current headwinds such as COVID-19, mounting debt, tech legacy hurdles and regulatory frustration – not to mention straightforward competition for market share – has complicated the relationship between the challengers and the disruptees in banking.

> "It's quite obvious that the FinTech community began with the naïve attitude that they could destroy banks. Then they grew up and realised that they actually needed to work with the banks."
> Chris Skinner

And while tentative partnerships are already reaping rewards for some, has the volatility of the past 12 months realigned their nature more fundamentally?

Skinner is in little doubt about the direction of travel. "What we'll see over the next decade," he predicts, "is the integration of the FinTech concepts of products, services and customer experience with mainstream banking. What's actually happened alongside this is that, thanks to the pandemic, it has escalated the priority of making this innovation happen more speedily than before.

"Most banks during 2020 have also committed to cloud-based services," he adds. "Most banks are also trying to include far more mobile and digital servicing than they had available at the beginning of the year. Most FinTechs – if they are well funded and have a good business model – are getting investment to escalate their growth far faster than during the last decade."

But Skinner's note of caution is that partnerships need to be a marriage of equals if they are going to work. There are still too many examples, he says, of that lack of mutual respect which causes the relationship to falter.

The mutual interests between the two sides – whether or not accelerated by digital transformation under the conditions of a pandemic – are too strong to be hindered by lasting conflict, says Macdonald. "The larger banks see a cost-effective and clever way to improve customer service, and the FinTechs see it as a route to scale and a way to acquire customers. These are powerful reasons why the relationship should be symbiotic."

For Vidal, the blurring of the lines between old and new, thanks to work being carried out today, means that the next decade is positive for incumbent banks.

"Considering what it takes [banks] to build behind the scenes, within five to 10 years, we won't be talking about legacy systems any more. They will be completely transformed. It will be interesting to see how they'll operate compared with FinTechs, which will have become mainstream by then."

The benefits of collaboration are too tempting for the industry to risk fractious competition in the face of perpetual technological transformation. It seems that revolution may finally be making way for evolution. CB

"During this pandemic we have seen a significant cohort of customers rejecting mainstream banking services. Some people don't have bank accounts because of socio-economic circumstances, but they may not want one either, so will use payment providers instead."

Iana Vidal, Head of Policy & Government Affairs, Innovate Finance

COUNTRY SPOTLIGHT

Asia's leading financial light?

For centuries a vital strategic territory nestling conveniently among the most prominent commercial trading routes in the South China Sea, Hong Kong retains a sphere of economic and financial influence that far outweighs its geographical size. But is that influence finally about to change?

As if to set the scene for a bright future, global banking giant the Hongkong & Shanghai Banking Corporation (HSBC) declares on its website that a turning point in Hong Kong's long history of trade and commerce came in March 1865 – when the bank's Scottish founder Thomas Sutherland inaugurated a branch in Hong Kong to facilitate trade with Shanghai and London. While the birth of HSBC marked a hugely significant milestone in the territory's march to almost unrivalled regional trading and commercial influence in Asia, the signs of growth were likely always there.

In fact the geographical advantages of Hong Kong make it testament to an even longer pedigree of trading and financial activity over its history, though there is little debate that the ceding of the territory to Britain as part of the 1842 Treaty of Nanking provided a catalyst for accelerating its status as both a regional and global hub for commerce.

According to the Economic History Association, the 18-year period from 1841 to 1859 saw a rise in Hong Kong's population from 7,500 Chinese "and a handful of foreigners", to 85,000 Chinese and 1,600 from elsewhere. It was the shipping, banking and merchant companies that formed the bedrock of the local economy at first, while in the longer term there was a wider diversification into services, retail and shipbuilding.

The stage was set for steady growth and development, then. But for a tiny territory with no natural resources to speak of, Hong Kong was always exposed to the threats posed by economic crash and conflict; and come the 20th century, the Second World War and Korean War in particular left a growing population with a economy badly hit by conflict and a trade embargo respectively. It was the resilient and entrepreneurial spirit of Hong Kong's people that prevailed, however – helping the territory's fundamentally free-market model to flourish with a burgeoning manufacturing sector spanning everything from plastics to textiles. Add to this the vital benefits of a low-tax environment that rivalled its continental neighbours in Singapore and Taiwan.

The might of the mainland

Hong Kong's status today, however, arguably owes much to the good planning and rapid industrial development of mainland China. The People's Republic's own successful strategy of massive economic investment and growth in infrastructure from the 1980s right up to present day, prompted a steady erosion of Hong Kong's

own share in industrial output as cheaper plants and manpower were increasingly sought out across the border. This dramatically realigned the territory's economic model towards services, a trend that by 2018 had positioned the sector as providing more than 93% of GDP and manufacturing at 1%. But perhaps most notable is the financial and insurance sector's share of services, at 20%.

As a long-time resident of Hong Kong, veteran China analyst and a former President of the Bank of China International USA, Andrew Collier is no stranger to the dynamics that characterise banking and financial services in this part of the world. As Managing Director of Orient Capital Research, Collier provides regular commentary and insight into China's banking system, and its interplay with Hong Kong's changing fortunes in what is a fluid macroeconomic and markets environment.

"The most important event for China's integration into the globe was the entering into the World Trade Organization in 2001," Collier argues. "And that was essentially forced through by Deng Xiaoping and Premier Zhu Rongji who had a great deal of power and who were able to use the state system to significantly retrench the banks and other state corporates."

The resulting circumstances allowed foreign corporates to enter China under joint-venture schemes and gain significant market share in sectors such as automotive and technology. But it was not until after the 2008 financial crisis that China made significant stimulatory moves on its hitherto closed banking system to free up capital.

"China was desperate to stimulate the economy and resorted to essentially let a lot of capital flow through the shadow banking system," explains Collier. "This is like a hybrid between state and non-state actors, and that hybrid system grew tremendously from 2009 on, encouraged by the central government.

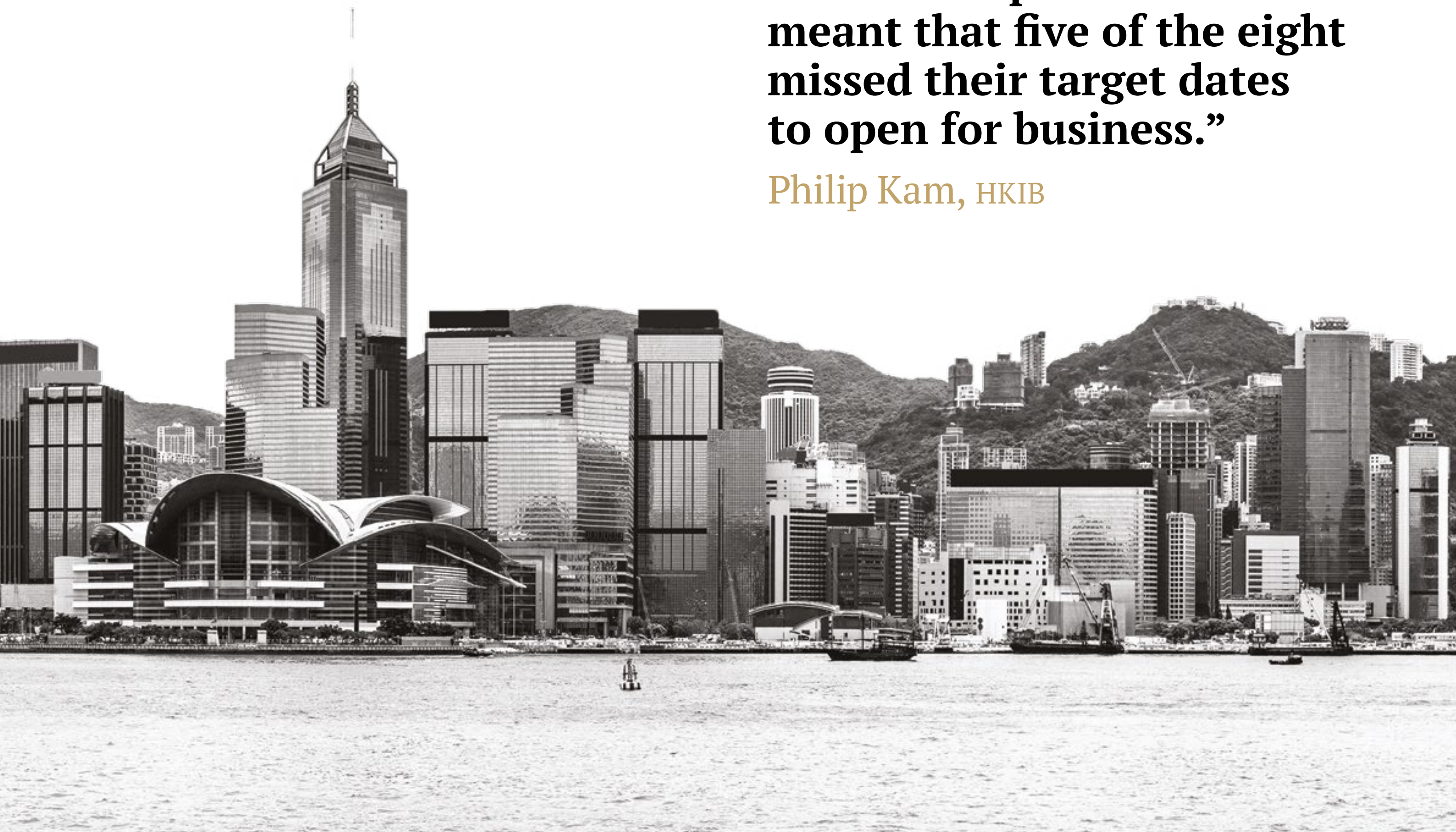
"But the end result was that the state banks gradually began to lose some market share and a lot of the capital domestically became a little bit more free-market-orientated in terms of lending and the securities business, as we see, grew quite substantially. So the financial system became quite large in the 10 years since 2009, and that has led China to grow its international presence ever since."

Hong Kong is, of course, tied in multiple ways to the fortunes of its brothers and sisters on the mainland, yet its hard-won status as a top-five global financial hub has to date been largely its own work. It boasts the rule of law as its guiding regulatory light, allowing the free flow of capital and people under a simple tax system. Figures from 2019 show the territory as having 164 major banks licensed there, and KPMG reports sector growth of licensed bank assets in that year of 4.8%, "with a growth of 6.4% in loans and advances".

So what might be changing today that raises questions about Hong Kong's future?

"Hong Kong actually issued eight new licences for virtual [digital] banks last year, but the disruption of this year including the pandemic, staffing and tech development has meant that five of the eight missed their target dates to open for business."

Philip Kam, HKIB



COUNTRY SPOTLIGHT

A new crisis of identity for Hong Kong?

For Philip Kam, General Manager, The Hong Kong Institute of Bankers (HKIB), the challenges are clear, if complicated.

"Hong Kong is probably number three among the big international financial centres in terms of output," he comments. "We've faced some big challenges this year, not least because of the COVID-19 pandemic which has impacted our operations extensively. The banking industry, along with the government, were among the first sectors to send everybody home to work remotely. And that basically accelerated the digitalisation transformation that banks are currently going through.

"Hong Kong also faced quite a bit of difficulty this past year because of the ongoing deterioration in the US-China relationship. This wasn't just from a trade perspective, but politically, too, and Hong Kong has been caught in the middle of that."

Add this to the social unrest that was seen on the streets of the territory in late 2019, when normal business operations for around 30% of banks with a retail presence were repeatedly curtailed as they shuttered up frequently amid the disruption.

The pressures of the past 12 months have, in Kam's view, been sufficient to lay bare the need for Hong Kong's banking sector to move with the times and embrace new technologies to remain relevant for the future. "Hong Kong actually issued eight new licences for virtual [digital] banks last year, but the disruption of this year including the pandemic, staffing and tech development has meant that five of the eight missed their target dates to open for business," he adds. Meanwhile, the disruption itself actually helped boost customer acceptance of digital-only services.

But while technology is a symptom of the territory's challenges to future-proof its financial sector and maintain its global status, the cause, says The HKIB, is quite clearly one of talent gaps. Given its role in providing high-quality training and skills development in the banking industry, the [Hong Kong] Institute provided logistical and data support as part of an industry-wide collaboration for a Hong Kong Monetary Authority (HKMA) Capacity Building Report, which came out in May 2020.

That report concluded that there were skills gaps in the industry across advances in technology and data; cross-border banking knowledge in the Greater Bay Area (GBA); and soft skills such as creativity. ESG and sustainable finance knowledge gaps were ranked fourth.

"So these are the areas that the government identified as requiring either retraining or reskilling among the workforce; or introducing new blood into the industry, whether it's from the university or from other industries such as IT," says Kam. "This is something that we at the [Hong Kong] Institute are trying to rectify now as a professional qualifications provider. A lot of the new training that we're putting in place is trying to address the shortcomings that were identified in the report."

The rise of China's own banking industry represents further competition to Hong Kong banks' regional market share, not least because of its progress towards a fully cashless society. China's giants of the digital retail world – including Alibaba Group and Tencent – have dominated consumer behaviour and the banking payments culture so much in recent years that Hong Kong's financial sector has been struggling to respond.

"The industry goal has always been to expand its financial sector into the GBA," says Kam, "so traditional banks have had to find a way to compete with ecommerce companies that provide financial services like payments and financing on one hand, and changing customer demands on the other."

The HKMA and government has since 2014 backed the cross-border 'Connect' initiative to help banks expand into the mainland market. Following the launch of Stock Connect and Bond Connect to link capital markets between the territory and the GBA which includes Macao and the massive Guangdong Province, the third and most recent initiative is Wealth Management Connect. "The set-up allows

Hong Kong citizens to invest in cross-border banking products while also offering mainlanders the chance to access products from Hong Kong banks," explains Kam.

And while this partnership between the People's Bank of China and the Hong Kong and Macao Monetary Authorities helps to surmount the huge regulatory differences in financial services between the mainland and the Special Administrative Regions, it is clear that the arrangement appeals especially to Hong Kong's more enterprising banks.

"This can only mean good things for Hong Kong, because Hong Kong's population is only 7.5 million but the GBA population is 75 million," explains Kam. "So we're talking about a potential market that is 10 times the size"

At present, due to regulatory restrictions, Hong Kong's virtual banks can only offer their services to Hong Kong residents. But the advantage of having a digital bank is that it's supposed to be scalable. The expectations, says Kam, are that the government will free up regulations to allow for the sale of digital products beyond Hong Kong to mainland residents – and eventually globally.

Reasons for Hong Kong's waning influence

Despite the initiatives that highlight increased cross-border activity as part of the greater good for the region's financial services sector, such progress is not quite so clear-cut as it might seem, according to Collier. His angle is that despite the inevitable shared future that Hong Kong will have with a mainland China, whose star seems to be perpetually in the ascendency, it's the international investors into Hong Kong who are dictating the future influence of the territory.

"A lot of the institutional arrangements that have been global within Hong Kong have, for some time, been declining," he explains. "I've worked for a number of Chinese securities firms and they're taking a significant market share from the Western banks – usually by paying much lower fees for a lot of key transactions like IPOs [initial public offerings]."

The politics of the region, too, have a particular direction of travel according to Collier, which means that the very things that make Hong Kong valuable to China are the very things that China can exert more influence over, to the detriment of the territory's own prosperity.

"If these advantages that Hong Kong has go away," he adds, "there's not much else that Hong Kong has to offer because the talent pool is expensive, the cost of living is very high here and a lot of international firms find it comparatively easy to operate in Beijing and Shanghai. That doesn't mean there's not an existing infrastructure, in terms of accounting firms, law firms and investment banks, with experience in national transactions that would exceed what we're seeing in the mainland – but the gap is narrowing a lot more quickly than people think."

The path to a prosperous future

Philip Kam describes his position as "more bullish than bearish", despite recognising the sheer dominance that mainland China poses in the region.

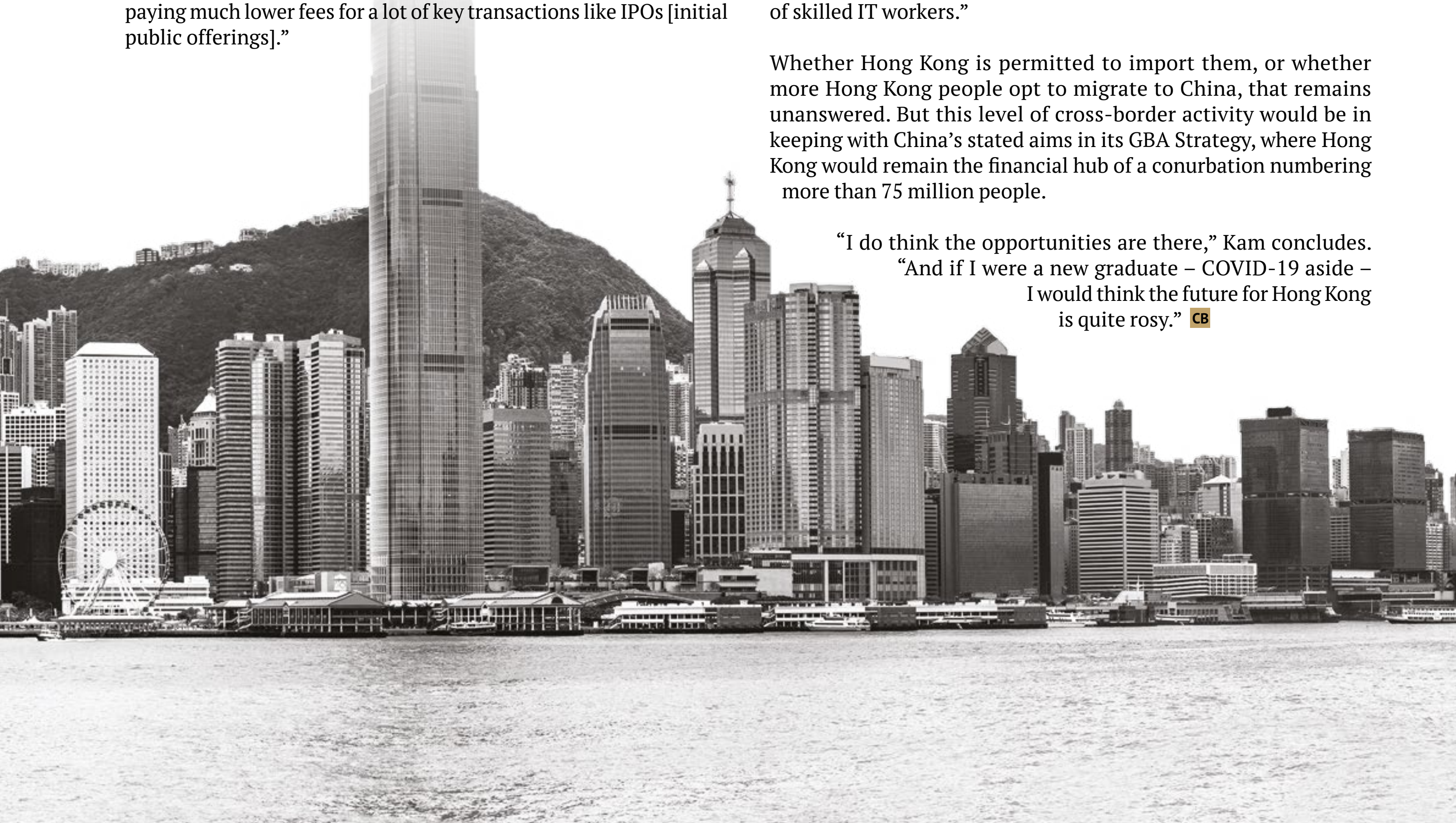
"I think Hong Kong will have to move closer to China," he admits. "The market is just too big. A lot of the banks in Hong Kong are looking at the growth rates, and even despite the fact that Chinese growth rates are probably halved, they are a lot higher than other parts of the world."

However, the focus for the territory's future will take a different form, Kam argues, with a lead role for talent attraction. "The HKMA is trying to attract talent, whether it's retraining existing talent or getting talent from elsewhere.

"Given that technological skills is one of the three areas that we at the [Hong Kong] Institute established was lacking, right across the border you've got a huge FinTech centre in Shenzhen, which is probably more advanced than Hong Kong is, with a huge population of skilled IT workers."

Whether Hong Kong is permitted to import them, or whether more Hong Kong people opt to migrate to China, that remains unanswered. But this level of cross-border activity would be in keeping with China's stated aims in its GBA Strategy, where Hong Kong would remain the financial hub of a conurbation numbering more than 75 million people.

"I do think the opportunities are there," Kam concludes. "And if I were a new graduate – COVID-19 aside – I would think the future for Hong Kong is quite rosy." CB



OPEN MIC

Rebuilding trust

As the COVID-19 crisis continues, we asked banking and finance professionals to consider attitudes towards the industry – and suggest what steps institutions could take to improve their public image.

> **"I think right now what the world wants is integrity. Publicise all the good things you're doing, but also be open about it if you make a mistake and don't try to hide from it."**
>
> Arun Chauhan,
> Tenet Law and Fraud Advisory Panel

What do you think is the main course of action the banking industry can take today to build and maintain a healthy reputation among an often-cynical public?

RAFAEL CAMPOS VALDEZ
Diversity and Inclusion Manager, AXA Investment Managers

Being a responsible investor is a big part of what we do and what we believe in. If you want to raise your hand and be a leader in this space, you need to demonstrate it in terms of how you deliver your diversity and inclusion [D&I] strategy.

If you're putting messages out into the wider industry, you need to deliver that yourself. I think the strongest thing we can do to show we mean business is to live by the standards that we set for others.

ARUN CHAUHAN
Founder, Tenet Law and Deputy Chair of the Fraud Advisory Panel

I would say that banks must own their mistakes. We live in such a litigious society in which people dance around a lot creating excuses and I think right now what the world wants is integrity. Publicise all the good things you're doing, but also be open about it if you make a mistake and don't try to hide from it. You'll gain more credibility.

SIMONE DETTLING
Banking Team Lead, UN Environment Programme Finance Initiative

There is sometimes scepticism that there's too much focus on PR – for example, we've seen a lot of net zero target announcements that weren't as strong on the details. To improve public perception, it is important that the banking industry delivers clearly on the commitments it has made. Banks must show that these promises and pledges – which are often multi-year goals, not 'quick wins' that are achievable in one year – are not just made but also delivered on.

People don't derive their view of banks from any one specific bank; it's their perception of the whole sector. So it's important that it's not every bank for themselves. Real trust in the banking sector and credibility of the change that is promised in terms of culture and of strategically integrating sustainability is something banks can only achieve by willingly collaborating. It's a question of reputation and trust for the whole industry and that's something it needs to solve in a collective manner.

SNÉHA KHILAY
Managing Director, Blue Tulip Consultancy

Ask yourself: What systems have I put in place to ensure that there is diverse representation both within the customers we serve and the staff who work for us? Customers are expecting – and rightly so – that they will be treated with respect and dignity.

Customers are also reading a lot more about companies' backgrounds before they engage in a relationship with them. The bottom line is that people want to feel valued, acknowledged and included. And banks – and the wider industry – need to look at whether their measures are proactive (and therefore preventative) rather than reactive.

PADDY LEWIS
Partner, Sionic

I think banking is still battling with reputation issues. If you're in an industry that has a poor reputation, you have to do everything you can to improve that and rebuild trust in the organisation.

"I think the strongest thing we can do to show we mean business is to live by the standards that we set for others."

Rafael Campos Valdez,
AXA Investment Managers

The banks have some way to go in doing that. Ultimately, the cause of the [2008] financial crisis is still quite fresh in people's minds. I think banks must continue, as they are required and committed to do, to be extremely transparent on their costs and charges. By doing that, you are rebuilding your reputation and restoring trust in the banking industry.

HELEN MCKAY
Credit Assurance Manager, LendingCrowd

Banks should be there to help customers and provide a genuine service that's the exact opposite of the sales culture that developed resulting in mistrust through scandals such as PPI [payment protection insurance]. One of the key things they need to do to improve trust is promote transparency. From providing clarity on how long it will take to make a credit decision, to the professional standards their staff adhere to, banks need to think about how they can achieve total transparency to avoid lulling customers into a false sense of security.

I believe the banks themselves should encourage their staff to become professional bankers. When I joined banking it was a profession, but for a while the idea of pursuing qualifications fell into decline as focus on sales results grew.

I don't think the general public understands that they are often dealing with accredited bankers, who follow a Code of Professional Conduct and are supported by a professional body. I think banks have a duty to make customers aware that these standards are in place to protect them. Banks do a lot of good things, but they don't necessarily shout about it.

And I think they need to invest in good technology because technology can, in some places, be a bit archaic and that in turn can make them [banks] more vulnerable to being targeted by criminals.

OPEN MIC

MARK SAUNDERS
Director of Business Banking, RBS

All banks need to support vulnerable customers better. While there's now a good understanding of what it means, the infrastructure just isn't in place. For example, at the beginning of lockdown, there were lots of people suddenly banking online and no one to answer their simple questions. With an ageing population, that's going to become an even bigger issue.

SIMON THOMPSON
Chief Executive, Chartered Banker Institute

The biggest step banks and bankers can take to demonstrate our social purpose – and value –is to create shared prosperity for current and future generations by aligning our strategies, operations and activities with the UN Sustainable Development Goals [SDGs] and the Paris Agreement on climate.

JOE WIGGINS
Fund Manager, Aberdeen Standard Investments

Make it clear and evident that industry incentives and time horizons are aligned with their clients.

MARK WILSON
Partner and Head of Special Investigations, RSM UK

So far this year the number of insolvencies has dropped due to the government support available to businesses during coronavirus. Our concern is the number of businesses that could fail in 2021 as the support ends and the payment of tax, loans and VAT restarts. There is also the wider consideration of supply chains and landlords affected if a business fails.

It's all going to be about how the banks react to those pressures. The banks' challenge is not only to deal with their distressed customers over the next 18 months but to help and support management teams of good, viable businesses, which under normal circumstances would have continued to trade successfully but are now also struggling.

> **"People don't derive their view from any one specific bank; it's their perception of the whole sector. So it's important that it's not every bank for themselves."**
>
> Simone Dettling,
> UNEP FI

ALEX ZUCK
Head of Compliance Products, Bureau van Dijk

Deterring and detecting financial crime is an incredibly important task and financial institutions are often on the front line of those efforts. However, the banking industry has recently been criticised, and not given enough credit for the essential role they serve.

Recent reports have been critical of the role banks play in indirectly enabling their clients to move funds related to terrorist financing, fraud, and drug or human trafficking. But meanwhile, banks are identifying thousands of bad actors every day that are then brought to authorities for action.

The challenge remains that financial institutions cannot really talk about the good work that they are doing in combating financial crime, to avoid tipping off criminal networks under investigation.

Money laundering protocols make us all, as a society, a little bit safer. As banks continue to do good work in this area we will be able to catch more human traffickers, more criminals involved in terrorist financing, more arms dealers, and many more other bad actors.

YOUNG BANKER OF THE YEAR

Why responsible finance is the future

Ahead of the opening of the 2021 Chartered Banker Institute Young Banker of the Year competition, we speak to recent competitors about what responsible banking means to them – and why it's so important in a time of economic and social upheaval.

THE FINALISTS

CHARLES COLLIS
Global Commercial Banking Strategy Graduate, HSBC

TIPPIE MALGWI (WINNER)
Commercial Banker, Arbuthnot Latham & Co.

MATT JENNINGS
Associate Director, Commercial Growth and Acquisition Funding, AIB

ANA XHEMALAJ
Business Manager, Barclays

"To paraphrase a well-worn expression, banking and finance make the world go round," says Tippie Malgwi, Chartered Banker Young Banker of the Year 2020.

"The economy is built on people's access to financial support and that makes us, as bankers, not just financial custodians but, in some ways, arbiters of the economy."

It wasn't, however, banking that set Malgwi – now a Commercial Banking Executive at Arbuthnot Latham and Co – on his initial career path. Having graduated with a degree in engineering, it was, he says, "a big change, pivoting from electrodynamics to balance sheets," but one that provided a platform for his strong social conscience.

Having taken the title for his proposition around financial solutions that support people with serious injury and severe medical conditions, Malgwi is walking the talk surrounding responsible banking.

"It dawned on me, from the onset, that I had a vital role to play in my clients' businesses and that I wasn't just

> **"Responsible banking cannot be a long, drawn-out commitment to something that will happen in 10 years' time. It needs to start now, and it is starting now."**
>
> Charles Collis, Finalist, Young Banker of the Year 2020

YOUNG BANKER OF THE YEAR

a banker. I was also an ally to the charities, care homes, hospitality trades, manufacturers, consultancies, construction and the other numerous businesses we support. A career in finance provides a licence to transcend sectors and serve as a valuable resource to all."

Cultivating consciousness

So what exactly does responsible banking mean to the new generation of bankers? It is, according to Malgwi, about making a positive contribution to society and cultivating a societally conscious culture.

"It's about we bankers effectively cultivating relationships to understand what's important to our clients and working in their best interests for the betterment of their businesses and the wider society," he says.

"This could take the form of funding eco-housing initiatives for our construction clients or providing targeted banking solutions for vulnerable clients, both of which are forward-thinking initiatives that we champion here at Arbuthnot Latham."

The whole idea of responsible banking has expanded over recent years, says Matt Jennings, 2020 Young Banker of the Year finalist.

"It also considers the environmental impact of the commercial decisions that we make," says Jennings, who works in Growth and Acquisition Funding at Allied Irish and is particularly interested in initiatives that move us closer to a low-carbon future. "This is a fundamental shift and will be critical in ensuring that bank funding is directed towards supporting corporate-led climate change action.

"To me, responsible banking has always meant putting the customer at the heart of every decision that is made. Putting this into practice has meant different things when working in different areas of the bank, but the central idea remains the same."

From the ground up

The idea of finance with purpose is one supported by Ana Xhemalaj, fellow 2020 Young Banker of the Year finalist. Having graduated in the wake of the 2008 financial crisis, Xhemalaj saw an industry undergoing a deep evaluation of its own purpose, and the place that responsible banking would play in rebuilding its legacy.

"While I think we've come a long way from there and our relationships with clients, regulators, governments, and communities have improved at great lengths, there's still the misconception that banking is predominantly driven by profit," says Xhemalaj.

"The latter is important because, like any other business, a bank needs to meet its shareholders' expectations and be fully operational in order to serve clients, create jobs and serve communities.

"However, since the credit crunch I feel we have been more driven by purpose and by the vision of the legacy we want to create than short-term outcomes. Truly, this is what responsible banking is at its core; financing with purpose, whereby the needs of our clients and the communities we serve are front and centre to what we do as an industry every day."

A trifold crisis

In the 2020 Young Banker Competition 2020, Xhemalaj proposed the idea of a gender-linked lending framework designed to embed gender equality objectives into mainstream financing products and existing ESG-linked financing frameworks. She believes that, without tangible and measurable objectives, gender equality will continue to be overlooked.

"We're in the middle of a global health crisis, leading to one of the deepest economic crises since the Great Depression, all while dealing with the real threats coming from climate change," she says. "A trifold crisis of this magnitude has only amplified the existing inequalities and challenges faced by already vulnerable clients and communities."

Society, says Charles Collis, another of the competition's most recent finalists, is at a critical juncture.

"Whether it be on the issue of climate change, social justice or race and gender equality, the decisions made in the next few years will have a significant impact on what the next few decades look like," Collis says. "This is no different for banking."

Driving collaboration

It has never been more important, says Xhemalaj, to use finance innovation and cross-sector collaboration to drive tangible positive change, address the pressing socio-economic issues ahead of us and ultimately 'build back better' what the crisis has damaged for the generations to come.

"It dawned on me that I wasn't just a banker. I was also an ally."

Tippie Malgwi,
Young Banker of the Year 2020

"The recent incredible collaboration between the public sector and financial institutions in response to the COVID crisis is a clear testament to our commitment as an industry to help our clients and communities through significant adversity," she says. "We launched new products practically overnight and adapted our internal operational environment and existing processes to help our most impacted clients keep their businesses alive."

"It has never been more important to use finance innovation and cross-sector collaboration to drive tangible positive change."

Ana Xhemalaj,
Finalist, Young Banker of the Year 2020

According to Collis – now Global Commercial Banking Strategy Analyst at HSBC – the way the industry responds to the COVID-19 crisis will continue to be critical in building and maintaining a reputation of integrity.

"The support and role played by the banking industry in this rebuild will define how the industry is continued to be perceived going forward," he says.

While banks are turning their gaze inwards in order to explore their most effective responses to a time of unprecedented challenges, Jennings references the UNEP Finance Initiative's Principles for Responsible Banking as an essential anchor for the wider industry.

"The UN's principles provide a framework through which we can navigate these uncertain times to deliver a sustainable banking system, as well as positive outcomes for our economy, society and the environment," he says.

Empathetic innovation

One of the answers to the current challenges, says Malgwi, who is also a trustee for Manchester charity Disabled Living, lies in an empathetic approach to innovation that puts society's most vulnerable at the forefront.

"COVID-19 has laid bare the fact that certain sectors of society are more vulnerable than others," he says. "As a trustee for Disabled Living, we see first-hand the importance of providing practical solutions for people in this space.

"It was this thought process that informed my decision to design a conceptual banking solution for people living with serious injury or severe medical conditions under the Court of Protection umbrella called the Serious Injury Life Care (SILC) account."

A sustainable future

More than a decade of resetting its priorities has, Xhemalaj says, left the financial sector significantly better capitalised, enabling it to support the rise in financing needs from its clients. But the economic climate has created a need to drive forward sustainability, a movement that must be led by the wider industry.

"Some of the pre-COVID challenges, such as the low interest rate environment, regulatory changes or competition from new digital entrants, may test the financial institutions' resilience and profitability," Xhemalaj adds. "This is especially true with the enhanced credit risk among corporate and retail clients due to the contraction in their economic activity.

"This is where fostering sustainability – particularly via the promotion of green and sustainable financial products – can help in the longer term. Research shows that companies with a better ESG [environmental, social and governance] rating outperform the rest in the medium to long term and, in addition, more sustainable companies make more resilient businesses which then feeds into a lower credit risk profile in the longer term.

"As financial institutions, we have a unique opportunity to really help our clients appreciate how sustainability overall – including climate change and social impact – can really help them build stronger businesses capable of weathering crises of this magnitude."

Positive change

Even in trying times, there is hope, and many reasons to be proud of the direction in which the industry is headed. Collis says he himself has noticed a considerable shift.

"Increasingly I'm seeing emphasis being placed on the strategic decisions and commitments institutions make, and wider scrutiny being applied to them from every corner of society," he says. "Realistically, this is not a bad thing.

"Responsible banking cannot be a long, drawn-out commitment to something that will happen in 10 years' time. It needs to start now, and it is starting now." CB

DIVERSITY AND INCLUSION

Tick and blink: The perils of deprioritising D&I

Most businesses now recognise the importance of cultivating a diverse and inclusive (D&I) workplace. But in an ongoing global pandemic, this commitment may have slipped down the priority list. Is it time for strategies to evolve – and could D&I actually be a key part of our economic recovery?

A year ago, businesses across the world were entering 2019 with a very different set of priorities. With a growing number of boardroom agendas prioritising a commitment to diversity and inclusion (D&I), the finance industry was on track to continue the push towards improved gender and racial equality in the workplace.

In a CIPD survey conducted in spring 2020, 43% of UK employers thought prior investment in D&I would help them respond effectively to employee needs during a crisis (41% to customer needs). But, one month into lockdown, only 5% of business leaders included D&I in their top three HR priorities.

Bottoming out or doubling down?

While it's natural that a global health pandemic will create a shift in priorities, experts are warning of the dangers of letting D&I fall off the agenda, claiming it could be counter-productive in the long run.

"I want to make it clear that this is not the right thing to do," says Rafael Campos Valdez, Diversity and Inclusion Manager, AXA Investment Managers.

"Now more than ever is the time to double down on efforts in D&I. We have key stakeholders in the investment world and those expectations, be it from clients, government or employees, aren't going away just because of a pandemic. People still want to see us act responsibly. They still want to see us creating diverse workplaces. That doesn't go away just because I'm working from my living room."

This sentiment is echoed by Snéha Khilay, Founder and Diversity & Leadership Specialist, Blue Tulip Consultancy. Khilay has actually seen a spike in the number of companies exploring their D&I strategies as a result of COVID-19 and the Black Lives Matter movement.

"One of the positive spin-offs has been that many organisations are taking really proactive measures, exploring how they can be more inclusive," she says. "Many have moved away from saying 'just come in and do some training' and are now looking at their systems and their leadership. How they're monitoring data, informal behaviours and attitudes. For me, that's been really exciting."

A mixed reaction

It's a blurred picture, and one likely to take many more months to be seen clearly. Back in May 2020, management consulting firm McKinsey published research showing that more than a quarter of companies had put all or most D&I initiatives on hold because of the pandemic. The logistical challenges of operating during a lockdown have, however, forced most companies into embracing a more flexible, more inclusive work model.

"COVID-19 has impacted the way we operate, as far as our workforce is concerned, significantly," says Campos Valdez. "The pandemic has pushed companies – especially smaller boutique companies that have a more traditional way of operating – into the world of remote working almost immediately. We've seen a huge shift in which people who swore that the work couldn't be done remotely are now seeing it done remotely. I've never seen anything like it in my lifetime."

While the pandemic has brought with it a new set of challenges, Khilay believes it's also provided an opportunity for leaders and employees across the industry to review their priorities and purpose in a changing world.

"It's like the metaphorical clearing of a cupboard," she says. "Because people are no longer spending three hours a day travelling, they're recognising that they can now give more attention to some of the things they've let slip – especially around diversity and inclusion. I also think people are having more conversations with family and friends around diversity, particularly regarding Black Lives Matter."

More than a tick box

As COVID-19 vaccination campaigns continue and hopes for a lockdown-free future grow, how should companies be reviewing their D&I strategies to ensure they're evolving with changing practices?

One thing that's for sure, Khilay says, is that it cannot be a 'tick and blink' exercise. "It's been one of my biggest pet peeves," she says. "You check the box, then you blink and carry on with your life. But people are recognising that diversity and inclusion cannot be an add-on. It needs to be a pivotal part of business discussions and systems, whether they are formal or informal.

"When we do go back to the new normal, employees want to feel that, during the pandemic, they were supported and included, that they understand strategies supporting their career progression. Some organisations are very concerned about lack of representation, particularly of black and Asian people, at middle to senior management level.

"If organisations are putting systems in place now then, when the pandemic has lifted, I think a lot of employees will feel reassured that they're going to be valued and heard."

In the driving seat

Creating a supportive and inclusive environment for staff is not just an exercise in social and ethical responsibility. It is, says Campos Valdez, vital for recruiting and retaining the best talent, especially at a time when employees can look further afield for opportunities – and expect more from their employers.

"At the macro level, businesses need to recognise that there will be an impact, as there already has been, on the rate and speed of hiring," he says. "We should be looking at our retention of talent, our promotion process, our high potential programmes, our succession plans.

"We've demonstrated now that these roles can be carried out remotely, so if I'm an employee at a company that doesn't believe that and we revert to the old way of working, I'm going to realise that quite a few other companies that will accept the new way of working. There is potential for talent loss there if companies don't keep up.

"We can now look for talent in places that have historically been off-limits, which is going to be fascinating."
Rafael Campos Valdez,
Diversity and Inclusion Manager, AXA IM

"When it comes to recruitment, though, this is also going to enable us to cast wider nets. We can now look for talent in places that have historically been off-limits, which is going to be fascinating."

Back where we belong

The most important thing, Campos Valdez says, is that every employee is made to feel that they belong.

"Whether they're logging on in their pyjamas or they're in the office, staff want to feel that they're listened to and valued," he adds. "D&I strategies need to evolve to meet that demand."

One strategy that can play a positive part in inclusivity is coach mentoring and reverse mentoring, which aims to support career progression. Khilay says some organisations are also implementing Dignity at Work advisers who can act as a sounding board and a point of resolution for anyone experiencing discrimination in the workplace.

In the end, though, it comes down to a consistent commitment to D&I that extends around, and beyond, the boardroom.

"I strongly believe that leaders need to be united and consistent in their values around the commitment to diversity," Khilay says. "If leaders haven't got their act together, then that disparity will cascade into the rest of the organisation.

"The good news is that leaders are now talking about including humanity as one of their values. Compassion and empathy are also being talked about a lot. This time last year, these words just would not have been used in the same way." CB

INSTITUTE ADVOCATES

Sharing knowledge to make banks safer

Making banks safer for consumers, businesses and the wider economy has been a key focus in recent years, say Helen McKay and Mark Saunders of the Institute's Membership Forum.

The Institute's Membership Forum meets twice a year to enable a wide range of members, both from the UK and internationally, to help shape the future of the Chartered Banker Institute. Helen McKay, Credit Assurance Manager, LendingCrowd, and Mark Saunders, Director of Business Banking, RBS, have been Chartered Bankers for many years and have seen the industry evolve over that time. They believe that members have been instrumental in both driving and supporting that evolution. Nowhere is that clearer than in fraud risk management.

"The culture has definitely shifted over the past two to three years and there's now much more openness about fraud and how we as banks manage that," says Saunders. "Previously, people were reluctant to air their dirty laundry, as it were, or there was a reluctance to report suspicious activity, but now there are clear frameworks to encourage that – and that's a good thing for banks and their customers."

Growing transparency and awareness

This more transparent approach fits growing regulatory requirements as well as customer expectations for the industry to take steps to prevent fraud and protect customers. McKay suggests this is even more important as customer interaction with the industry shifts and more automated and digital methods replace – or complement – traditional branch servicing models. "Banks are generally being more open and sharing tips, security alerts and scams that customers need to be aware of. They're doing a better job of highlighting the risks to customers."

> **"We can work hard to make customers aware and educate them, but it really comes down to us, at an individual and organisational level, making sure we're proactive and ensuring knowledge and judgement is part of our culture."**
>
> Mark Saunders, Director of Business Banking, RBS

It's something that RBS has taken on board says Saunders, using a range of different tools to build awareness, from leaflets and posters in branch, to messages on ATMs reminding customers not to disclose their PINs, and messages during the online banking process asking customers to think about who they're sending funds to. "It's all about understanding where the risks are from a customer perspective and then educating them," he says. "For our business banking clients, our Business Growth Enablers run incredibly popular awareness sessions on fraud and scams."

Staying on top of trends

Keeping up with the latest threats is particularly important and something that is made easier by the increasing transparency both within organisations themselves and the wider industry. "It enables us to share risks much more easily," says Saunders. "For example, we identified potential issues with some applications for the Bounce Back Loan Scheme [BBLS], and we were able to share that information to stop fraudulent applications that followed the same pattern. It also means we can spot trends as they're developing."

Internal education is just as crucial, particularly as the industry is held increasingly accountable – not just by regulators but by the general public. "The information that we now require, for example around know your customer [KYC], is at another level because of the regulations," says McKay. "But that also means a greater focus on identifying any trends that are emerging and measuring the controls in place to deal with those. Frontline staff are also a lot more accountable now, of course, and these additional controls and governance have meant that organisations have had to invest in risk and compliance more than ever. Otherwise, they'll end up being open to fines and bad publicity and that could really impact their reputation."

Creating a proactive culture

Reputation and fines aside, Saunders points out that ingraining fraud awareness across the industry is essential to putting customer safety first. "We can work hard to make customers aware and educate them, but it really comes down to us, at an individual and organisational level, making sure we're proactive and ensuring knowledge and judgement is part of our culture."

That's where the role of the Institute is particularly valuable, as both McKay and Saunders point out. "The Institute is a great resource, from the new qualification in bank risk management to magazine articles that highlight new technology in fighting crime or webcasts with experts," believes McKay. "But it also gives you access to a peer group that you can share ideas and common challenges with. It's good to know that you've got a network out there, and I think that's particularly

"You can really benefit from a network of people with specialisms that you can just tap into. The Institute helps to bring that all together."

Helen McKay,
Credit Assurance Manager,
LendingCrowd

important as financial services expands outside mainstream banking. In the smaller organisations, you might not have a robust department that's there to support you with all the answers, so you can really benefit from a network of people with specialisms that you can just tap into. The Institute helps to bring that all together."

Pulling together

With an area such as fraud, where the criminals are always a step ahead, those networks are invaluable, as is the Institute's ability to mobilise resources and create an agenda. The Institute's campaign to highlight awareness of vulnerable customers, for example, really kick-started the conversation. Saunders says: "Fraud shows up vulnerabilities and the campaign was a great starting point in focusing the industry on what being vulnerable actually means and where the gaps are in addressing that – we now need to turn that awareness into action. It's where the Institute's ability to coordinate at a high level, through things like the Membership Forum, can have a huge effect.

"Making banks safer is a bit like climate change – it needs everyone to pull together to make a difference. The Membership Forum and the Institute overall can drive that." CB

If you would like to contribute your views as an Institute Advocate, please contact Matthew Ball, Head of Public Affairs, Policy & Communications, Chartered Banker Institute, at matthew.ball@charteredbanker.com

PATHWAY TO COP26

Building a green and sustainable future

Ahead of COP26 in November 2021, we asked four industry figures to share what issues they believe should be top of the financial services agenda when it comes to green and sustainable finance.

RHIAN-MARI THOMAS OBE,
Chief Executive, Green Finance Institute

Much headway has been made in mainstreaming climate finance even while a global pandemic has been raging, but there is a lot more to do in the lead-up to COP26 in Glasgow.

Firstly, in the same way the finance sector has recognised the importance of climate risk and of reallocating capital away from carbon-intensive sectors, it must now broaden its lens to biodiversity. Biodiversity loss and the climate crisis are two sides of the same coin and we cannot afford to focus only on climate and fossil fuel reduction. The Task Force on Nature-related Financial Disclosures (TNFD) that launches in earnest next year offers an opportunity for the global financial community to commit to a broader environmental agenda.

Greater disclosures, especially pertaining to climate, will be coming as countries such as New Zealand and the UK mandate the Task Force on Climate-related Financial Disclosures (TCFD) and the financial community must be prepared. What is also needed, however, are robust plans to transition.

Within these plans, the finance sector is increasingly taking a sectoral approach, identifying key areas for carbon-emission reduction, assessing risk, calling for investable policy pathways and developing financial mechanisms to mobilise capital.

On the investment side, we desperately need capital to flow into solutions such as carbon capture and storage, green hydrogen, EV batteries, agritech and nature-based solutions, yet many of these will require innovative financial mechanisms sometimes supported by public sector funding or enabling policy environments.

To this end, we need to upskill our entire financial sector, embedding the implications of climate change and depleting natural resources into every department of every financial institution. We need financiers not only to marry their expertise with science and engineering but also with policy expertise, and the ability to interpret unfamiliar forms of data. Above all, we need financial institutions that nurture those who think differently.

“We need financial institutions that nurture those who think differently.”

Rhian-Mari Thomas OBE

SIMON THOMPSON,
Chief Executive, Chartered Banker Institute

The finance sector has a leading role to play in supporting the move to net zero – it's both a moral responsibility and one set out in Article 2.1c of the Paris Agreement. UN Special Envoy for Climate Action and Finance Mark Carney has stated that the objective for the private finance work for COP26 is to ensure that every professional finance decision takes climate change into account, and the COP26 Private Finance Hub has created a framework of four pillars to address this: reporting, risk management, returns and mobilisation.

This is certainly useful, but one aspect that is missing from the framework is the role of the individual. After all, financial decisions are taken not by institutions but by the professionals working in banking, finance, business, accounting and professional services. They must take personal responsibility for ensuring that climate change, and I would argue, broader sustainability factors, are taken into consideration. They should also be sharing that insight and expertise with their colleagues, clients and customers.

To do that, of course, they need to develop at least a basic knowledge of green and sustainable finance principles and practice. That's why we are committed to helping every finance professional complete certified programmes of initial and continuing professional education to enable them to confidently discharge this duty. If every professional finance decision should take climate change into account, then every finance professional needs the knowledge and skills to do this.

> **"The finance sector has a leading role to play in supporting the move to net zero – it's both a moral responsibility and one set out in the Paris Agreement."**
> Simon Thompson

TIM EDWARDS,
winner of the Chartered Banker Institute's inaugural Green Finance Essay Competition and student of Economics at the University of Bristol

For consumers and institutions to make well-informed investment decisions, accurate information is essential. Furthermore, clear communication built from that information helps people adapt to changing circumstances and establishes greater certainty that an action has a tangible effect. That's why improving the quality of information and the way it is communicated, particularly on green issues, is crucial to the financial services industry.

For institutions themselves, better information can improve business performance through enhancing accountability, analytics and advertising. Clear and well-defined data can lead to specific targets and establish certainty on whether or not these have been met. These targets may come from an internal commitment by management or externally from the regulator. What matters is that the data for assessing these is reliable and applicable to sustainability objectives to prevent greenwashing or other adverse behaviour.

Better metrics also enables more rigorous analysis, which can be used to identify areas of the business that are more environmentally efficient than others, enabling management to target resources more effectively and focus on encouraging improvement in those areas that are less sustainable.

Improved information enables firms to demonstrate a commitment to sustainability, showcasing their achievements to environmentally conscious consumers. This ideally would create a virtuous cycle where consumers invest with a firm due to its sustainability, which further incentivises it to continue to act sustainably. This also leads to direct benefits for consumers through establishing a personal connection to their bank as they see that the money they save supports positive projects. In turn, this may help to make people more interested in their money, improving financial literacy, in addition to improving propensity to save.

Better information can, therefore, help to create a more ethical and harmonious financial sector for all.

> **"Better information can help to create a more ethical and harmonious financial sector for all."**
> Tim Edwards

PATHWAY TO COP26

SIMONE DETTLING,
Banking Team Lead, UN Environment Programme Finance Initiative

We have high hopes and expectations of COP26. Already we're seeing signs of global ambition to move towards net zero by 2050, targets that are even more ambitious than the broader well below 2°C framing and a real acceleration. That obviously has an impact on banks, their portfolios and on risks and opportunities, so banks need to gear up for that. It's something we work on under the Principles for Responsible Banking with our Climate Leaders Group, who have already committed to scenario-based targets for Paris [Agreement] alignment, and are now looking at stepping this up to align with the warming ambition.

The acceleration we're seeing is not just being faced by banks – businesses and people in the real economy are in the first row and they will rely on and certainly value banks that can proactively help them in that transition and that have the right know-how, advice and products.

From a regulatory perspective, most of the European central banks are active members of the Network for Greening the Financial System (NGFS) and are including climate scenarios in their stress testing, requiring reporting on climate risk and strongly encouraging TCFD-compliant reporting. The Bank of England was one of the first to recognise and understand the substantial risk to the banking system of the transition and physical risks. As that accelerates, if that risk is not adequately picked up by the banking system, it could have implications for stability – so it's an area that regulators are very much focused on.

For 2021, the topic of biodiversity and nature is likely to be strong. COVID-19 has made the intrinsic link between nature, our own encroachment on nature, and the economy quite visible and many governments are buying into this and pushing it more strongly. 2021 also sees the Conference of the Parties (COP 15) to the Convention on Biological Diversity, the nature equivalent of climate, which will undoubtedly see new targets emerge.

Biodiversity is a nascent topic for many banks and one that many are not yet too familiar with. I think understanding and reviewing their portfolios to see the links, pinpointing the key industries to work with and how to identify the risks and opportunities, will gain momentum next year.

Assuming early 2021 sees an end to COVID-19, sustainable recovery should be on the agenda for financial services too. Governments are using the recovery to accelerate the sustainable transition. We've seen work from banks and our own community on this topic, but I think there's a lot more to be done in close collaboration with government, policymakers and clients.

> **"Businesses and people in the real economy are in the first row and they will rely on and certainly value banks that can proactively help them in that transition."**
>
> Simone Dettling

SUMMARY

With sustainability tied into social and economic recovery, an urgent need to focus on climate change and biodiversity, financial services have a vital role to play in leading the conversation. This role includes facilitating adequate and robust data capture to ensure decisions take these issues into account, committing to a deep understanding of the risks and opportunities that climate change poses and being able to share that with clients as part of a supportive relationship.

As biodiversity emerges as a burgeoning topic of interest, financial services should also be considering its impact on their activities and portfolios. In all, a need to collaborate across industry, with government, policymakers, businesses and individuals, is key to achieving the ambitious targets set to address this looming crisis and allows the opportunities of a green and sustainable future to be realised. CB

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PROFESSIONAL FINANCIAL ADVICE

Building behavioural finance into client relationships

When the investment environment is prone to volatility, the true mettle of an adviser is tested. We consider how understanding behavioural finance can help advisers maintain trust and demonstrate empathy.

"One of the primary roles of an adviser should be as a behavioural coach," says Joe Wiggins, Fund Manager, Aberdeen Standard Investments, "to be able to highlight the type of mistakes investors typically make, and how they can help their clients avoid them."

Recent years have seen a growing awareness of the importance of understanding and controlling our behaviour in order to deliver better investment outcomes. Termed 'behavioural finance', it can help make sense of processes that may often appear irrational and what effect the difference between the investment decisions we should make, and those we actually make, can have. "Unfortunately, there is often a huge gap between those two things, and a significant cost," explains Wiggins.

Shorter time horizons and heightened emotions

It's an area that becomes even more relevant in times of volatility, when investor emotions and sensitivities are heightened, and we are bombarded with bad news stories. "People tend to think that times of economic stress are important because we suffer short-term losses on our investments," says Wiggins, "but actually, the more damaging aspect is investor behaviour. In stressed markets, investors tend to make poor decisions with significant long-term consequences."

When markets are falling, commentators are bearish and the news is consistently bleak, Wiggins explains that investors' time horizons contract dramatically. "Even those with a very long time horizon for their investments tend to start thinking about performance and returns in terms of days and weeks rather than years. Decisions become increasingly driven by emotions, and investors try to avoid worry, stress and anxiety by stepping away from the market, often at the worst time."

> **"Honesty and transparency really are the foundation on which strong and rewarding client relationships are built."**
>
> Joe Wiggins,
> Fund Manager, Aberdeen Standard Investments

Keeping in tune with your clients

It's at just this time that the role of the adviser is most important. After all, it's easy to steer a ship in calm seas, but the skills and tools you need to help clients navigate stormy waters is what really sets advisers apart.

"It becomes very difficult for clients to make sensible choices against a backdrop of high uncertainty," says Wiggins, "and it's precisely when an adviser who's in tune with their clients and who's established a trusted relationship can really add value." That may mean reminding them of their investment priorities and intentions and trying to refocus attention on the longer-term.

Utilising behavioural finance tools

What can make a difference is if advisers have invested in their client relationships from the outset and employed behavioural finance principles and tools to create a robust investment plan, so that when things get tough they can draw on that understanding.

"The most crucial step is to ensure clients start out with an investment plan that takes their objectives into account and considers how they will be achieved," says Wiggins. "Having conversations with clients about

"One of the most important, but counter-intuitive, messages an adviser can give to their clients is to check their portfolios less frequently."

Joe Wiggins, Fund Manager, Aberdeen Standard Investments

their risk appetite and how that will play out is also important. If they're investing in equities, for example, then there will be painful periods, but if they are aware of that in advance, they're far more likely to stick with it and reap the long-term benefits of compounding."

Avoiding short-term temptation

Reiterating that requirement for a long-term perspective is something that advisers can certainly help their clients with, particularly in times of stress. It goes hand in hand with trusting the guidance of an adviser – something that can be tricky for clients to remember when many now have control quite literally at their fingertips.

"Some of the benefits from technological advancement have created new behavioural problems," admits Wiggins. "Investors' ability to access their portfolios whenever they wish is fantastic for transparency and control, but it is likely to lead to more poor decisions. Studies have shown, for example, that the more investors look at their portfolios, the more they trade, and the shorter their time horizons become. One of the most important, but counter-intuitive, messages an adviser can give to their clients, is to check their portfolios less frequently."

Technology, however, can also help advisers set up tools to automate investment processes that can remove the emotional load from decisions, explains Wiggins. "Instituting plans for making regular investments and rebalancing portfolios means that the chance of making poor choices is reduced," he says.

Reaping the benefits of doing nothing

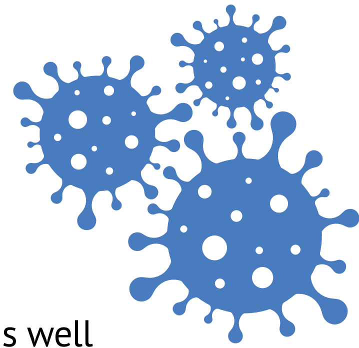
Just as creating a robust investment plan is a vital first step, so is encouraging your clients to stick with it. "Many of our worst behavioural investment tendencies can be avoided by doing nothing," says Wiggins. "It is the bias towards action that is often so costly."

Being able to convince clients not to react in the face of market volatility and persistent bad news can be a huge challenge, but adviser-client relationships that are built on openness and understanding offer the best chance of delivering the support clients need to see them through. Actually admitting to their own human frailties can produce a level of empathy that really resonates with clients at their most vulnerable.

"While clients might want to know where markets are headed over the next six months, it is better to be honest about our ability to make sure calls," says Wiggins. "Honesty and transparency really are the foundation on which strong and rewarding client relationships are built." CB

BANGOR BUSINESS SCHOOL

How coronavirus could reshape the world



Pandemic recovery choices will shape our future climate, as well as our economic structure, says Professor Jonathan Williams.

The COVID-19 pandemic is emphasising just how important it is to consider the shape of our future economic structure. Specifically, how restructuring could provide further opportunity for nations to actively tackle climate-related concerns. Such steps would be a logical extension of the Paris Agreement of 2015 and the pledges of 190 signatories to reduce emissions and limit the rise in global temperatures to below 2˚C above pre-industrial levels.

In the absence of regulatory actions, the multitude of potential climate-change impacts could pose a significant challenge to central banks charged with maintaining financial stability. Policymakers are acutely aware that legislation should provide an incentive for financial flows that are compatible with climate-based objectives.

One theoretical challenge facing legislators seeking to encourage a reallocation of capital from climate-insensitive investments towards climate-friendly ones is that climate is a public good, which has characteristics that cannot be priced. While citizens benefit by consuming public goods, private firms do not internalise the broader societal gains and will under-provide such goods. Public goods entice free riding because firms have little incentive to voluntarily protect the environment in the absence of directly observable prices and tradable markets. Free-riding incentives are compounded in the presence of large numbers of firms and the belief that individual actions will not produce meaningful impacts. Coordination problems, for example between sovereign governments with different objectives, can adversely affect provision of public goods such as stable climate.

Commitments to change

Since 1992, the United Nations Environment Programme Finance Initiative (UNEP FI) has aimed to encourage firms in the private and financial sectors to adhere to the UN's Sustainable Development Goals (SDGs). The UN's Principles for Responsible Banking provide a framework to ensure that signatory banks' strategy and practice align with the vision set out in the SDGs and Paris Agreement. To date, nearly 200 banks from around 50 countries and representing around 40% of the banking industry are signatories to the Principles. The UN has also set out Principles for Sustainable Insurance and Responsible Investment.

At national level, the Bank of England set out proposals for stress testing the financial stability implications of climate change in December 2019. Called the Biennial Exploratory Scenario (BES) exercise, the stress tests are scheduled for mid-2021 and follow the 2019 Insurance Stress Test.

The Prudential Regulation Authority (PRA) has also set out its expectations as to how firms should manage the financial risks from climate change. The PRA expects

"Economic restructuring could provide further opportunity for nations to actively tackle climate-related concerns."

boards of directors to understand and assess the risks from climate change that affect their businesses. Firms should address these risks within their business strategies and risk appetites, and boards should take a longer-term view of financial risks that could arise beyond standard planning horizons.

A global financial risk

Financial risks from climate change originate via two channels: physical risks and transition risks. Physical risks from climate change include effects associated with storms, floods, wildfires and heatwaves, as well as longer-term changes in climate, for instance, sea level rises, extreme weather variability, and changes in precipitation.

The implications for insurance are clear cut: for example, an increase in flooding could affect collateral values held by banks and increase their credit risks. Transition risks arise from the adjustment process of moving towards a low-carbon economy. They can include risks associated with developments in policy and regulation, emergence of technologies that could disrupt business models, shifts in sentiment, and societal preferences. Essentially, tighter energy standards and the introduction of more efficient technologies in addition to companies' inability to accommodate changes could lead to falls in the value of assets held by banks thus prompting an increase in credit risks.

The academic literature addressing these risks offers useful insights. For instance, physical risks caused by catastrophic weather and climate-related events could cause contraction in companies' profitability, which would impact banks via a reduction in asset values, collateral and exposure to greater credit risk.

Physical risks can create a knock-on effect if a bank suffers large losses and decides to ration the amount of credit it supplies. Physical risk can reduce the value of a bank's investments based on the negative sensitivity of company earnings and exposure to extreme temperature. High temperature is also associated with companies being subjected to higher capital costs.

Transition risks could see overexposed banks liquidating holdings of carbon-intensive assets at significantly discounted prices, which, in turn, could create not only liquidity problems for banks but also contribute to uncertainty and market risk. Movement towards a low-carbon economy could increase the probability of default for carbon-intensive companies as their profits decline

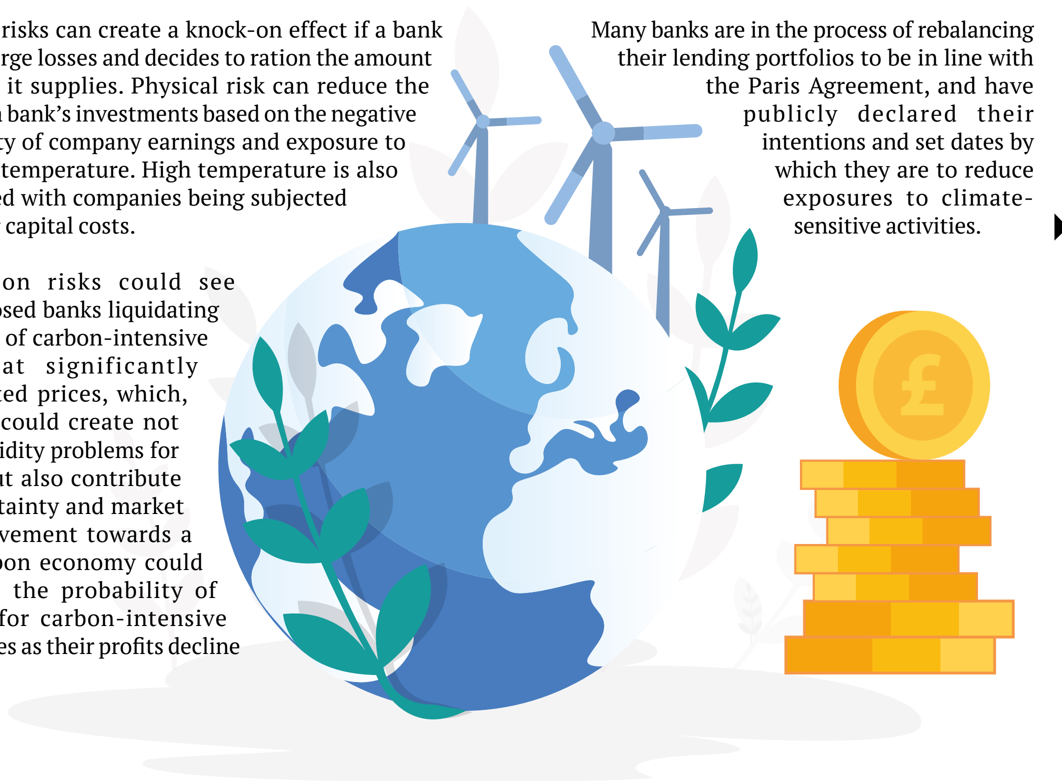
"One challenge facing legislators seeking to encourage a reallocation of capital from climate-insensitive towards climate-friendly investments is that climate is a public good, which has characteristics that cannot be priced."

and consumer preferences change, which could subsequently lead to an increase in banks' credit risk.

Notwithstanding the potential costs associated with risks arising from climate change, some banks did move early and have long embraced actions to enhance sustainability and develop cleaner technologies. Early movers can gain comparative advantages and build relationships with customers.

A simple application of the net present value formula suggests that the discounted value of expected cash flows from companies needing to expend large future clean-up costs will be far lower than companies that have either cleaned up in anticipation of regulatory requirements or use cleaner technologies.

Many banks are in the process of rebalancing their lending portfolios to be in line with the Paris Agreement, and have publicly declared their intentions and set dates by which they are to reduce exposures to climate-sensitive activities.



BANGOR BUSINESS SCHOOL

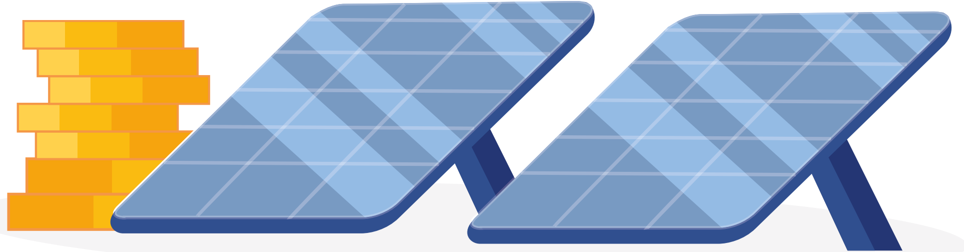
Good intentions, sensitive issues

However, the role of banks and their commitment to addressing climate-related matters remains heavily controversial. Part of the problem might relate to the volume of detailed information banks are providing on how they are planning to reduce exposures to various sectors and the associated timelines. Nevertheless, and while noting the positive attempts banks have made, for example, in funding the renewables sector, claims abound that banks are still financing climate-sensitive activities, such as, coal.

One criticism levied at the banking industry relates to the difference between project finance and trade finance. Specifically, environmentalists have challenged banks to abide by the spirit of the Principles for Responsible Banking. Environmentalists contend, and justify their claims with supportive data, that while banks are willing to reduce exposures to climate-sensitive project finance, they remain tight-lipped on their trade financing of environmentally sensitive commodities.

Since 2015, global banks have directed US$154bn through loans and underwriting to commodity trades associated with deforestation and land degradation, and furthermore, bank financing of commodities firms has increased by 40% since the Paris Agreement was signed.

Investment management firms alongside banks have fallen under the spotlight for investing in businesses associated with increasing deforestation risk and financing activities that violate environmental and human rights. It remains to be seen how banks and/or their regulators respond to arguments to include the trade finance of climate and environmentally sensitive activities as part of banks' climate strategies. CB



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PERSONAL DEVELOPMENT

Managing conduct risk

Following recent criticism, the board of Broomfield Bank has assembled to discuss its conduct risk management. Bob Souster examines the ways in which it can improve its approach to promoting ethical conduct.

The scenario

Broomfield Bank is a large organisation that offers a full suite of retail services to personal and business customers. The bank has always been profitable and has achieved steady growth in the past decade, having weathered the 2008 global financial crisis without any need for government support. Its strategy is to offer competitive products and services supported by multiple channels to market, including branches, agency arrangements, its call centre and digital banking. These channels are underpinned by managers and staff who are recruited and rewarded for their competences in sales and promotion.

The bank's board of directors is committed to effectively managing conduct risk, but in the past five years there have been several criticisms of the bank arising from incidents involving unethical behaviour, as well as unfavourable results in customer surveys. These occurrences included some managers churning accounts to meet or exceed their targets and a serious rogue-trader case involving an overseas financial centre. The surveys reported that customer service agents in the call centre and some of the branch managers had used aggressive sales tactics to sign up new customers or discourage existing ones from closing their accounts.

At a board meeting convened to discuss these issues Arina, the Chief Executive Officer, stated that policies and practices were already in place to encourage ethical behaviour and minimise conduct risk. She reminded the board that the bank had published its Code of Professional Conduct more than 10 years ago and that all new recruits were asked to read the code and sign a commitment that they would comply with its provisions. Induction training included a presentation by a senior executive who would drive home the standards the bank expected of its employees. All employees also attended annual refresher training during which the compliance manager delivered a session highlighting any ethical deficiencies uncovered and warned staff of the consequences of failing to adhere to the expected standards.

"Sally believed that ethics could not be taught as such, so the bank had to be content with minimising the risks."

Oswald, the Finance Director, stated that ethical standards should not be a problem. He believed it should be possible to stamp out undesirable behaviour through rigorous enforcement of the rules – simply because employees knew what was expected of them.

Sally, a non-executive Director, disagreed with this approach. She said professional bankers are naturally more comfortable with the technical aspects of banking than softer, behavioural issues. "Ask them to calculate a weighted average cost of capital or a net present value and they will be fine, but if you ask them to address an ethical dilemma they might not know where to start," she said.

Sally added that she believed ethics could not be taught as such, so the bank had to be content with minimising the risks, as there were thousands of interactions with customers every day, and it would be impossible to prescribe ways of dealing with all of them or resolving problems as they arose.

Colin, another non-executive Director, took a different view, stating he believed that behaviours could be modified even if the attitudes of some employees could not. He felt the board had to make a concerted effort to reinforce the importance of appropriate professional standards and would find some of the answers it sought through training, development, and performance management systems.

How should the board of Broomfield Bank address these issues? By working through this scenario and developing your own solution before reading the author's analysis on the next page, you may claim up to one hour towards the professionalism and ethics component of the Institute's CPD scheme.

The analysis

The comments by the Chief Executive Officer summarise some of the problems facing any bank that feels it has done everything possible to create an ethical environment, only to find that some employees fall short of expectations. The board of Broomfield Bank may believe that it has done everything right, including the introduction of a Code of Professional Conduct, reinforcing the code through recruitment, selection, induction and training and reminding staff of their obligations through refresher training. Yet the bank has continued to experience ethical deficiencies.

Oswald is partially correct. The bank was right to set down its expectations of appropriate professional standards from the recruitment and induction stage, but this may not necessarily translate into adherence to those standards. For example, some recruits to the bank may join for purely selfish purposes and have no moral compass, successfully ‘gaming’ the interview process by telling interviewers what they want to hear. These will be a minority, but the process can never be perfect.

His argument faces challenges on two fronts. It is true that it is possible to set down rules, and rules can normally be enforced. They can also serve as a deterrent if the consequences are sufficiently severe. However, the first obstacle is that it is sometimes possible to act within the company rules yet still behave unethically (just as it is possible to act legally but unethically); and the second is that, when confronted with some ethical dilemmas, there may be no absolutely right or absolutely wrong approach.

There is some truth in Sally’s interpretation of the problem too. Bankers are likely to be more comfortable with problems requiring technical competence and less so with softer issues. However, she is wrong that ethics cannot be taught. At present, Broomfield Bank’s approach to ‘teaching’ ethics is inadequate, as little can be achieved by a purely didactic approach, such as presentations at induction courses and on refresher training events. A presenter ‘telling’ an audience about ethics will not make them more ethical people.

> **“Little can be achieved by a purely didactic approach. A presenter ‘telling’ an audience about ethics will not make them more ethical people.”**

Yet it is possible that different approaches could be used. Authorities on ethics more than 2,000 years apart support this view. Socrates established a link between virtue and knowledge, and as ethics is about knowing what the right thing is to do, it should be capable of being taught.

More contemporary writers such as Lawrence Kohlberg and Roger Steare both contend that moral reasoning develops over time. Perhaps the solution for Broomfield Bank lies in new ways of interactive learning, such as presenting its employees with ethical problems and resolving them through debate and consensus. Today, professional ethics sits at the heart of many of the Chartered Banker Institute’s educational programmes, just as ‘Professional Ethics and Regulation’ has been a core module within the Chartered Banker MBA at Bangor University for more than 10 years.

Colin’s views are worthy of developing further. He stressed the importance of securing appropriate behaviours and this can most certainly be promoted by reinforcing employee awareness of the bank’s expectations. One way forward is to modify the bank’s performance management systems, targeting employees not only on business outcomes in financial terms but also a range of customer satisfaction metrics. These may include positive elements, such as rewards for resolving customer service problems, and negative elements, such as clawbacks of bonuses if customers leave or make legitimate complaints. Another is to elevate the importance of professional standards by giving them greater prominence in personal development, including regular, case study-based learning events. CB

Bob Souster is a Module Director, Professional Ethics, Chartered Banker MBA at Bangor University. Share your views on Bob’s verdict about this ethical dilemma by joining the Chartered Banker LinkedIn discussion forum.

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LESSONS LEARNED

What can brands take away from Twitterstorming Trump?

By the time you are reading this, Joe Biden, not Donald Trump, will be preparing to take office in the White House. But Trump's first term has much to teach brands, says Ian Henderson.

For a start, we know that being elegant and articulate doesn't matter as much as some of us may have wished. If you've seen the Twitter video of Barack Obama campaigning in a school gym, casually catching a basketball, languidly launching it into the hoop from 20ft away and pausing only to drop his mask and say, "it's what I do" on his way out of the door, you'll know what I mean.

But the coolest former president ever has been no match for Donald Trump's brutal mastery of social media. Like it or not, Trump has demonstrated that megaphone messaging and a constant barrage of one-sided noise designed not to inform or persuade but to maintain presence in the minds of people who are for him, against him or undecided, can be more effective than careful words or a well-crafted speech. His weaponisation of social media has been more powerful than we ever imagined.

Just over four years ago, one of the creatives at our ad agency designed a simple poster. Against a Republican red background, it showed Donald Trump's name in white letters with some of the letters faded out, leaving a clear message to voters: Don'T. Over a single weekend, it gained millions of shares on social channels and was picked up in mainstream media, which asked whether 'ghost ads' could change voter opinion. Although it may not have been enough to influence the 2016 election, it won a creative prize and was shared around the world. But it was nothing compared with what we saw next from the new President.

Before the election Trump's record stood at 161 tweets in a single day, on 5 January 2015. Once in office, he upped his sustained tweeting to an average of 44 a week. That rose to 58 in 2018 and 83 in 2019. But he really took off in 2020, when the Commander-in-Tweet had a few other things to deal with, the daily count hit 142 on the second day of his impeachment trial in January (including at one point a staggering 41 tweets an hour). His 2020 average is 250 tweets a week, and his one-day record on 5 June 2020 at the height of the COVID-19 crisis a thumb-numbing 200.

> **"Thankfully, businesses are subject to more regulation than presidents. And hopefully they understand that building trust beyond a four-year term requires a different approach."**

It's not just the frequency of Trump's own tweets that's surprising, either. Analysis of a network of re-tweeters has shown patterns that strongly suggest automated as well as human amplification of Trump's messaging. That amplification, unique in the Western world, happens whether the messaging is true or false (Twitter itself recently started labelling Trump's more obvious untruths). What matters more is the sheer volume (in both senses) of the twitterstorm. The intensity of feeling among voters that creates was shown to be a more reliable indicator of the election result last time round than stated voter intention.

So, what can brands learn from Donald Trump? Cynically, it could be that to win customers you can say whatever you like and be as rude about your competitors you want, as long as you say it loud enough and often enough. Thankfully, businesses are subject to more regulation than presidents. And hopefully they understand that building trust beyond a four-year term requires a different approach.

We've come a long way in the past four years. But if there's one thing we've learned from Donald Trump, it's the awesome power of social media to create intensity of emotion and belief – in even the most divisive brand. CB

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Please note: the opinions expressed in this article are the author's own and do not reflect the view of the Chartered Banker Institute.

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