Chartered Banker

The future of banking

Spring 2021

Open mic:
What pandemic-related changes do you hope to retain?

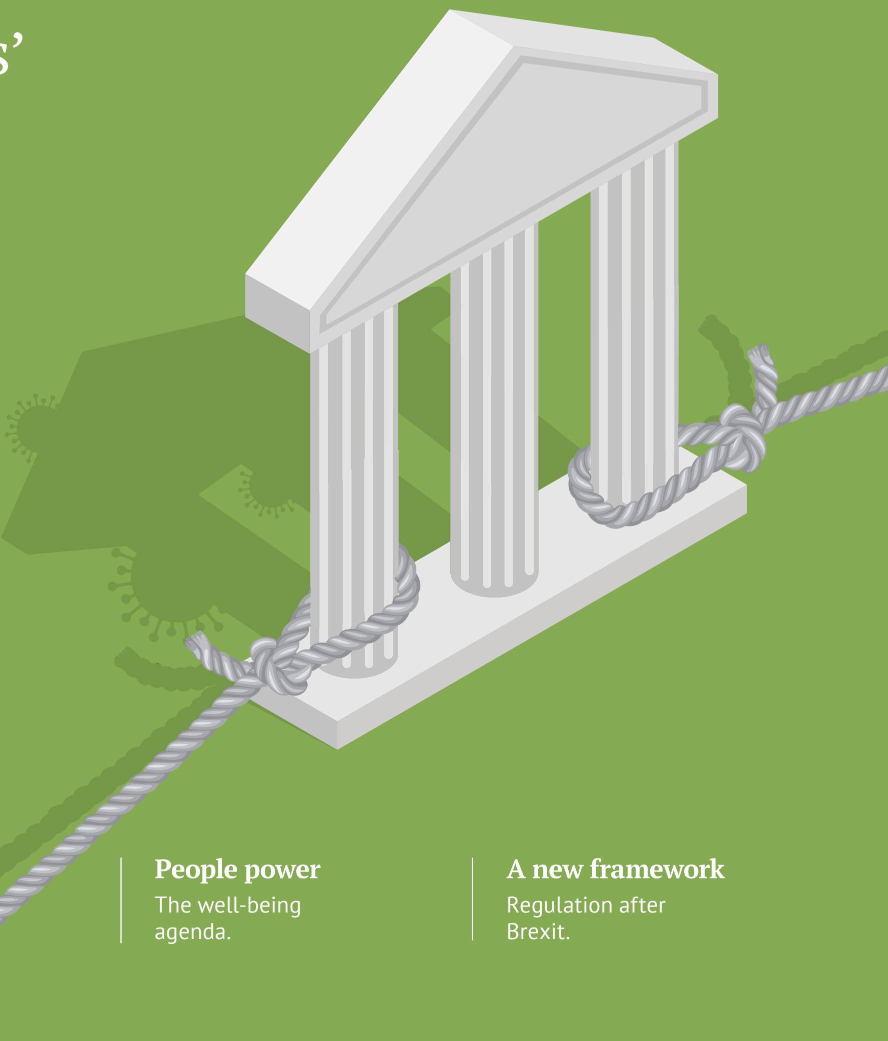
Davidson column:
How the industry is supporting a brighter future.

Country spotlight:
A profile of Pakistan's banking sector.

Young Banker of the Year:
Past judges share their perspectives.

Strong foundations

Pandemic puts banks' resilience to the test



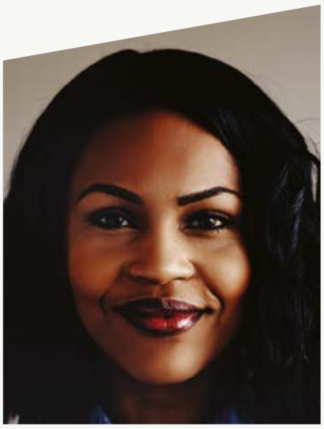
Redefining 'resilience'
What it means today.

Stress tests
Learning from COVID-19.

People power
The well-being agenda.

A new framework
Regulation after Brexit.

Chartered Banker

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EDITIONS FINANCIAL

Chartered Banker
The future of banking

The front line

The coronavirus pandemic has shone a spotlight on resilience, in its multiple forms.

Simon Thompson, Chief Executive

While the vaccine roll-out is bringing hope to many Institute members and their families, at least in the UK, we have all been greatly tested by the pandemic over the past 12 months. Adapting to new risks and ways of working, helping vulnerable customers and colleagues, and supporting our families and loved ones during uncertain, worrying times, has placed great strains on our personal resilience. I'm pleased to hear from the generous feedback we've received that the Institute has been able to provide some support through 'Lockdown Learning' and our other resources. But I am also very aware that for many in banking, as in other walks of life, the past year has been extremely hard.

> "While the vaccine roll-out is bringing hope to many Institute members and their families, we have all been greatly tested by the pandemic over the past 12 months."

COVID-19 has tested the mettle of financial institutions and the sector overall. In this issue of *Chartered Banker*, therefore, it seems appropriate to explore the wider context of resilience. This encompasses operational resilience, adapting to the 'new normal' for ourselves and our customers. Workforce resilience, as banks and other employers prepare for a return to the office that won't look or feel anything like it did before. Cyber resilience, as we asked in our winter issue, how can the industry continue to protect institutions and customers from new and increasingly challenging threats? Climate resilience, how prepared are we in banking, and in business and society more broadly, to respond to the physical and transition risks of climate change? And, finally, how resilient are our banks and the financial system to the economic challenges ahead?

The past year has been challenging for banks and bankers, but also for professional and educational bodies such as the Institute. Our Trustees, committee members, academic associates, volunteers, partners and, last but not least, our staff, have also been tested by similar personal and professional, operational and practical challenges. I'm pleased to report that we have come through these trials in good shape financially, operationally and especially in terms of our growing impact and influence both in the UK and internationally. Please let me record my very sincere thanks, therefore, to all who have played a part in ensuring the Chartered Banker Institute remains resilient, proud and focused on supporting its members, and the banking profession more widely. CB

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“We have a real opportunity to make that cultural shift that we’ve all been trying to achieve over the past 10 years.” p45

ISSN: 1759-9520
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The professionals in this issue

Chris Leslie, Chief Executive, Credit Services Association, was previously a Member of Parliament and Minister in the last Labour government. **p14**

Andrew Rogan is Director, Operational Resilience, UK Finance. He works with industry to help build a sector that is better able to prevent, prepare for and recover from operational disruptions. **p14**

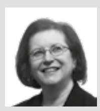
Matthew Conway is Director, Strategy & Policy, UK Finance. A former civil servant and regulator, he is responsible for setting the strategic agenda for UK Finance and leads on key public policy issues. **p28**

Joseph Healy is Co-founder and Co-CEO of Judo Bank. He is a career international banker and has held executive positions at NAB, ANZ, CIBC World Markets, Citibank and Lloyds Bank. **p28**

Daniel Klier is Group General Manager and Global Head of Sustainable Finance, HSBC. He chairs the Sustainable Finance Working Group at the Institute of International Finance (IIF) and the Climate Risk Working Group at the Bank of England. **p32**

Chris McHugh is Director of the Centre for Sustainable Finance at the London Institute of Banking & Finance. **p36**

Sir Roger Gifford is Senior Banker at SEB in London, an elected member of the City of London Corporation and Chair of the UK Green Finance Institute. **p56**



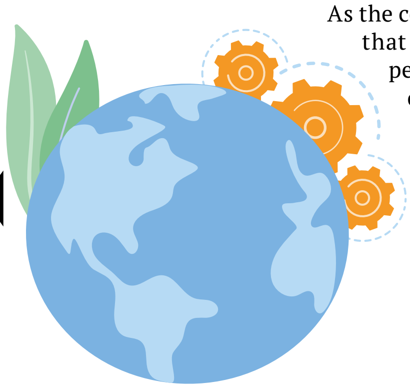
Dame Susan Rice DBE is Chair of the Banking Standards Board. She is a former clearing bank CEO, director of the Bank of England and chair of the Institute’s CB:PSB, and has developed several social finance and climate initiatives. **p56**

People & numbers

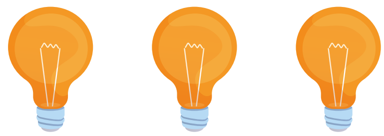
New centre supports climate-risk management

The UK is pushing ahead with its plans to establish London as a centre of excellence for green finance. Ahead of COP26, the UN Climate Summit, which is scheduled to be held in Glasgow later this year, the government has announced funding of £10m for a green finance research centre.

The UK Centre for Greening Finance and Investment will gather, analyse and provide data to support financial intuitions and investors with both climate and transition risks. With the Bank of England requesting financial institutions divulge details on how they manage climate-related risk, and the first climate stress test slated for late 2021, it is a timely announcement.



As the centre evolves, it is envisaged that consistent reporting will permit greater standardisation of measurement, enabling robust modelling tools and supporting both businesses and financial institutions in their decision-making around managing climate risk.



The deconsolidation trend

Renewed interest in regional banking has emerged as Birmingham Bank became the first of a group of potential start-ups to gain a full banking licence.

With the objective of using local insight to inform its decision-making, Birmingham Bank's acquisition of Bira Bank enabled the new business to overcome the usual regulatory obstacles facing new entrants to the market.

It appears to be a growing trend, with the Bank of England seeing applications for regional business banks in the North East and North West of England, as well as Wales, Scotland and the West Country.

Although well served by regional building societies in terms of mortgage and savings provision, transactional business banking has largely remained the preserve of the Big Four.

The regional challengers hope to provide a more personalised, relationship-focused service to businesses at the smaller end of the spectrum and are banking on technology to help them compete.

Facts & Figures

£35bn

Net borrowing by UK businesses in 2020

30x

Higher net lending to SMEs in 2020 compared with 2019

10%

Fall in consumer credit in 2020

Delays in bereavement processes

A survey by *Which?* magazine has found that, prior to the first national lockdown in March 2020, 17% said the process of closing someone's account took more than three months. This figure rose to more than one-third (37%) for those who started the process before lockdown and continued it afterwards.

Changes to ways of working, staff absences and increased demand on banks' bereavement services due to COVID-19 all appear to have played a part in the delays experienced. Before lockdown, just 3% of executors found it hard to contact the right people; that figure rose to one in six (16%) among those continuing the process beyond March 2020.

Latest customer service results show FinTech lead

The latest independent survey of 17 of the largest personal current account providers conducted by Ipsos MORI at the request of the Competition and Markets Authority found that the digital FinTechs are outperforming the rest.

The top three spots for overall service quality were taken by Monzo (with 85% of their customers likely to recommend them), first direct (83%) and Starling (82%). In joint bottom place, were Tesco Bank and RBS, with just 47% of customers likely to recommend their services.

Business lending boom

The latest EY ITEM Club for Financial Services Forecast has found that UK businesses borrowed £35.5bn (net) in 2020. That was £25bn more than the average borrowed over the past five years, with the rise most marked among small and medium-sized enterprises (SMEs). Bank of England figures, for example, suggest net lending to SMEs was 30 times higher in 2020 than it was in 2019.

The forecast also suggests that firms are likely to borrow an additional £26bn during 2021 to cope with the ongoing strains of the pandemic, with the latest lockdown meaning that repayments are unlikely to fall due until 2024.

Meanwhile, demand for consumer credit fell by almost 10% in 2020, the largest fall since records began, with net lending on credit cards or through personal loans turning negative. Although some uptick is forecast for 2021, the research suggests that we may see a rise of only around 2%. And, despite the government's stamp-duty holiday, mortgage lending remained low, at just 3% for 2020, with growth of 2.3% expected for 2021.

From politics to banking

Two former politicians from different ends of the political spectrum have taken up new roles in the banking industry in recent months.

Chuka Umunna, former Labour MP for Streatham, South London, and one-time contender for the Labour Party leadership, has been appointed to head up J.P. Morgan's European environmental, social and governance (ESG) operations. After leaving the party in 2019 and a brief spell at Change UK, Umunna led Edelman's ESG consultancy team. In his new role at J.P. Morgan, the former lawyer will support the bank's corporate clients in enhancing their sustainability credentials.

Meanwhile, former Conservative Chancellor of the Exchequer George Osborne has secured a role at investment bank Robey Warshaw. Since leaving government, Osborne has held a number of positions, including latterly at London's *Evening Standard* newspaper and BlackRock.

Meet the Trustee

In November 2020, we welcomed Sue Primmer, along with Ian Henderson, William MacLeod and Anders Bouvin, to our Board of Trustees.

SUE PRIMMER
Chief Marketing Officer, Sionic

Sue is a communications specialist and currently serves as Chief Marketing Officer for Sionic, a private-equity backed global consulting firm specialising in financial services. Her wider career includes senior leadership roles in the establishment and global faith communities, higher education and inner-city local government.

Within the finance sector, Sue regularly seeks to bring different groups together to consider the relevance of the 'City' to local people, or what 'good' banking looks like today, or the role of talented technologists in leadership. She has also founded several employee engagement and diversity and inclusion initiatives and graduate programmes, helping diverse groups of young people establish their first financial careers.

She is a Fellow of the Royal Society of Arts, Manufactures and Commerce and one of 100 women invited to receive the Freedom of the City of London in recognition of a century of women's suffrage.

Turn to this issue's Institute Advocates article on page 48 to hear more from Sue.

People & numbers

First move away from EU regulation

The Bank of England has announced a consultation into strengthening bank capital rules, in a departure from current EU regulation. If the consultation results in a change it could mark the UK's first major departure from EU regulation since the end of the Brexit transition period on 31 December 2020.

In 2020, the European Banking Authority permitted investment in software to be counted towards a lender's core capital levels. However, the Prudential Regulation Authority (PRA) has raised concerns that this diverges from Basel international banking standards and could "undermine the safety and soundness of UK firms".

The proposed change could mean a significant financial hit to the capital relief claimed by many of the larger UK banks, as well as the IT investment plans of challenger banks.

FinTech Scotland community blooms

Former senior regulator at the Financial Conduct Authority Nicola Anderson, who has been on secondment to FinTech Scotland for the past two years, has been appointed as the organisation's new Chief Executive Officer. It's a role Anderson has undertaken since November 2020, when former CEO, Stephen Ingledew, became Executive Chair.

The appointment marks the continued growth of FinTech Scotland. In the three years since its launch, the FinTech SME community has grown from 26 to 150. A founding member of a Europe-wide FinTech hubs collaboration group designed to support international inward investment and exports, FinTech Scotland continues to invest in innovation and research.

Tesco Bank appoints new NXD

Julie Currie, formerly of Lloyds Banking Group, has joined Tesco Bank as a non-executive director and will also chair the bank's audit committee. Currie, who qualified as a Chartered Accountant with Ernst & Young, spent more than 25 years at Lloyds. Her roles included director of acquisition finance, director of integration overseeing the merger of HBOS' and Lloyds' private equity businesses, chief operating officer of the bank's turnaround division, and latterly chief financial and operating officer for the Lloyds Bank Foundation for England and Wales. Currie currently sits on the board of Scotiabank Europe, and has chaired its audit committee since 2018.

Institute agenda

Banking on building back better

A new essay series, collected in a partnership between the Chartered Banker Institute and the Social Market Foundation (SMF), re-evaluates the concept of the stakeholder economy in light of the economic and social shockwaves delivered by the Coronavirus pandemic.

A stakeholder economy is one where the private sector operates in markets and the state sets rules and expectations for business to take account of the needs of not just shareholders but of stakeholders including workers, customers, suppliers and taxpayers.

Contributors to the collection, *Banking on building back better – How can a stakeholder economy help rebuild the UK after COVID-19?*, include City Minister John Glen, who says British banks and other businesses must help build a new model of "responsible capitalism" after the pandemic. Labour Shadow Chancellor Anneliese Dodds has also written for the collection, backing the stakeholder approach and calling for a new partnership between government and business.

Other contributors to the series include the CEOs of banks including TSB and Virgin Money, who also argue for businesses to do more to demonstrate how their work benefits not just shareholders but wider society.

The SMF, a cross-party think tank, said the range of contributors demonstrated a growing consensus among politicians and business leaders about the need for a stakeholder model of capitalism.

Simon Thompson, Chief Executive, Chartered Banker Institute, said: "A socially purposeful, ethically professional approach to banking is the ethos on which the Chartered Banker Institute was founded. In fact, we cannot see how banking can succeed if it is not deeply embedded within, and working hard to support, the communities in which it is rooted."

SMF Director James Kirkup commented: "There is a strong and growing consensus among politicians and business leaders that the future of the UK economy is in the pragmatic centre ground between the ideological extremes of free-market capitalism and state-controlled socialism. As we recover from the pandemic, sensible politicians and responsible businesses will work together to deliver a stakeholder economy, and the country will be better for it."

To download the essay collection go to **smf.co.uk/publications/banking-on-building-back-better/**

Privacy Policy update

We have updated our Privacy Policy to make some changes relating to the UK having left the EU and to give a better understanding of how we use personal data. The following updates have been made:

- We have updated the legislation applicable, and some of our partners
- The language has been clarified and made more consistent and easier to read
- We have added clarification about our examination services.

You can view our privacy policy at charteredbanker.com/the-institute/privacy-policy.html

Championing professional development with NatWest

The Institute is delighted to announce the launch of an enterprise membership arrangement with NatWest Group. The arrangement, which covers all NatWest brands, countries and jurisdictions, aims to provide access to core learning, professional content, toolkits and development material relevant to an individual's professional development.

The Institute and NatWest are committed to ensuring, regardless of specialism, that individuals have access to relevant content that supports professional expertise and responsible decision making – embedding a culture of learning and supporting sustainable banking.

Once individuals register, they'll have full access to dip in and out and choose content aligned to their personal development goals. There are also clear routes to professional qualification attainment for those who want to take the next step, including the Certificate in Green and Sustainable Finance.

BOOK BANK:

Whistleblowing, mis-selling – and trust

Strategies for Compliance, by Institute Fellow Alan Brener, provides an expert introduction to corporate compliance, using cases, examples and insights from the financial services sector and beyond.

Compliance is a fundamental control function within regulated industries globally and, in this book, Brener highlights the challenges, drawing on examples such as Wells Fargo, whistleblowing in the financial services and the mis-selling of payment protection insurance in the UK banking sector. He explores strategies for creating compliant cultures and fostering regulatory trust, while providing practical guidance on anticipating regulatory changes. Addressing organisational obstruction and delay, Brener presents a series of valuable tools and techniques for real-world practice.

A former Council member, Brener currently serves on both the Membership Forum and the Institute's Quality and Standards Committee. He is an experienced compliance practitioner and a Teaching Fellow at University College London and Queen Mary University of London.

***Strategies for Compliance: Tools, Techniques and Challenges in Financial Services* is published by Routledge and available at: routledge.com/Strategies-for-Compliance-Tools-Techniques-and-Challenges-in-Financial/Brener/p/book/9780367337575.**

REGULATORY RESOURCE:

Grant Thornton Handbook 2021

We are delighted to share Grant Thornton's 2021 Financial Services Regulatory Handbook with members. We are grateful to Grant Thornton for making the guide, now in its fifth edition, available to us.

The resource covers the main regulatory developments impacting financial services and notes the milestones and timelines firms need to prepare for to meet their obligations. The content is divided by sector, including Banking, Capital Markets, Insurance, Investment Management and Cross-sector.

We hope you find this resource useful and look forward to welcoming you to our joint sessions with Grant Thornton as we explore the most pertinent issues.

To download the handbook, please go to: grantthornton.co.uk/uk-regulatory-handbook/

EVENT:

2021 AGM

The Annual General Meeting of the Chartered Banker Institute is scheduled to be held on Thursday 24 June 2021 from 6pm. All members are invited to attend.

We have not yet confirmed whether this will be an in-person or a virtual event and further details will be announced shortly.

For more information, or to book, visit: charteredbanker.com/event.html

Chartered Banker

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* Enhanced, accelerated routes are offered for holders of the CB:PSB's Advanced Standard for Professional Bankers and graduates of the Certified Bank Director programme.

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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

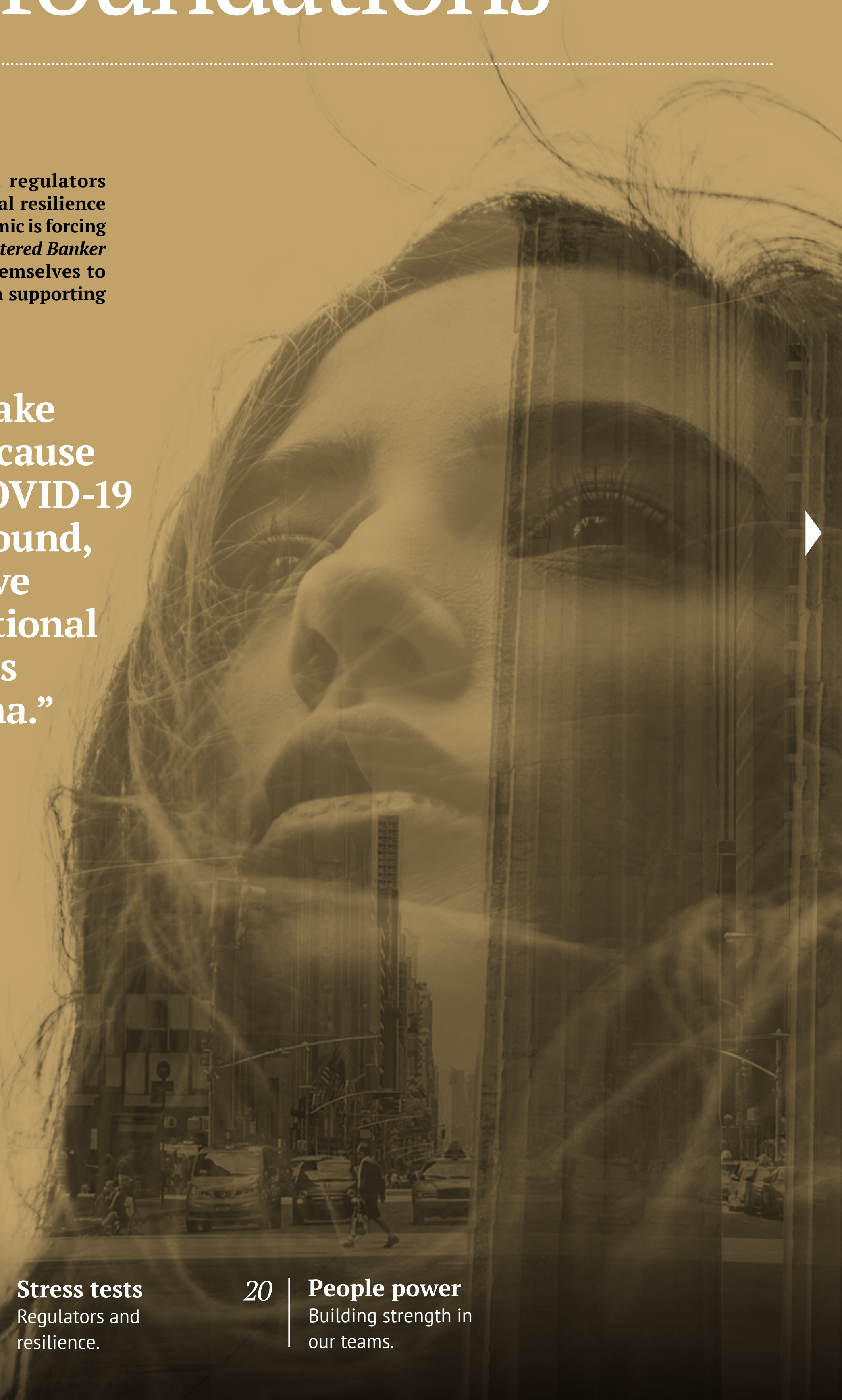
For further information and guidance about the eligibility criteria please visit: www.charteredbanker.com/CBBE

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

SPECIAL REPORT

Strong foundations

With a surge in bank lending and regulators keeping a close eye on the operational resilience of our financial institutions, the pandemic is forcing banks along a thorny path. Here, *Chartered Banker* explores how they are equipping themselves to manage the difficult balance between supporting customers and surviving themselves.



"It would be a mistake to believe that, because we got through COVID-19 so operationally sound, that suddenly we've cracked the operational resilience, business continuity dilemma."

Andrew Rogan,
UK Finance

SPECIAL REPORT

What does resilience mean today?

Operational resilience in today's financial services industry is vital for stability and sustainable growth, but can even the strongest strategies prepare organisations for the unexpected? And what lessons can be taken from a year that has brought unimaginable change for us all?

The ability to recover from an economic hit is an essential part of any business strategy. But, as facilitators of the funds keeping millions afloat amid a global pandemic, operational resilience for the finance industry has never felt more important.

It's been more than a year since the coronavirus hit the UK, and organisations are continuing to juggle a commitment to customers – millions of whom are requiring unprecedented levels of financial support – with protecting the well-being of employees. Add to this a laser-sharp focus on financial viability and a picture starts to emerge of the strain being placed on even the strongest of resilience strategies.

The full picture of the damage, though, remains grainy. More than 12 months of lockdowns, furlough schemes, business closures, and government intervention mean it's unlikely that the true impact – both fiscally and socially – will become clear for a while. But what it has done is catapult operational resilience up the boardroom agenda, creating a stress test quite unlike any other.

"The pandemic has undoubtedly shone a spotlight on the capabilities of all sorts of theoretical resilience plans," says Chris Leslie, Chief Executive, Credit Services Association (CSA).

"In a way, I think the financial services sector in general has benefited from the improvements that were made a decade ago when there was so much focus on capital adequacy, loss-absorbing capabilities, liquidity and so forth. All those lessons from the period following the 2008 financial crisis have shown themselves to be quite useful going into this particular crisis.

"We didn't have the system fall down. There was a period where there was a reduction in lending that matched a fall in demand for credit. But that seemed to bounce back quite quickly with regard to a certain set of financial services activities."

Breathing space

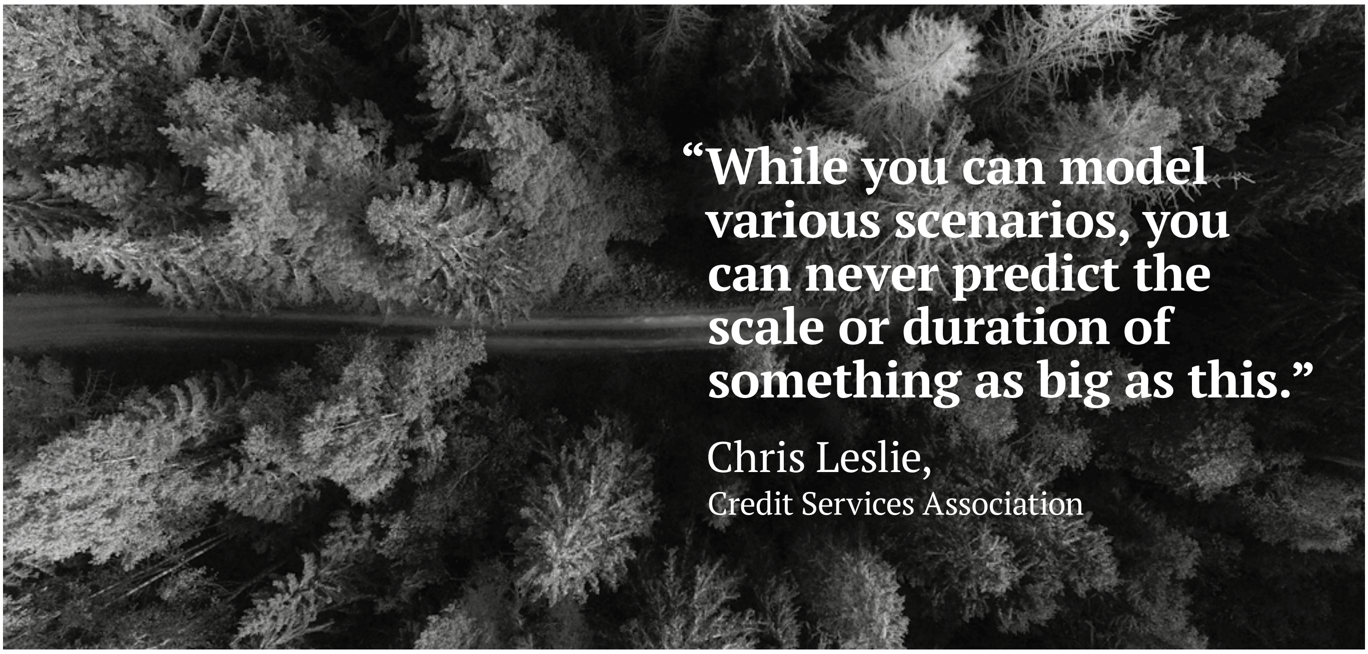
While the regulators undoubtedly have had a role to play in the industry's response to the pandemic, Leslie believes the rules already in place had created a culture of responsiveness and sensitivity that encourages resilience.

"The benefits of the existing codes of practice that we've had in our sector meant that, actually, we didn't rely on regulators' instructions to show the necessary forbearance and sensitivity to customers, because that was already built in to the business models that exist," he continues.

"There's already good practice. If individuals, for various reasons related to COVID-19, couldn't afford to make payments, then there was already existing forbearance that could be offered on a case-by-case basis. Many of those issues were already part of the design, both within the CSA's code of practice but also in the view that many other firms took.

"So, actually, although the FCA [Financial Conduct Authority] mandated payment deferrals, it was already happening. It's a bit like the breathing space regulations; a lot of these things are already built in."

> **"There has always been a customer-first strategy with regards to resilience."**
>
> Andrew Rogan,
> UK Finance



A people-first approach
It's natural in times of crisis to focus on the people around us. And from an organisational perspective, this people-first response has been essential for navigating the unpredictable.

"The starting point for all of this was that firms were really putting the health and well-being of their staff first," says Andrew Rogan, Head of Operational Resilience, UK Finance.

"One example was with respect to branch operations. The amount of effort that went into transforming branches so that staff could still serve their customers while minimising potential exposure to this disease was incredible. The amount of physical infrastructure that was transported to employees' homes within an incredibly short period of time so as to enable them to work from home and not force them to come into the office for want of equipment was also astounding. That stands, to my mind, as one of the great logistical feats ever undertaken by business. It had never been done before."

Leader of the pack
Logistical feats aside, how has the industry fared from a resilience perspective in comparison with other sectors?

"Not to blow our own trumpet, but I think financial services has been absolutely front of the pack here, in terms of sectors that have done really well [in adapting]," says Rogan.

"If you look at what happened, particularly in those early weeks in March when the seriousness of COVID-19 really dawned on markets, trading volumes were enormous, eclipsing that which happened in the global financial crisis 12 years ago when the panic that gripped markets became an existential threat to the entire financial system. And yet the market still functioned, margin calls were met, trades were still executed, assets were still serviced, and in many cases dividends were still paid."

While Rogan acknowledges that many branches were forced into reduced operating hours and call centres often had long waiting times, he says it was "absolutely incredible" that retail banks were able to adjust as quickly as they did. Many banks essentially transformed their day-to-day operations within a 10- or 12-day period.

"There are some real heroes out there, most of them on the front line but equally people in operations roles who managed to facilitate that kind of movement."

The time of technology
Leslie says technology has come to the rescue for many operational activities, without which maintaining the service to customers would have been incredibly challenging.

"Many of the basic systems were able to withstand a significant number of changes in working patterns," he says. "In particular, the shift to working from home was able to happen fairly smoothly. The main pinch points have been to do with things like data security, but beyond that, a lot of people have been able to migrate to a safer home-working environment."

There's no doubt that changes made over the past decade – along with advancements in technology – have enabled the sector to adapt to the logistical and operational challenges of the pandemic with unprecedented speed.

It does, however, remain too early to see exactly the extent of the damage of the past 12 months and, as a result, the true strength of the resilience strategies adopted long before the coronavirus had even entered the public consciousness.

"I think the general spirit has been fairly positive in terms of trying to make do and cope with what is a completely unbelievable set of circumstances," says Leslie.

SPECIAL REPORT

"There's still a lot of need that will have to be addressed next year and the year after that. The other point to make is that government intervention has been absolutely enormous this time round – I think even greater than during wartime. We are still in a position where we are reliant on government guarantees, grants, and loans, which is masking the real state of the market beneath.

"We won't really know the extent of that until that intervention has tapered off, which will be at least another year from now. We're still right in the midst of it. We mustn't think that we can be satisfied and that everything is sorted out, because we're still going through it and adapting to the situation."

If there's cause for hope, however, Leslie believes that the transition into a post-COVID-19 world will afford firms the breathing space to review and develop their strategies.

"I think some problems have been delayed and deferred to further down the line, but at least to a time when, hopefully, we will be out of a crisis scenario and can deal with them step by step. And that's mostly to do with what happens when government safety nets are gradually removed."

The next unknown

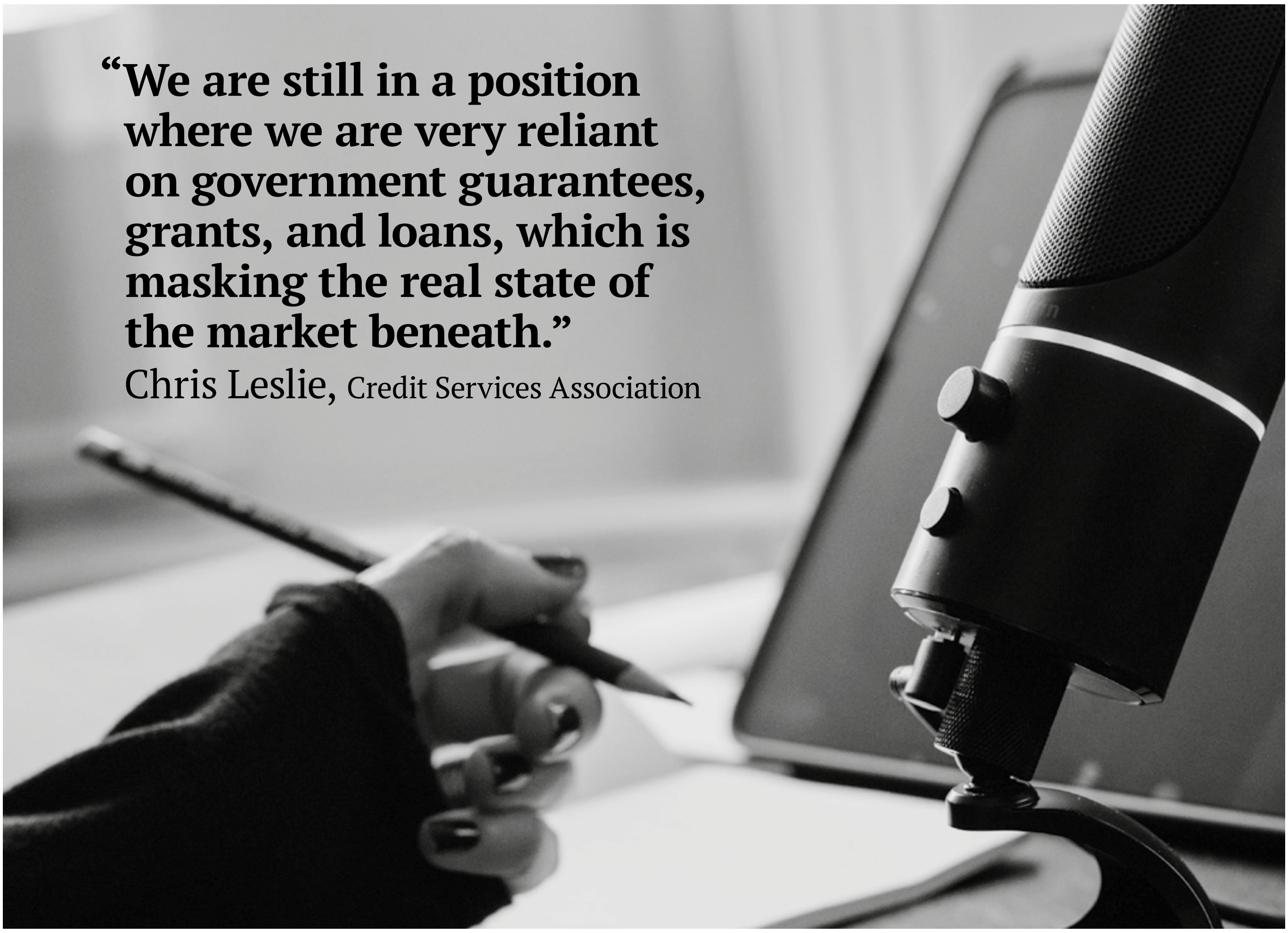
With organisations forced to take a hard look at their crisis planning, while juggling the resulting demands of that crisis, the challenge is in investing energy in teams and processes that have enough agility to respond to the next 'unknown unknown'.

"I used to have responsibility for civil contingencies preparing resilience policies and often we would run theoretical exercises trying to model what could happen," says Leslie. "The pandemic was a classic example in that, while you can imagine or model various scenarios, you can never predict the scale or the duration of something as big as this.

"What I've realised is that there's much innovation during the course of a crisis. Many of the solutions that businesses came up with weren't necessarily things they had in their pocket at the time, ready to roll. There was a lot of ingenuity shown, especially with challenges such as working from home."

Rogan agrees on the limitations of so-called resilience planning, and instead speaks of the importance of constructing the foundations for people and organisations to fall back on when the unexpected hits.

"Human beings have a tendency to plan for the last crisis," says Rogan. "It would be a mistake to believe that, because we got through COVID-19 so operationally sound, that suddenly we've cracked the operational resilience, business continuity dilemma. The next crisis may look like something completely different. It's all about falling back on your principles." CB



SPECIAL REPORT

Stressed out: Regulation and resilience testing

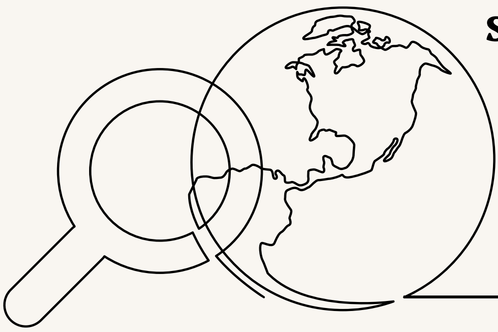
The global banking system is in a significantly stronger place than it was at the start of the 2008 financial crisis thanks, in part, to a flurry of regulatory reform. Here, we outline the regulatory expectations placed on banks during the pandemic, and the role of stress-testing in protecting us from the unknown crises of the future.

"From a liquidity and capital perspective, I think we were in a much, much better place than we were in 2008," says Monique Melis, Managing Director and Global Head of Compliance and Regulatory Consulting, Duff & Phelps, a Kroll business.

The Bank of England's latest Financial Stability Report, published in December 2020, found banks to have "high amounts of capital", suggesting a sector that went into the COVID-19 pandemic significantly better prepared than the financial crisis 12 years before.

The lowering of the capital buffer rate to 0% in March 2020 by the Financial Policy Committee (FPC) also meant that banks had more capacity to lend, with the change expected to stay in place for a longer time yet.

> "What do the banks do to help – and how can they survive at the same time?"
> Monique Melis, Duff & Phelps



Meanwhile, the agreement of the Basel III reforms and the introduction of policies around the Minimum Requirement for own funds and Eligible Liabilities (MRELs), introduced in 2018, tightened the regulatory handle on financial practices before COVID-19 hit.

It was, Melis says, this shift in regulatory culture and expectations that made the biggest difference in the financial services sector's response to the two crises.

"I think what is really important here is the dialogue between the regulators and the banks," she says. "That dialogue ensures the banks report on a lot of metrics and then the regulators can, together with the Bank of England [BoE], look at all that data and see, for example, are the ICAAPs based on the same risks across the UK? And do we have a structural risk because everybody's going after the same customers or everybody's going after the same lending?

"They can look at the planning in a different way and see where the banks are in relation to the macroeconomic environment. That's really important and I think that's much better today than it was before."

Stepping up

With the sector coming into the pandemic having benefited from a number of tough but pragmatic reforms, many industry insiders have been impressed by the response to the challenges thrown at it over the past year.

SPECIAL REPORT

"The interesting thing for me is that many of my clients – whether in banking or financial services more widely – have generally responded very well," says Hanif Barma, Partner at Board Alchemy and Co-founder, The Risk Coalition.

"In one way, you could look at the technology-driven and organisational changes that have been made in the past year which, of course, is a relatively short time. Many organisations might have said before that some of those changes would be nice to do but they weren't a priority and might have taken five years to achieve. A lot of really good work has been done in a short time, but there will also be longer-term issues that banks will need to focus on. These centre on building resilience in all senses – including refreshing their people strategies (the shape of their workforce, well-being and working practices), focusing on technology and digital acceleration, as well as considering financial considerations (such as the recoverability of the lending made in the past year)."

"I remember working in banks as a regulator when you almost felt ridiculous for asking about regulatory issues. Now, regulation is at the forefront of every single board."

Monique Melis,
Duff & Phelps, a Kroll business

Walking the tightrope

For Melis, it is a challenging time for banks, and not just because of the obvious pressures of a pandemic.

"The reporting infrastructure from banks to the Prudential Regulation Authority [PRA] and the Bank of England is much better than it ever has been," she says. "I think the way regulators collect data is better and the way that the banks process data is better, but banks are having a hard time making money right now.

"Although it's not the financial crisis of collateralised mortgages and it's not going to blow up in the same way, we are all sitting nervously waiting to see what's around the corner. That is particularly the case for retail bank sectors. The investment banks and merchant banks had made money on trading, but the retail banks are struggling."

To counteract out very low interest rates, Melis says banks may be forced to 'move up the risk curve'.

"They will probably issue specialist lending, for example, higher-risk loans. And then they go up the risk curve. We don't know what the fallout is going to be from defaulted loans. When loans default and you have vulnerable customers, you don't just have the prudential risk, although that is probably what we are most worried about at the moment because we don't want another banking crisis. The question is, what do the banks do from a conduct perspective to help and how can they do that and survive at the same time? Conduct is costly."

Great expectations

While banks walk the fine line of supporting under-pressure customers while ensuring financial viability, one of the key areas under the microscope of regulators is the classification of their loans.

"Banks try their very, very best to make sure they classify their loans," says Melis. All of this is based on the classification of their loans, the risk-weighted assets [RWAs], the regulatory requirement buffers and ensuring they're getting the MREL calculation right. On a practical level, that is the resilience. That is the bail-in. Do they have the systems and controls to have an orderly wind down, if they need to? The regulators come in and test that. The PRA is right on top of this."

For Barma, one of the key concerns from a regulatory perspective is understandably focused on stability of the financial system within the marketplace.

"That's at the heart of what they do," he says. "And the other piece that's essential is around protecting customer interest. The regulators are making sure banks are not causing customer harm, through basically not doing what they're meant to be doing, and by giving particular focus to the treatment of the more vulnerable customers."

An evolution

Resilience at any time should be a key topic on the boardroom agenda, but the pandemic has sharpened focus on the impact tolerance of organisations all across the finance sector.

To this end, the BoE, PRA and FCA published an update on the 2018 shared policy summary in August 2020. The findings from the consultations focused on strengthening operational resilience for financial organisations. Or, as they described it, "the ability of firms and the financial sector as a whole to prevent, adapt, respond to, recover and learn from operational disruptions".

Barma continues: "What came out of the initial discussion paper was a step-by-step process, if you like, through which firms need to identify their important business services and operations. It's about working out what's really important to ensure business resilience.

"The second part is in mapping out these important services, really understanding what resources are required to keep those services running within the timescales customers expect, whether it's people, facilities, or IT and infrastructure. This enables firms to actually understand where their weak points are."

A knock-on effect

Another area where clarity is required for regulators, says Barma, is around organisations' agreements with suppliers.

"It's about understanding the resilience of your third-party suppliers. It's going to be very important, rather than just assuming because you've outsourced or contracted a business service, that your operations can continue, that your board has assurance that agreements are in place with suppliers, and the requirements of the contracts, are going to be met."

Keeping it simple

Resilience strategies – or stress-testing an organisation – should not, according to Barma, be rocket science. The difficulty in the past, he says, has been on focusing too much on the underlying causes rather than being confident that the organisation can cope with the resulting impact.

"In a sense, it's not as important now as to what causes the failure or the disruption, it's in knowing how you're going to deal with it once the disruption has happened," he explains. "It's about asking, will we be able to get things back up and running within our impact tolerances? How long will that take? A day or a week or a month? I think the pandemic has led to a big rethink around this."

For Melis, the attitude towards stress-testing and regulation has gone through a transformation over the past decade.

"In my opinion, in the last crisis, banks just didn't understand the importance of stress-testing in the way they do today," she says. "The Lehman Brothers' collapse gave the whole industry a real jolt – it was an incredible wake-up call as to how important this all is.

I remember working in banks as a regulator when you almost felt ridiculous for asking about regulatory issues. Now, regulation is at the forefront of every single board."

Looking ahead

While the industry waits to discover the real impact of the pandemic, leadership teams will also be looking closely at their stress-testing strategies to best prepare for the unknown challenges the future could bring. And they must, says Barma, adapt a multifaceted approach.

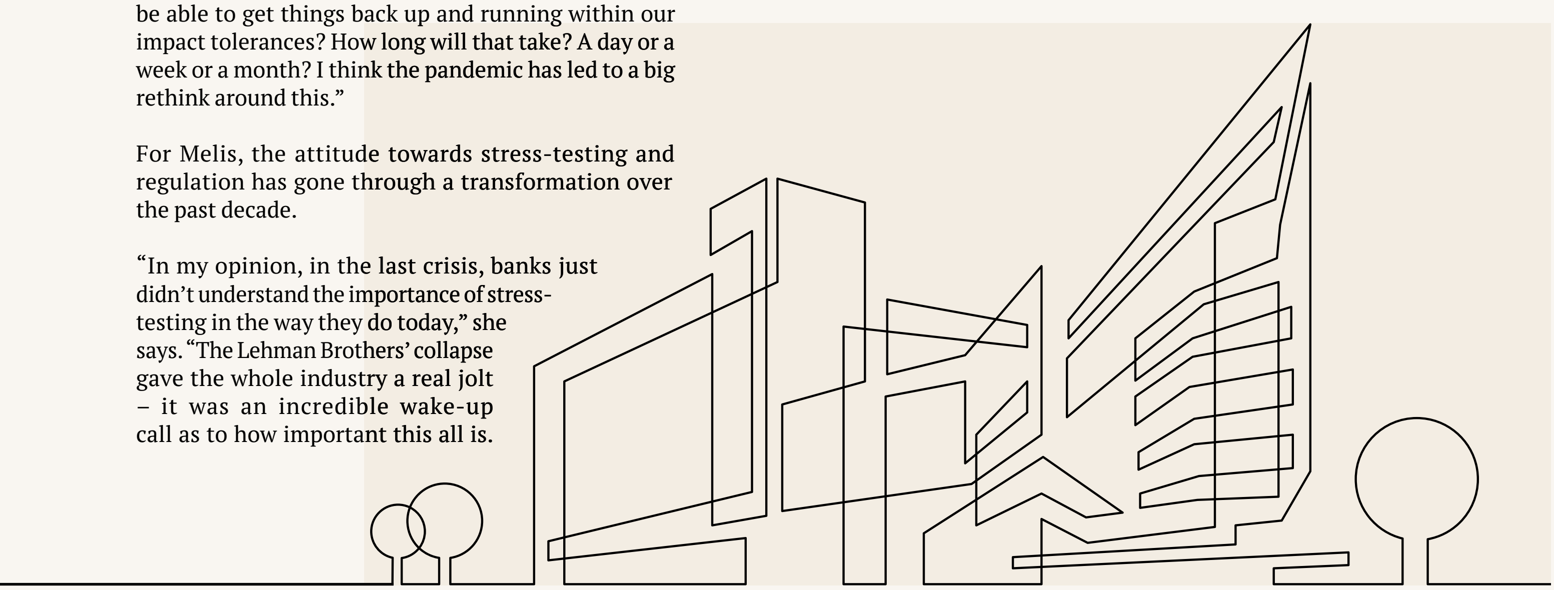
"Sometimes these test scenarios are fairly discrete," he says. "You'll get one thing happening and look at how you respond to that. With the pandemic, what we're seeing is a multitude of things happening at the same time.

"Stress-testing must be about looking at what would happen if a combination of things happened at the same time. Looking at the pandemic, this could be staff not being able to get to call centres; people having to be set up to work from home; additional staff you might need to hire; the cybersecurity implications of more people working from home."

Melis believes that, essentially, improving resilience is about opening up the conversation within the organisation and encouraging honesty around potential weak spots.

"If you spoke to a mathematician or a financial risk modeller, they would say it's all about the numbers and the modelling and what goes into that," she adds. "I do think that regulation relies a lot on that, but it's really about talking about it and raising it and having a debate at the executive team level, which then goes up to the board, about where the real problems lie.

"The risks might lie in areas that you haven't thought about before. So that's the challenge – it's an interplay between macroeconomic evolution, risks to certain sectors but then really talking to the business." CB



SPECIAL REPORT

Well-being rises to the top of the agenda

With COVID-19 forcing millions into homeworking and banks providing support to a rising number of vulnerable customers, employees in the finance sector are under a number of pressures. Here, *Chartered Banker* explores how important workforce stability is as an element of organisational resilience – and how banks can support their staff during times of uncertainty.

Those working in the finance sector are facing almost unparalleled levels of pressure. While many in the industry have been protected from job loss, a combination of homeworking, financial uncertainty, professional obligations and any number of personal challenges is creating a pressure cooker for the health and well-being of employees.

As any leadership team knows, poor mental and physical health among staff can create an operational house of cards, bringing significant risk to both the business and the futures of its employees.

But the difficulty, says Paul Barrett, Head of Wellbeing at the Bank Workers Charity (BWC), is that it can be almost impossible to unpick the causes of stress during crises such as a global pandemic.

"We've seen a lot of people whose household finances had gone off a cliff."

Paul Barrett,
Bank Workers Charity

"It's hard to disentangle the various pressures that people are under, especially when you're talking about a home working population, because they're just dealing with a succession of events," he says.

"For somebody working from home, that is going to depend on their family circumstances – it's going to be to do with their children or their partners or what's going on in their lives. Maybe they need to be homeschooling children. Maybe they're shielding a vulnerable member of their family. And then there are going to be all the normal work problems that get thrown up, but these can become more difficult to deal with when you're not in the office."

Floundering finances

While many across the industry have been protected from the significant job losses experienced elsewhere, financial pressures are still one of the key issues affecting employee resilience.

"We've seen a lot of people coming through, especially in the early stages of the pandemic, whose household finances had gone off a cliff," Barrett says. "Although

bank employees had their salaries covered as normal, their partners might have been on furlough or they may have been working reduced hours or even lost their jobs. That has put lots of people into a very difficult position.

"We've seen many employees whose finances pre-pandemic were already precarious and falling into seriously difficulty. There was a big surge in requests for financial support during the early phase of the pandemic. It was nearly always in situations where one partner had lost their job or had seen a significant drop in income."

"Only 11% of employers have communicated a vision for how work is going to be done in the future."

Andrea Alexander,
McKinsey & Company

It's not just the finance sector. Research published by Mindshare earlier this year found that 42% of respondents were more worried about their finances than about COVID-19.

And it does seem as though organisations are responding. With a growing number of employees under increasing financial pressure, many financial services firms have been stepping up their health and well-being strategies to include financial welfare.

"We've been brought in to do lots of webinars on financial well-being across the sector, and I know that a number of the banks have been producing financial well-being campaigns because they're very aware of the link between poor financial well-being and mental health problems. That's an important two-directional relationship."

Good to talk

For many employees, adequate communication and support from co-workers and line managers can be the first step in ensuring psychological well-being, particularly during times of uncertainty.

"Mindshare conducted a study that found that 38% of respondents said that no one from their organisation had called to check in on them," says Andrea Alexander, Associate Partner in McKinsey & Company's Organisation Practice.

"Of those who said no one had called to check in on them, they had a significantly higher likelihood of saying they were not doing well during the pandemic," she says. "One of the things I often tell my clients is to just check in with your people. Ask them how they're doing. Remember that the first response might just be, 'Oh I'm fine,' so ask it three times. Follow up – and leave space for it.

"When you're in the financial services industry, people are often your differentiating factor. Making sure that they feel safe and supported and have strong mental health is critical."

Some organisations, Alexander says, are better equipping their leaders to have these conversations, which can often happen organically or at a time that's unexpected.

"As soon as someone says, 'I'm not doing well,' you often have to think, 'OK, we're going to have this conversation right now.' And so actually helping leaders understand how to have these conversations in a way where you're not trying to solve the problem in a 20-minute conversation, because that's not realistic. Instead, what you're doing is just genuinely listening and being authentic to show that you care."

Clarity in the fog

Communication is all well and good, but it can often be eclipsed by the day-to-day pressures of keeping an organisation functional. Combine this with uncertainty about the future and it can be difficult for leadership teams to keep an open dialogue with employees around future plans.

"I've talked to a lot of executive leadership teams that are basically contemplating if they should be focused on the future right now," she says. "The more urgent consideration is how they're going to operate on a day-to-day basis, but you need to be thinking about what your future operations might look like now, and you should be designing it now, not waiting six or nine months until people might be ready to go back to the office."

This type of forward planning and communication, says Alexander, can be crucial in giving staff a sense of control over their own lives, which in turn can create a more resilient workforce.

"We recently conducted a survey of employees to understand how they're faring in this pandemic world," she says. "We found that only 11% of employers have communicated a vision for how work is going to be done in the future. Today, we have a lot of people who may have moved geographically – or are contemplating moving – and only 11% of organisations have actually said 'this is basically how things are going to work in the future.' Nearly three-quarters (73%) of employers said they just want to know in the next three months what the future's going to look like post pandemic, whenever that is."

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While communication is key, Alexander says it's vital to provide only as much information as you're able to.

"Don't say anything that you're not sure of, but make sure there's that constant communication of 'here's what I can tell you, here's when I think I'll know more, this is how we're envisioning the future'. That can really help employees."

Pivot to digital

As the repercussions of COVID continue to bring increasing levels of stress, in what ways are organisations adapting their workforce resilience strategies?

> **"The pandemic has made well-being everybody's priority, because every manager is worried about their team."**
> Paul Barrett,
> Bank Workers Charity

"The pandemic has caused banks to think a lot more about well-being than they ever have before," says Barrett. "I should say, of all the sectors, I think the banking sector has always been a major embracer of the importance of workplace well-being."

Barrett refers to positive work in the sector, including Barclays' 'This is Me' campaign, as well as well-thought-out initiatives by Lloyds and Santander, among others, which look to advance the conversation around mental health.

"Banks' internal campaigns would previously have been based on things like well-being roadshows, or people coming to different sites to do activities such as heart monitoring, exercise classes, yoga, and meditation. That approach had to stop because suddenly there was nobody in any of the locations. There was effectively a pivot to digital.

"It's made organisations, including banks, appreciate that technology – and apps in particular – can be a really fantastic way of delivering support and mental-health resources to people digitally, at a time of their convenience. The focus on convenience of support for employees has probably been the single biggest topic in the whole well-being shift."

Time out!

For other organisations, Alexander has seen increasing resources allocated to what she calls behavioural health, with some even allocating mental health ambassadors to ensure employee well-being is being monitored and supported at every operational level.

"I've also seen many organisations provide what they call COVID days, which is additional time off that is really just for anyone," she says. "If you're a working parent, maybe your child's school has closed and you need an extra couple days off to figure out childcare. Maybe you're taking care of an elderly parent or grandparent. Maybe you just need some personal days because you're dealing with the social unrest and the pandemic itself."

Leading from the front

One of the main challenges in the current climate is in trying to implement boundaries around employees' working hours.

The research, says Barrett, shows that many people are experiencing longer working days than before the pandemic, despite extra time gained as a result of less time travelling to and from workspaces.

"It might be because of job insecurity and they're worried about what the pandemic holds further down the line, in employment terms," he explains. "It might be that employees don't feel as trusted as they might be. Either way, it has been a very significant pattern.

"I've seen banks sending out homeworking guidelines to their staff, focusing on the importance of taking regular breaks and not working exceptional hours. There are so many stresses and pressures on people. You really place them at risk if you encourage a mentality of overdoing it."

Beyond HR

For Barrett, though, the silver lining of the pandemic has been the way it has pushed well-being up the agenda, as organisations see first-hand the importance of a resilient workforce.

"Well-being has never been higher on the banks' agenda. Some well-being specialists are telling me they've never had this level of engagement from the business before. Typically, in any organisation, well-being tends to be seen as HR's responsibility. It's perceived as being soft and fluffy and involving things that make people feel good about themselves.

"What the pandemic has done is make well-being everybody's priority, because every manager is worried about their team. They're not seeing their colleagues in the way that they could before, and everybody is working remotely. They're wanting to ensure that their well-being is properly taken care of because businesses are reliant on people." CB

THE TRUST ECOSYSTEM

A new opportunity for banks?

The pandemic has brought with it a surge in trust for the UK's financial institutions. But with social, emotional and professional fatigue now setting in across the country, how can the industry build on the rise in approval to make lasting changes for the better?

THE TRUST ECOSYSTEM

Since 2012, public confidence in the banking industry has been recovering from the aftermath of the 2008 financial crisis, from 27% approval in 2012 to 56% approval in 2020, according to Gallup.

As well as this, the 2020 Edelman Trust Barometer, which surveys more than 13,000 respondents globally, found that the public's trust in the sector reached an all-time high of 65% amid the pandemic.

Fight or flight

With financial organisations juggling a fast-shifting set of logistical, social and economic challenges, the display of public confidence is a good news story for the industry, and for society in general.

But exactly what is the reason behind the surge in trust, in particular during a time of such unprecedented uncertainty? For Christopher Box, Financial Services Consulting Leader, PwC, it's not entirely surprising.

"I think it's partly a reflection of times of uncertainty, when there is usually a flight towards institutions," Box suggests. "That says to me that people want to trust during a period of uncertainty. Organisations currently have an opportunity because lots of engagement scores were consistently high across financial services, but now is the critical time because we have reached the point where fatigue is starting to set in."

The authorisation of payment holidays and facilitation of government support packages have also played a part in public perception of the sector.

"At the heart of the government's response has been the banks, which together have authorised payment holidays and issued various support packages worth over £57bn," Richard Kibble, UK Head of Banking, Deloitte, said at the end of 2020.

"This hasn't gone unnoticed by customers with more than three-fifths of customers saying they were pleased with their banks' response to the crisis. Moreover, customers are voting with their feet, with more than one-third of those who switched or opened bank accounts as a result of the pandemic saying they were motivated by their new bank's societal impact."

Crunch time

Michael Conway, Partner and AI Practice Leader, IBM, believes the way in which the industry responded to the logistical challenges when COVID-19 first hit the UK showed that supporting customers was the first priority for organisations.

"There was a crunch period at the beginning," Conway says. "If you think about the dynamics of how banks help their customers, there's the supply of help, which is typically agents or branch staff, and then there's the demand of customers. With the government rolling out new financial measures and instruments almost daily that banks were having to administer, the demands from customers wanting to understand these things was going through the roof.

"And yet customer support in branches and the staff in the banks' contact centres was reducing due to sickness and self-isolation. There was a problematic dynamic of customers needing help and the banks not being able to supply it, so banks had to shift to remote working remarkably quickly."

> **"There are some things that just don't need the human touch. It's about freeing up that time for the human-led intelligence to really come to the fore."**
> Michael Conway, IBM

There followed a seismic shift in the industry's day-to-day operations, which opened the gates to a new wave of innovation aimed at providing customers with the support they needed.

One example was TSB's Smart Agent live-chat technology, developed in partnership with IBM and launched in just five days. The functionality enabled customers to communicate with bank staff remotely for the first time with common banking questions, allowing staff in branches and contact centres to prioritise vulnerable customers and those who required essential services.

The other AI

Conway says that, amid this transformation, there is a huge opportunity for harnessing AI – augmented intelligence, as he explains it – to further personalise the customer experience.

"We want to help customers when they want help in the quickest way possible," he says. "There are some things that just don't need the human touch – for example if you've lost your card – and, frankly, customers want a quick, any-time response to those types of questions. It's about freeing up that time for the human-led intelligence to really come to the fore. That's better both for the customer and for the institution.

"Digital-first is something that we've been speaking about for a number of years, but it's coming to centre stage now that the customer demographic that didn't previously use digital banking services now does. Digital can be the enabler for customers getting what they want, when they want it, with AI helping to ensure the right support is there when required."

From the inside out

While banks are finding more efficient ways of communicating with customers, the industry has a number of challenges to consider as we start to move towards a new way of working. This includes gaining and maintaining the trust of employees – a vital step during any period of transformation and one which, Box says, must come from the inside out.

"I think a lot of what was done eight or 10 years ago was to satisfy regulators and the media," he says. "I believe that what organisations are trying to do now is genuinely reconnect with both employees and customers. Organisations realise that taking employees on whatever transformation they're going through is critical if they want that transformation to be successful. People need to buy into it. It's a bit like a pandemic; people need to see the path and they need to see what is going to be better as a result of any change.

"In our banks today, the message has become more simplified. It's become much less about messages on mouse mats and posters on the wall and much more about asking 'how do we behave?' and 'what do we really stand for as an organisation?' And that, I think, resonates with employees."

Pay back

As is necessary during any period of transformation, financial viability and operational efficiency have to be key considerations. But failing to prioritise customer need while implementing changes will never precede positive transformation.

"There's definitely a more balanced scorecard now, one that says this can't just save costs," says Conway. "It's got to be good for the customer, good for us as an institution but also radically change the way that we operate.

"I think this period has served as a reminder to focus on the why. Previously, organisations would often get so caught up in the what and the how that they would forget about the why. When you're rolling out financial products within five days to help customers in dire financial straits, the why is so apparent in your mind that you get stuff done really, really quickly.

"That sort of focus on the end result for customers will help banks deliver change and transformation far quicker in the future."

> **"Now is the critical time because we have reached the point where fatigue is starting to set in."**
> Christopher Box,
> PwC

A clear head

Christopher Box agrees on the importance of clarity. "You've got to be clear on why you're looking at this as a topic as an organisation," he advises. "If you genuinely want to increase trust between organisations and employees and between organisations and customers, then being clear on what you want to achieve is really important. You're better off doing nothing than paying lip service to this. And that's the question CEOs need to pause and reflect on.

THE TRUST ECOSYSTEM

"All organisations need to close the gap between what they say and what they do. The worst thing that organisations can do is purport to say and do one thing and actually do something completely different, because then they set themselves up for failure."

One of the key principles for creating lasting change, Box says, is not to over-promise. "You've got to be confident that you can deliver on what you say you're going to do. That 1% of the time when people or organisations are under extreme pressure, when they are inconsistent with what they purport to do, can have a massively disproportionate impact in terms of perceptions of trust."

Authentic leadership

While clarity of messaging will continue to play a vital role in maintaining and building on public trust in the sector, it's honest leadership that, for Box, will get the industry through the challenges ahead.

"If there has ever been a time in our lives for authentic leadership, this is it," he says. "I think employees want it and expect it more than ever, but what does that actually mean? For me, it means trying to use words that resonate with employees, trying not to over-engineer the key messages, trying to be honest with people. You're seeing it now at a societal level with government. People want honesty."

The other challenge for banks, and other financial institutions, is defining their place in what Box calls the trust ecosystem, and finding opportunities to step into areas where trust and authenticity are lacking.

"Studies have shown there is a current distrust of the media because of the rise in fake news, and a distrust in traditional organisations like government. I think part of that void could be filled by corporates and organisations. If you can, as a CEO, address it in an effective way, it could make a massive difference commercially and help to differentiate you when attracting people to your organisation.

"We'll soon start to see some of the more detailed analysis of what didn't go well. Organisations need to think about what their longer-term strategy is, especially as we start to get into, dare I say it, some of the recriminations that will inevitably follow the pandemic. We need to build on the good that was done at the beginning." CB

"If there has ever been a time in our lives for authentic leadership, this is it."

Christopher Box,
PwC

THE DAVIDSON COLUMN

Building a brighter future, together

Small businesses have shown great resilience through these unprecedented times, says David Postings, Chief Executive, UK Finance. The banking and finance industry will continue to match their spirit.

People will tell you that passion and energy are at the heart of running successful businesses. But I believe that resilience and flexibility are also essential requirements. Over the past year, businesses have shown their mettle as they have adapted to deal with the shifting environment brought on by the coronavirus pandemic. It is their resilience, determination and hard work that has helped them to repeatedly adjust to changing lockdown restrictions by altering their business models to meet customer needs and serve their communities.

More than ever, small business owners have relied on support from banks and finance providers as they deal with this uncertainty. As the Chief Executive of UK Finance, the collective voice of the banking and finance industry, it has been interesting for me to observe how our members have adapted to meet the changing needs of our customers. The support given by banks, including through government-backed loan schemes, has provided businesses with a safety net and greater certainty, even though the outlook remains challenging for many. This support, often lost in the numbers, has made a real difference to real people.

"This support, often lost in the numbers, has made a real difference to real people."

For example, a nursery in the Midlands was able to stay open because of the Bounce Back Loan Scheme (BBLS), while a pub in the Peak District was able to retain all of its staff. The Coronavirus Business Interruption Loan Scheme (CBILS) enabled a beauty salon in Somerset to move part of its business online and helped a Norfolk window company to reopen after the first lockdown.

Up and down the country, there are countless stories of how small businesses have been weathering the storm, and each and every one of these successes should be celebrated. But we know that the banking and finance industry's work is not yet done. As the pandemic continues, we will continue to support small businesses when the current range of government-backed measures draws to a close.

"By working together with our members, the government, regulators and others, I am proud of the unprecedented help we have delivered."

Beyond financial support, we will continue to look out for people's health and safety. Last year, we raised the contactless limit from £30 to £45 to help more customers and businesses operate safely. For people who have been shielding, we have provided new ways to make payments and access cash without compromising their well-being, and many banks are checking in on their vulnerable customers by making regular calls.

To help people through financial difficulty, our industry has provided support across overdrafts, credit cards, personal loans, and mortgage payments. Payment deferrals remain in place across many products and the window to apply for this relief is still open. For those who have already used the full six months of payment deferrals, lenders are still here to help.

Helping to get Britain through these tough times has been at the heart of our work over the past year. We know this must continue. It has been remarkable to witness the resilience of businesses and people during the pandemic, and it has been heartening to see many players in our industry pulling together to support the country. By working together with our members, the government, regulators and others, I am proud of the unprecedented help we have delivered. As we look to the months ahead, we will continue to be there for customers as we build a brighter future together. CB

RETHINKING REGULATION

A new framework for a post-Brexit world

With the UK's regulatory approach no longer prescribed by European Union legislation, HM Treasury's Financial Services Future Regulatory Framework Review aims to determine how the nation's financial services 'rule book' could be adapted for our post-Brexit future. Here, industry figures share their views.

Matthew Conway, Director, Strategy & Policy, UK Finance

First of all, I don't think anybody in government, regulation or the industry has a grand plan for what regulation will look like in the future. What is clear is that it won't stay the same, but nor will it move to the other extreme – so-called Singapore-on-Thames. What I think we'll see is change over time where it makes sense for the UK to adapt its regulatory framework to suit the circumstances of a single country, or a single market in financial services, rather than a European Union [EU] seeking to bring together the disparate circumstances of multiple member states.

Sensible and timely change

In its framework review consultation, the Treasury has indicated its intention to reform and revise regulations activity by activity, creating a rolling programme of reform. We're already seeing some of that in the Financial Services Bill where, among other things, the UK's approach to benchmarks is being changed ever so slightly from that in European legislation.

There are some other changes that would be absolutely straightforward, completely uncontentious and could happen literally overnight and I don't think anybody would say anything other than, "well, that makes sense doesn't it?". Examples may be an amendment to the onshored revised Payment Services Directive [PSD2] to permit cashback without purchase, or the UK setting the compensation amount of the Financial Services Compensation Scheme to sterling rather than the euro.

Looking further ahead, I think you could conceive of quite different regulatory frameworks emerging for domestic and cross-border businesses. If, for example, you are a large globally systemic bank, I don't see that anybody would think you should be subject to the same capital requirements as a small local, county-only building society.

Considerations for the future framework

There's no doubt that there will, rightly, continue to be a regulatory focus on operational risk resilience. What the government needs to decide, as it thinks about the future framework, is where some of those tensions in its public policy aspirations exist. So, for example, at the moment, as the UK's resolution authority, the Bank of England is responsible for minimising the risk of banks failing badly and resolving the risks in a controlled fashion if the banks do fail.

But that has constructed a framework where so much capital is required to be held to stop failure that people are prevented from coming into the market in the first place. And what the Treasury needs to do, when thinking about risk generally, is to accept that there are places where regulators should not be making those risk decisions. They are societal decisions that should be taken by democratically elected and accountable institutions, for regulators to then implement appropriately.

Regulating technological shifts

When it comes to technology, what banking and finance is experiencing is not unique and much can be learned from the experience of other sectors. What you need is a broader regulatory system, one where sectoral regulators work with the horizontal regulatory frameworks for data protection, as they need to with competition and consumer protection and all those other horizontal layers of regulation, and there are signs that that is happening.

“This isn’t about a bonfire of regulation; it is an opportunity to consolidate and rationalise.”

Matthew Conway, UK Finance

But this is not just about the impact of technology on banking and finance; it’s the impact of tech companies moving into financial services. It’s this idea of same activity, same risk, same regulation. As a customer, if I think my money is in a current account, surely it should be regulated in the same way, whether the account is provided by a 320-year-old bank, a 32-year-old bank, a bank that got its licence yesterday, an e-money institution, or anybody else. So that idea that it’s not who you are but what you do that should be regulated, I think is the most important thing that the Treasury can broaden in the new framework.

An opportunity for rationalisation

There’s no doubt that regulators need to talk to each other more – whether they’re part of one large umbrella organisation or many smaller ones – to ensure they’re not asking multiple things of the same firms at the same time, in a way that just prevents them from being able to respond. There is also the opportunity to take the statute book as it now stands, which is a bit of a mishmash of long-standing domestic legislation and regulation, and decide which bits of it should move into a regulator’s rule book, and which can be simplified.

This isn’t about a bonfire of regulation; it is an opportunity to consolidate and rationalise. In doing that, it provides an opportunity for us to learn from elsewhere in the world and to take a view on whether consistency of regulation between jurisdictions or tailoring regulation to your own specific circumstances is beneficial. That’s not clear-cut and there should always be a very direct demonstration that the net outcome of what we’re doing is to increase benefit.

But what needs to underpin all that can be summarised as competitiveness and proportionality. If you’ve got a framework that ensures that the UK is the best place in the world in which and from which to conduct banking and finance, and a framework that treats the players within it according to the risks that they import into the system, then that, to me, feels like a future entry framework – even if nobody exactly knows what its borders and its limits are going to be at the moment.

Alan Brener, Deputy Director of the Centre for Ethics and Law, University College London and former Director of Regulatory Risk Compliance, Santander

My view is that the changes will be quite limited in practice. In many ways, the UK will continue to parallel what the EU does now and will do in the future, partly because it’s very costly to move away from the EU elements, but also because the UK was in the lead in devising most of the financial services regulations that came out of the EU. We were in charge of that part of the EU Commission. We were heavily involved in the European Parliament, particularly in the important sub-committees, so essentially this is our legislation. The other key element, of course, is that a lot of regulation comes from supranational organisations, the Financial Stability Board and the Basel Committee on Banking Supervision, rather

RETHINKING REGULATION

than from the EU, so we will still need to reflect these requirements in legislation in the same way as every other country.

Resilience in focus

Looking ahead, just as we saw after the 2008 financial crisis, there will be a review of risk resilience once we emerge from COVID-19 and, actually, the steps taken previously in financial services seem to have stood us in good stead in this latest crisis. The Financial Stability Board, and possibly the Basel Committee, will probably look again at non-financial resilience. Many of these issues will be operational, such as to what extent can firms operate remotely and what are the risks? How strong and secure is their IT? What are the resilience risks of bank and regulatory staff working from home. What are the threats to their resilience, if organisations lose a significant number of staff due to illness, childcare responsibilities etc?

"Nothing from what's been said will be particularly traumatic for banking and given the supranational nature of regulation, there is a limit in terms of what is likely to change, as a result of the UK leaving the EU."

Alan Brener,
University College London

The increasing reliance on technology and the growing digitisation of financial services will also, I think, lead to more regulation. Obviously in relation to customer information, we've got GDPR [The General Data Protection Regulation] and I'm pretty sure that will continue. We may get more regulation focused on reinforcing IT security, the sustainability of business models, the increased protection of vulnerable customers and so on. The UK regulators will have the risks of major operational failures at the forefront of their mind since these can destroy large chunks of the economy quite rapidly.

Supranational regulation

Overall, in terms specifically relating to banking regulation, I don't see much change. There may be some scope on the margins to look at areas such as employee renumeration, possibly reducing the capital requirements for some of the small challenger banks, and the government will probably make some changes on the edges for asset management. Again, nothing from what's been said will be particularly traumatic for banking and given the supranational nature of regulation, there is a limit in terms of what is likely to change, as a result of the UK leaving the EU.

Joseph Healy, Co-CEO, Judo Bank

Post-Brexit Britain – combined with COVID-19 – creates a unique opportunity to get 'off the busy dance floor' of what we have today and get 'on to the balcony' to take stock and develop a vision for the future aimed at strengthening the UK's place in the global financial system.

Historically, the financial services industry has been a core competence of the UK. This is in many ways a national strategic asset that should be invested in to strengthen this important sector for the future. A key priority will be the scope of regulation, both in terms of the current burden, which has increased substantially since the 2008 financial crisis, and also the material growth in scale and scope of the unregulated part of the financial system, which I worry about greatly.

An opportunity for increased competitiveness

Brexit is an opportunity for the UK authorities to create a regulatory framework that strengthens and supports this goal. This could be achieved by taking a forward-looking approach to regulation that recognises the sweeping changes that are occurring in the global financial markets, while staying committed to sound globally competitive regulatory practices based on principles of financial stability, system integrity and ethical conduct. Doing nothing and taking a complacent posture would be a big mistake.

The biggest factor, in my opinion, is the shift of economic momentum to the East and a belief that the financial systems in Asia will have a disproportionate share of activity going forward. London should strengthen its ties with the Asian region and be seen as a natural market to finance much of the trade and investment that will define Asia in the century ahead. London has history, institutions, culture and language, all of which are understood and respected in the East.

Enhancing the UK's attractiveness

The mindset has to be that of being in a competitive arena (with other financial markets) and that success will not come naturally. The regulatory environment must therefore be a key ingredient in the strengthening of the UK and London's competitiveness. A regulatory design goal should be to make it easy and attractive to do business in the UK. However, this must not come as a trade-off on key principles of financial stability, system integrity and ethical conduct.

"Doing nothing and taking a complacent posture would be a big mistake."

Joseph Healy,
Judo Bank

Removing unproductive red tape and streamlining the regulatory framework should not necessarily involve compromising the aforementioned key principles. The reality is that post the 2008 financial crisis and due to the UK's membership of the EU, the level and complexity of regulation became unwieldy and this weakened London's position and its attractiveness. A compliance industry prospered, and entrepreneurialism and innovation suffered.

The industry has been burdened by regulatory creep into areas that at the margin adds more cost and little by way of substantial value. As part of the review of regulation in a post-Brexit world, there is a legitimate case for a thorough review of both quantity and quality of regulation imposed since the 2008 financial crisis and an assessment of the regulations against core principles. CB

For access to Grant Thornton's 2021 Financial Services Regulatory Handbook, visit: grantthornton.co.uk/uk-regulatory-handbook/

PATHWAY TO COP26

Beyond the green: The changing face of sustainable finance

In the first of a new series leading up to COP26, scheduled to take place in November, we explore the role of transition finance in the push towards a net-zero future – and examine why funding green business is only part of the picture.

World leaders and climate change experts are expected to descend on Glasgow as part of COP26 – the 2021 UN Climate Change Conference – at the end of the year on a mission to take further steps towards cutting the rate of global warming.

While the rise in popularity of funds linked to environmental, social and governance (ESG) has been significant over recent years, some commentators have been critical of the time taken to bring a sufficient variety of competitive products to market.

Even though such investments are vital in the move towards a net-zero future, it's the area of transition finance that will arguably play the biggest role in paving the way for the transformation to a low-carbon economy encompassing all sectors globally.

"I think we all realise that the emergence of the sustainable finance market has been quite remarkable," says Daniel Klier, Global Head of Sustainable Finance, HSBC. "If you look at the green bond market alone, for example, it's in the $500bn range this year and last year was 4.5% of the total bond market.

"Green finance is of course relevant, advisable and noticeable, but it's also a market dominated by government and multinational development banks that are actively and purely green. If we want to achieve net zero for the global economy, we have to move this discussion into the real economy."

> **"If we want to achieve net zero for the global economy, we have to move this discussion into the real economy."**
> Daniel Klier,
> HSBC

Investing in change

HSBC is one of many banks noticing a significant demand among its client base for supporting their transition to a greener, more sustainable business model. In late 2020, the bank announced its commitment to injecting between $750bn and $1tn of finance and investment into clients' transition projects by 2030.

In the past year, the bank has supported a variety of clients on their transition journey, including Volkswagen, Chanel, Burberry, Etihad Airways and building materials company LafargeHolcim.

"If you take cement, which is one of the most intense emitters of CO_2, it's not immediately obvious what the transition journey would be," says Klier. "It's really encouraging that building material industries have set out a strategy to reduce emissions, and are saying, 'we need to find frameworks and incentivise the company to make the right investments, and create transparency with investors'.

"The events of 2020 made it so clear for every investor that ESG is much more than a marketing phrase. It became very obvious that companies with a better ESG profile, particularly companies with a stronger alignment to climate themes, significantly outperformed the market."

According to 2020 research from HSBC, companies with a better ESG score outperformed the market average by 4.5%, while companies aligned to climate solutions outperformed the market by 14%.

"I think companies have realised that if they don't use the crisis to fundamentally change the business model towards technology-enabled, climate-aligned business models, their valuations will go nowhere."

A wider impact

While the focus of transition finance remains on the goal of reducing emissions, policymakers say it's also vital that supporting the transition to net zero is globally inclusive.

"We talk about the just transition," says Bella Landymore, Policy Director, Impact Investing. "It's about ensuring that, in the transition to a net-zero economy, we're not leaving behind or disadvantaging communities, and we're optimising the opportunities that come from that transition for societies. Projects must be able to build back better, and contribute towards the regrowth of economies and communities. Transition finance is integral to this."

Moving away from carbon-intensive industries, Landymore explains, has the potential to put a significant number of jobs and communities at risk, which must be counter-balanced with the opportunities created through the introduction of new, replacement industries and technologies.

"Projects must be able to build back better and contribute towards the regrowth of economies and communities. Transition finance is integral to this. It's everything that will make that transition possible. It's about investments that will actively seek to mitigate negative impacts of the transition to net zero and optimise the opportunities of positive impact via net zero. This concept is really championed by multilaterals such as the Organisation for Economic Co-operation and Development [OECD], the EU and the UN. It's increasingly gaining ground due to the impact of COVID-19 and the clear link between economic, environmental and social disaster."

> "Impact projects must contribute towards the regrowth of economies and communities."
> Bella Landymore,
> Impact Investing

Rising demand

The social and environmental necessity for sustainable business models has been well documented, but the implications of a global pandemic seem to have heightened demand for transition finance that supports businesses at all stages of the journey.

"As we start to emerge out of COVID-19, many of our clients are realising that a positive vision for the future strategy of their business is incredibly important," says Klier. "This is a discussion around 'how do I paint a picture of 10 years or 20 years from now that investors and previous customers believe in?'"

He draws on the example of Tesla, the electric car manufacturer valued at more than $500bn in November 2020.

"That makes boardrooms think about how they reposition their company to get that level of valuation and, therefore, excitement across the industry. The second reason this is now so interesting for our clients is they need to be able to better demonstrate to their

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investors that they understand what is required from them. And the transition finance instrument is really helpful because you can start to put KPIs [key performance indicators] out there, often pegging your interest rate to certain deliverables. It builds trust that this is more than just marketing and is embedded in the way you run the company."

Shades of green

What may have started as investment in already green, environmentally conscious companies is now experiencing a major shift. Klier believes that one of the main problems with the idea of green or sustainable finance is that it's becoming increasingly difficult to define, and risks cutting off the sectors that may need the most support.

Front and centre

With work still to be done to iron out the regulatory creases – and to educate and inform bankers to support clients at all stages of transition – there are many reasons to be optimistic as we approach COP26.

The Network for Greening the Financial System (NGFS) includes, among its 83 banks and financial institutions, the Bank of England. Klier believes the network's climate regulations and stress-test tools put the topic front and centre in the boardrooms of every financial institution.

"I think 2021 will see an acceleration in this area because we have COP26 coming up, the US back at the table and China signalling very positively that it is aligning itself to a carbon-neutral target by 2060," he says.

> "The events of 2020 made it clear for every investor that ESG is much more than just a marketing phrase."
> Daniel Klier, HSBC

"It's not clear cut what is actually aligned with net zero and what isn't," he says. "This is why the discussion about transition is so critical. It's the only way to achieve what we have to achieve together.

"The broadest sort of sustainability linked loans and ESG-aligned bond frameworks are really critical because they incentivise companies to invest in the right areas and also create much more transparency in where individual companies stand on this transition journey."

The sustainability framework

The next step for transition finance – and sustainable finance more widely – must focus on measurement and management.

"Impact measurement and management is one of the biggest hindrances to the growth of the sustainable finance market," says Landymore. "When we talk about investment vehicles that have environmental and social benefits, what do we really mean? Our work involves digging into and advancing that conversation. What are the social benefits? How do you measure them? What frameworks exist? How does it link to the work that's been done by the hundreds of other initiatives out there?"

"The UK has an incredibly important role to play by essentially showing that climate diplomacy can still work. I'm quite optimistic that this has moved from the risk return into the financially relevant space and is now much more than just a good story."

A clear vision

For Landymore, the priorities lie in attracting significant private capital to the ESG and transition finance space – and identifying the instruments that can achieve this.

"There have been a number of recent financial innovations which demonstrate public and private sector appetite, including so-called 'blended-finance' vehicles, which might combine philanthropic with institutional investment, as well as use other mechanisms such as guarantees or risk insurance," she says.

"But just transition and transition finance are very big categories and we have to dig deeper into what that really means. This includes sectors like sustainable agriculture and green energy, as well as a raft of others. The priority is in identifying which sectors have the most opportunity or which sectors need the most attention. This includes which investors are interested in the sectors or which or can be combined together to make the greatest impact." CB

PATHWAY TO COP26

Transition finance: one way to save the planet

For almost every extraordinary coronavirus statistic, there will be another one lauding the environmental virtues of the new normal. But how can we interpret the connection between transition finance and the route to economic and social recovery from a global pandemic?

> "If we can invest global savings successfully into the technologies we need for a worldwide net-zero transition, then we can save the planet."
> Simon Thompson,
> Chartered Banker Institute

For many involved in the sustainability conversation, it's not possible to overestimate the importance of transition finance in the fight to achieve a net-zero future.

And with the UK's goal of slashing carbon levels by 2050, the financial services sector is experiencing a move away from the idea of sustainable finance as the funding of only green projects. Instead, there is a growing focus on transition finance, that which no longer discriminates based on green-or-otherwise business types, but rather supports all sectors through a transition to more sustainable, eco-friendly and carbon-neutral business models.

"Currently, financial institutions are financing a world that's aligned with more than 3˚C of global warming," says Simon Thompson, Chief Executive, Chartered Banker Institute. "That is disastrous for the planet."

Financing the shift, says Thompson, has two main aspects to it, the first being investment in green businesses – ESG-focused technologies, clean transport, vegetarian food producers for example.

"The point that I'm perhaps keener to make, though, is how do banks and others finance the net-zero transition overall? How does this reflect the fact that many companies have to move from high-carbon to low-carbon models? It's not about replacing everything that we do, it's about changing what we do. And that requires working alongside companies and giving them the capital so they can change their business models. That's just as true for a high-carbon sector as it is for a low-carbon sector."

> **"Once we get beyond this idea that sustainable finance is a separate way of doing things, then we'll be on the right track."**
> Chris McHugh,
> Centre for Sustainable Finance

New sense of purpose

While the conversation around transition finance is getting louder, the challenge now is implementing the policies fast enough in order to secure investment where it is needed for the benefit of everyone.

"The advantage of transition finance is that, if the various equity and debt investors adopt the policies now, it's applicable to all investment straight away," says Chris McHugh, Director, Centre for Sustainable Finance within the London Institute of Banking & Finance.

"If a bank adopts policies that require certain transition journeys and they have the ability to have that conversation with their customers, we can leverage what's happening a lot more quickly across the industry. That's why it matters. It's nothing that people haven't already done in the past, but it's now being done with more purpose.

"Implementing new policies in a large bank is still a challenge. Also, for financial products, you don't just invent a product that works. There are a lot of different iterations to go through. With transition finance, we're still in the design phase of doing that. There is still work to be done."

Gathering speed

Thompson agrees that significantly more effort needs to be made in the transition finance space to stay on track with sustainability goals, with regard to both global financial systems and the investments being made.

"The G20 quotes a figure of around $6tn a year for the next 20 or 30 years that's needed for the global transition, which is an eye-watering sum of money," he says. "Globally, the saving balance exceeds that, so if we can transform the savings and invest those successfully into the technologies we need for a global net-zero transition, then we can save the planet.

"Will it happen as quickly as the science says we ought to be doing it? No, partly because it means making some substantial changes to the way the global financial system operates. In particular, we need to be able to price carbon effectively and that requires political courage and politicians to make decisions about that globally, which is very hard to see happening any time soon."

As the sector explores new ways to inject more funds into the net-zero transition, Thompson says the focus must remain on creating a society in which all communities thrive.

"We need to make sure that this is a just transition that doesn't create winners and losers, but that those communities that will be most impacted by the transition are able to develop the skills they'll need to do the jobs to survive and thrive in a low-carbon world.

"I'm optimistic that the outcome can be achieved, but realistic about the time it will take and the size and scale of the transition. The net-zero transition affects every economic entity within society. We're talking about an economic transformation on the scale of the Industrial Revolution but that revolution took 150 to 200 years. We're trying to do this in 20 years."

The COVID conundrum

While banks put increasing focus on their transition finance offering, the question being asked by some in the sector is whether transition finance could play a role in our economic recovery. Or whether COVID-19 has further highlighted the importance of sustainable investment.

"We see a lot of the linking of COVID-19 to the sustainability agenda," says McHugh. "One of the arguments is [that] it [the virus] could have jumped species as a result of biodiversity loss, therefore this is a living example of why we need to pay more attention to sustainability issues.

"Another argument that's being put forward is that, clearly, the way we work needs to change. We've seen that even with emissions, reductions are not enough. There has to be a profound change in the way we work and organise our economy.

"Maybe the silver lining of something like COVID-19 is that it highlights the necessity to start taking decisions in a way that we perhaps would not have woken up to in the past. I see it very much as a warning signal,

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which means that it is time to start really paying attention to moving things along."

Refocusing priorities

For McHugh, the logistical shift and change in working patterns rolled out over the past year have raised questions around investment policy, and how priorities might be realigned with sustainability goals.

"Most of the people I deal with on a daily basis are still working from home, and the government is still investing heavily in infrastructure and the HS2 rail network and other projects like that," he says.

"It does beg the question of what exactly governments should be investing in. What kind of infrastructure do we need? How does that square off with working practices, emissions reductions and everything else? It's clearly a horribly complicated problem, but the situation we're in now could significantly change things."

Transitioning the workforce

It's not only the pandemic that's transforming the workforce. Increased momentum in transition finance will, Thompson says, require a transformation in skills development across the world.

"We need to be, both in the UK and globally, ambitious on the skills side," he says.

Thompson refers to the Green Jobs Taskforce, launched in late 2020 with the aim of delivering skilled workers for the UK's transition to net zero. As well as focusing on training for the immediate skills required, such as in offshore wind and retrofitting of homes, one of the priorities will be to support workers in high-carbon industries to retrain in new green technologies.

"The taskforce has a remit to support the UK's net-zero strategy by supporting around two million high-quality green jobs and skills by 2030, but we have about 30 million people employed in the UK. It would be much more ambitious not to talk about two million green jobs – I think every job in the future needs to be a green job.

"There's a level of ambition that's needed in the UK, and globally, and we perhaps still don't quite understand how systemic the transition needs to be."

Systemic change at the level required to move the UK towards its ambitious low-carbon goals requires a huge amount of education – or re-education – at all levels. With regard to financing the change, though, Thompson believes this must be focused on all financial services professionals being involved at each stage of the journey.

"If we are to mainstream sustainable finance then we need to make sure that every finance professional understands climate change and that we mainstream sustainable finance skills, not just for those deep sustainability professionals but all finance professionals," Thompson stresses.

"For that, our role at the Institute and across the professional bodies more broadly is to make sure that current and future generations of bankers, accountants, lawyers, treasurers, risk professionals, investment managers and so on, learn about climate change, climate risk, and the opportunities from supporting the transition, as part of their core education. In the same way as you would learn about credit risk, lending and bank strategy, green and sustainable finance should be equally a part of the core for bankers in the future."

> **"We perhaps still don't quite understand how systemic the transition needs to be."**
> Simon Thompson,
> Chartered Banker Institute

Removing the labels

While the transition to net zero will be a long – and complex – one, it can only truly begin when the walls between green and transition projects come down.

"When we've succeeded is when we get beyond people saying, 'I'd like a fund that focuses on sustainability issues,' and we accept that that should be inherent in any investment," says McHugh. "It shouldn't just be a question of whether they have a sustainability fund or an ESG fund or a regular fund; it's something that should be generic to all funds.

"It begs the question, if you run a sustainability fund and a different fund, what special information do you have in the sustainability fund that you're not providing to the other fund? It doesn't make any sense. For me, once we get beyond this idea that sustainable finance is a separate way of doing things, then we'll be on the right track." CB

COUNTRY SPOTLIGHT

Progressive Pakistan

The Islamic Republic of Pakistan is by most standards a young country – its founding in 1947 was not without both complication and conflict, and historical political divisions have frequently laid obstacles in its mission to forge a path as an influential and modern Islamic republic. Today, however, the impact of decades of globalisation – along with economic growth across South Asia – puts the country in a strong position, most significantly demonstrated by its increasingly dynamic banking and finance sector.

As the world's fifth most populous state, Pakistan is nothing if not a significant player in the South Asia region. Its current economic indicators do, however, tell a story of a country that up to now has been relatively slow to develop in its infrastructure, health and education, and business environment.

The hesitant pace of growth and development can be viewed through the lens of a challenging domestic political scene that saw the country struggle until recently to establish a more stable democracy. However, Pakistan has benefited from structural reforms in recent years that have injected new impetus into its continuing transformation as a modernising republic.

A $6.3bn cash facility from the International Monetary Fund (IMF) in 2013, for one, was designed to help Pakistan stabilise its public finances and address energy supply shortages, and measures to attract much-needed foreign investment brought inflows of $3.1bn in 2019-20 – of which the financial sector was the second-highest beneficiary.

Despite some bumps in the road, the positive consequences for banking and financial services in the country are now being felt across the board in Pakistan. The country's central bank, State Bank of Pakistan (SBP), notes the progress made in financial inclusion across such a vast population, saying: "In June 2018, we had 64 million unique accounts in operation, which reflects a penetration of more than 50% of Pakistan's adult population. As of June 2020, we now have 73 million unique accounts, of which 61% are active."

These accounts are a mix of traditional branch accounts and digital/mobile platforms – the very territory that is ripe for further expansion. And, given that the Pakistan Telecommunication Authority (PTA) reports some 93 million citizens as having broadband access, the potential for further penetration looks promising.

It could be cited that there are three ways in which the country's financial sector has managed to blossom under such a transformative environment for banking worldwide. A key piece in the jigsaw is the autonomy that SBP now enjoys in making vital monetary policy decisions. The reforms go back to 1994, with further powers being subsequently granted in 1997.

"The changes in the State Bank Act gave full and exclusive authority to the State Bank to regulate the banking sector, to conduct an independent monetary policy, and to set limits on government borrowing from SBP", which had been enacted in the SBP Act 1956. "SBP formulates and monitors

monetary and credit policy, and in determining the expansion of liquidity, it takes into account the Federal Government's targets for growth and inflation that the Bank [operates] in a manner consistent with these targets."

Secondly, the momentum for digitisation in Pakistan means increasing the share of online banking, whether that includes retail point-of-sale payments or opening and using e-wallets issued by FinTechs. SBP has capitalised on the digital shift by collaborating with the Pakistani government to allow its citizens living abroad easy access to retail investment opportunities back home by launching the Roshan Digital Account (RDA).

But perhaps a most prominent characteristic of the financial sector here is the growth and development of a highly developed alternate – or Islamic – banking system.

The Islamic banking impact

As an Islamic republic, Pakistan is strategically and culturally well placed to develop Islamic finance products. It is one of the very few jurisdictions to enjoy explicit constitutional support for it, and this in turn has increased incentive and backing for its development from the state.

According to SBP, the government has used a number of legal and regulatory initiatives to help nurture Islamic banking. As part of the National Financial Inclusion Strategy, it is determined to increase the share of Islamic banking to 25% of the banking industry, and its branch network to 30% by 2023. SBP has enjoyed a pivotal role in promotion and development of the Islamic banking industry and, as a result, is recognised today as a stable and resilient segment of the overall sector.

Although often seen as niche banking instruments, Pakistan has been cannily nurturing a sub-sector of Sharia-compliant* products and services since the early 1980s, with the result that it has grown substantially in both appeal and reach.

SBP reports 22 Islamic banking institutions operating in the country, including "five fully fledged Islamic banks, one specialised bank and 16 conventional banks with Islamic banking branches". In the financial year ending 2020, a further 361 branches were added to a network already spanning 3,274 branches in 122 districts. Lower-income citizens are also are part of the commitment to growth, with banks such as NRSP and MCB-Islamic offering a range of Islamic microfinance solutions.

S. Fahim Ahmad, a Karachi-based Senior Adviser to the UK Islamic Finance Council (UKIFC), has more interest than most in the positive impact of Islamic finance. A former senior banker with Citibank and passionate supporter of sustainable charities, he was asked to set up Pakistan's representation to the Global Islamic Finance UN SDGs Taskforce, which aims to ensure that it can actively engage with the 17 UN Sustainable Development Goals (SDGs) and make Islamic finance part of this global initiative.

"During the past four quarters, the number of registered mobile phone banking users increased by three million to reach 8.9 million."

Institute of Bankers Pakistan

"The team at State Bank of Pakistan were easily convinced of the benefits of such a cause," he explains. "They had never done this before, as their role is more that of a regulator. But they are in a position to manage the banks much better than I could."

In November 2020, the Pakistan chapter of the Taskforce was launched, enrolling the support and participation of seven Islamic and conventional banks which it was felt could best drive forward the mission. Its four key objectives include enhancing engagement with the UN SDGs – but also to promote Principles of Responsible Banking (PRB); facilitate alignment tools that deliver on additional areas such as green financing and the Global Ethical Finance Initiative (GEFI); and share international experiences.

"This collaboration between SBP and UKIFC is a novel concept," continues Ahmad. "The idea is to replicate this in other markets. We have had to catch up in many respects with developed Islamic finance markets, and this is a good chance to make up for that."

This level of engagement is a far cry from the early days when legal issues tended to slow the growth of Islamic banking in Pakistan.

*Sharia law is Islam's legal system. It acts as a code for living that all Muslims should adhere to, including prayers, fasting and donations to the poor. Source: bbc.com/news/world-27307249

COUNTRY SPOTLIGHT

Finally, after 2000, the founding of the country's largest Islamic bank, Meezan, was made possible when the SBP agreed to scope out proper guidelines and a regulatory framework. Today, Islamic banks in Pakistan are so successful, they have a surplus of liquidity, which inevitably needs to find a home in investment instruments that are considered *halal* (permissible or lawful).

"There's no doubt in my mind that there's a huge demand for Islamic finance products," adds Ahmad. "The impact of wider regional change in 1979-1980 had fundamentally changed the relationship we have since had with Islam, and the younger generation is, by extension, now more into Islamic banking."

However, there is still no global uniformity among Sharia scholars about the acceptability of different products – and there is extensive room for growth yet. What will make Islamic banking take off in Pakistan? Ahmad argues that this will happen if the government uses it on a large scale, for example through sovereign or corporate bonds in sovereign sukuk.

"Social good is a key part of Islamic finance," he adds. "Islamic banks hold a lot of liquidity as we know, and if they can deploy that into productive, socially impactful use, the whole economy will benefit."

Pakistan banks on faith

A recent joint survey held by SBP and the UK Department for International Development identified an "overwhelming demand" for Islamic banking, regardless of whether or not the respondents were urban or rural. A huge majority (94.51%) came out in favour of the prohibition on interest, with 88.4% regarding contemporary bank interest as a similarly prohibited practice.

Even non-banked respondents echoed the sentiment, at 98% and 93% respectively, and 62% of those who are banked would willingly pay more for Islamic banking products due to religious preferences.

Pakistan's digital dividend

In a short space of time, Pakistan's commitment to digitisation has been fronted by the enthusiastic support of government and public sector. And with a tech-savvy population whose median age is only 22, the prospects for further expansion in banking and finance could not be brighter.

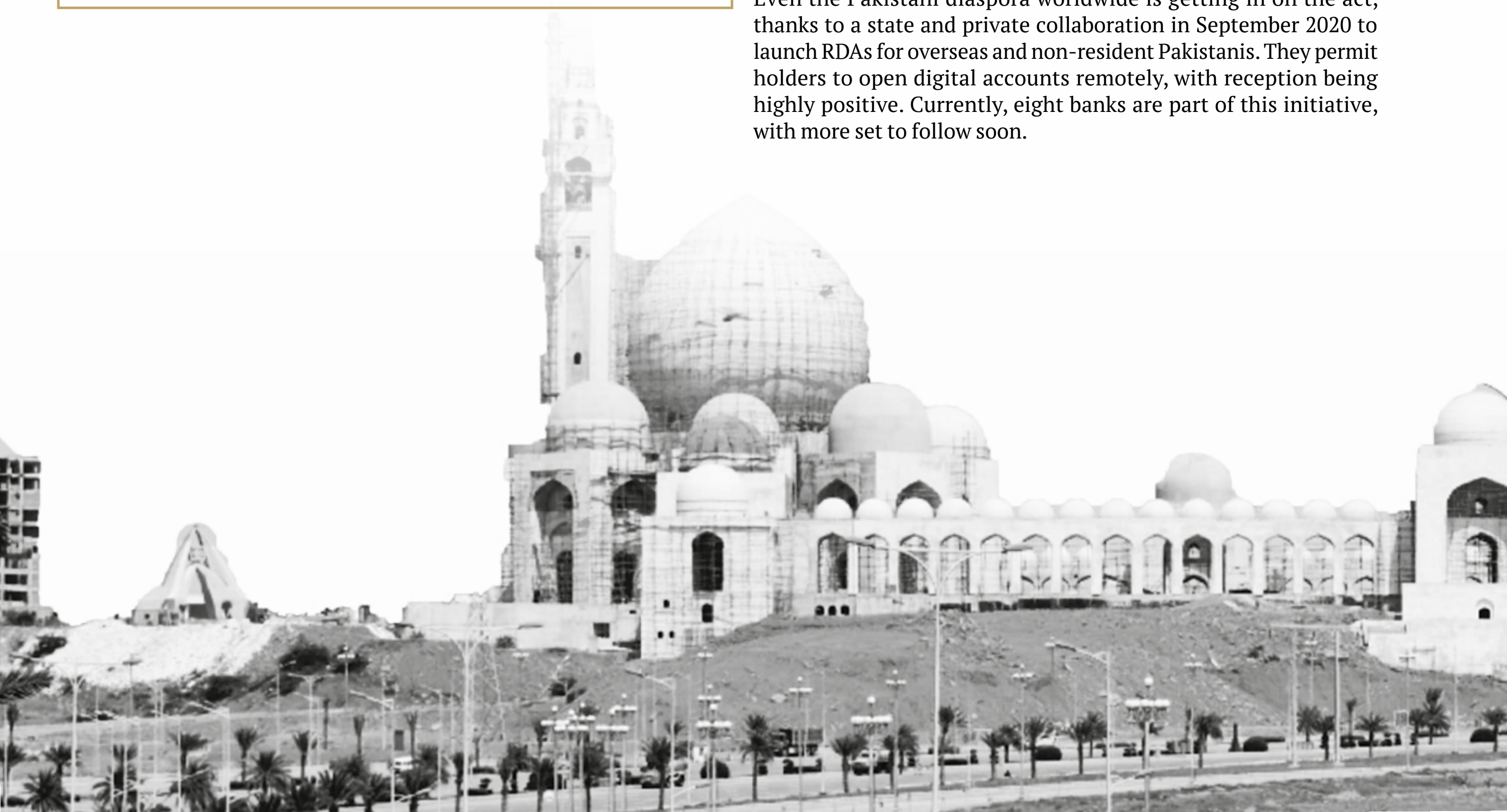
Pakistan's recent and rapid digital infrastructure development is best seen through its penetration performance in telecoms and of the internet. SBP reports how the country's "cellular tele-density has increased from 60.7% in June 2015 to 82% in December 2020". Broadband penetration "has more than quadrupled to 43% by December 2020, from only 8.9% in June 2015."

The trigger for this rise was the auction of 3G and 4G spectrum licences in 2014 – and with a view to the future, the PTA granted two more mobile operators the opportunity to conduct 5G trials in January 2020.

The resulting impact on the banking landscape is clearly yielding results. Digital payment transactions are already on the rise and this is similarly reflected by the surge in e-commerce use and new digital products coming on stream. SBP figures show how 936 million e-banking transactions were made by customers in financial year 2019-20 – equating to PKR69tn-worth of commerce during that year.

The most promising uptake was seen in internet banking and mobile transactions, according to SBP: "During the past four quarters, the number of registered mobile phone banking users increased by three million to reach 8.9 million. Encouragingly, the volume of mobile banking transactions reached 104 million valuing PKR2.3tn compared with PKR866bn in 2020. Similarly, internet banking transactions were recorded at 63 million, valuing PKR3.4tn compared with PKR1.7tn over the same period."

Even the Pakistani diaspora worldwide is getting in on the act, thanks to a state and private collaboration in September 2020 to launch RDAs for overseas and non-resident Pakistanis. They permit holders to open digital accounts remotely, with reception being highly positive. Currently, eight banks are part of this initiative, with more set to follow soon.



As with other jurisdictions worldwide, however, the shift towards contactless and e-wallet transactions is strengthening the hand of the non-bank sector too. This has not been lost on SBP which, in 2019, responded by enabling "electronic money institutions" access to Pakistan's payments ecosystem. It is only a matter of time before the pace of innovation injected into the sector will transform people's payment habits across the country.

Facing the future with confidence

As the world starts to deal with the economic fallout from the coronavirus pandemic – which, in many countries, is still in full flow – Pakistan's financial sector seems to have shown a healthy degree of resilience in the face of the shock of 2020. SBP puts this down to capital buffers put in place over the long term to strengthen the banks' position. The higher capital adequacy ratio (CAR) of 19.5% at the end of September 2020 put Pakistan beyond the minimum local and global requirements for its banking system. Liquidity has also been uninterrupted following state interventions to support key parts of the economy during this period.

From this position of strength, therefore, Pakistan is able to focus on at least three priorities among many that will shape its financial sector into a growing force for the economy: continued digital transformation, affordable lending instruments for housing, and programmes to reduce the gender gap in access to finance.

"This collaboration between State Bank of Pakistan and the UK Islamic Finance Council is a novel concept... We have had to catch up in many respects with developed Islamic Finance markets, and this is a good chance to make up for that."

UK Islamic Finance Council

On the digital front, the Digital Pakistan Policy and the National Financial Inclusion Strategy are two initiatives that hold promise in the battle to reduce the informal economy and make FinTechs a productive addition to the domestic market. In particular, the launch of Raast, an instant digital payment system, will be an innovative step forward in reducing citizens' reliance on cash while making transactions cheaper.

Long-term property lending policies – where SBP has given mandatory lending targets to banks on their housing portfolios and developers are being offered incentives – should help boost a sector badly in need of modernisation to benefit future homeowners.

Third is the launch of SBP's Banking on Equality Strategy, where a "gender lens" will be applied to the industry to ensure increased financial access for women based on a set of approved measures.

When viewed in the context of an often-turbulent history, there's little doubting the progress made to date in Pakistan's journey of banking and finance. The policies, commitment, and liquidity – three factors crucial to any developing economy – should herald a more prosperous and dynamic economy well into this century. CB

No one left behind

According to State Bank of Pakistan (SBP), women are disproportionately underserved by the country's financial system. With only around 25% of bank accounts held in the name of women (even fewer are actually active), it has been widely accepted by government that economic development cannot be achieved without a healthier approach to reducing the gender gap. The bank has therefore created a policy entitled Banking on Equality: Reducing the Gender Gap in Financial Inclusion to ensure a manageable but proactive shift towards women-friendly business practices. The draft policy was presented in December 2020 for consultation.

About the IBP

The Institute of Bankers Pakistan (IBP) is a global partner of the Chartered Banker Institute. It was established in 1951 and has been at the helm of providing sector-specific training, recruitment and knowledge assessment services for the banking industry in Pakistan. Its main programme, the IBP Superior Qualification (ISQ) is the nation's only recognised professional banking qualification and is recognised by State Bank of Pakistan. The IBP also partners with the Bangor University Business School, delivering the Chartered Banker MBA.

GLOBAL PARTNERSHIP

Pooling resources on ethical finance

A natural synergy between the Chartered Banker Institute and Global Ethical Finance Initiative has laid the foundations for a more structured, longer-term partnership.

The Chartered Banker Institute and the Global Ethical Finance Initiative (GEFI) have something very important in common: both are invested in driving the positive impact of finance.

For several years, the Institute has supported GEFI's programme of events that aims to educate bankers about ethical, green and sustainable finance models. But, thanks to the formation of a new, more formal partnership, Institute members will have access to all GEFI live events from 7 April – as well as its archive of continuing professional development (CPD) content. Log in to the members' area at charteredbanker.com to find out more.

> **"These inflection points in history provide an opportunity to set out on a different journey."**

"Over the past three years, principally through its Ethical Finance Summit, we have developed a very positive and mutually beneficial working relationship with GEFI," explains Simon Thompson, Chief Executive, Chartered Banker Institute. "We therefore welcome the opportunity to widen and deepen this relationship. Our partnership will be underpinned by a shared focus on green and responsible finance, reinforcing the role individuals play in leading banking institutions and creating enabling cultures."

Ethical education

Banking professionals can develop their understanding of green and sustainable finance principles by joining this year's Ethical Finance Summit in June, adds GEFI's Senior Adviser, Allan Watt, at which banking and investment professionals will come together virtually to discuss pertinent issues. But one of the most exciting elements of the partnership, he believes, is GEFI's work with the Institute to signpost all future and past events for CPD purposes. "We want to give people access to cutting-edge thinking in this space and we have hundreds of hours of video footage available," says Watt.

"We recognise the excellent work the Institute continues to do, not only to raise awareness of responsible banking but to enable professionals to develop their understanding of green and sustainable finance through its qualifications," he says. "We are hugely excited to further integrate this expertise into our events and content library – and to share it with a wider audience."

A rewarding partnership

The Institute will initially partner GEFI on a three-year basis that will see it become a core partner and CEO Simon Thompson take a seat on its Global Steering Group. As well as working together to ensure that the annual event programme incorporates themes relevant to those working in commercial and retail banking, additional member-specific content may be explored.

Both organisations are supporters of the UN Principles for Responsible Banking and are eager to raise awareness of these among individuals working in banks who are signatories to the Principles. Where possible, content will include bankers associated with the Institute and international partner Institutes, thus helping to increase both organisations' global profile and presence.

From niche to mainstream

The industry's approach to ethical finance has evolved enormously in the 10 years since GEFI's creation, of course. Where once this was a niche area of finance, today it's simply a part of the sound management of financial institutions, explains Watt. "Responsible finance is now just finance – and a key part of the acceleration of that trend has been growing responsiveness to climate change.

"Climate awareness and COP26 [scheduled to be held in Glasgow in November] are both drivers of change. Clearly it is essential that the world delivers on the Paris Agreement and global capital be deployed to fix the issues that have been identified," he says.

"But, if we can do it for climate, we can apply it to all elements of ESG [environmental, social and governance]. Everyone is talking about building back better or building a green economy post COVID-19. All of these ideas are moving in the same direction, which is more radical thinking around what we want from markets and from institutions such as banks. These inflection points in history provide an opportunity to set out on a different journey and, hopefully, COVID-19 will push people towards more innovative thinking about what we can achieve." CB

OPEN MIC

An opportunity for change

From everyone's face being the same size onscreen during meetings to increased levels of trust, the COVID-19 crisis has brought about many professional benefits. In this issue's Open mic, our guests reveal the unexpected bonuses that they hope are here to stay.

What positive changes/innovations have been made in your organisation during to the pandemic that you would like to retain?

ANDREA ALEXANDER
Associate Partner, McKinsey & Company's Organisational Practice

One of the biggest benefits of this virtual world that we find ourselves in is how much we're collaborating across geographies even more than we were before. That has been really exciting. The other thing is that we have suddenly been able to see our senior leaders in a new way and learn so much more about all of our colleagues. You see their kids come on to the screen, you see their pets — and I think we're connecting on a different level.

HANIF BARMA
Partner, Board Alchemy and Co-founder, The Risk Coalition

The biggest change for me is around efficiency. I used to spend many hours travelling, so I've managed to save quite a lot of time in that respect. It's also a lot easier to arrange to meet people, although on a screen, as physical locations and diaries present less of a challenge, so connecting has become easier. But the main issue is you lose something from trying to do things remotely. When you try to do things on the screen all the time, you don't get all the body language or fully sense how people are responding or feeling. Some sessions will always be better face to face and getting the right balance will be important.

ALAN BRENER
Deputy Director, Centre for Ethics and Law, UCL

We must accept that we will face a number of new pandemics over the years to come. We are aware of the current dangers from, for example, avian flu (H5N1 etc.) which can infect humans. We need to ensure that our current arrangements are sufficient to detect and defeat the next pandemic at an early stage. Organisations will need to be on the lookout for flu-like symptoms with fast testing and tracing protocols. Hand sanitisers and effective handwashing will need to continue to be best practice and will help prevent the spread of infection from a variety of sources. Firms, as part of their normal contingency planning, will need to review and test their remote-working arrangements.

CHRISTOPHER BOX
Financial Services HR Consulting Leader, PwC

I genuinely hope that we're all a bit kinder to each other off the back of this. Some of the macho behaviour that we've seen in financial services in the past has been endemic, and just being a bit more thoughtful, and trying to understand the different perspectives from which we're all coming, is really important. We have a real opportunity to make that cultural shift that we've all been trying to achieve over the past 10 years.

OPEN MIC

MICHAEL CONWAY
Partner and AI Practice Leader,
IBM UK

A major change I've experienced is when you ask someone how they are now, they give a more honest answer. The human dimension of understanding people's backgrounds and what challenges they have in their personal lives has created a new sense of empathy and a humanity. I've experienced this both within my team and when working with clients. We all treat each other far more considerately, and this extends to what we deliver for our clients' customers.

SIR ROGER GIFFORD
Chair,
Green Finance Institute

The clear lesson from the pandemic is the value of human interaction. Creativity requires human, face-to-face contact. We will never ever exist solely in our houses doing banking; we need to be with each other in an office. Is it five days a week? I'm not sure, but it's certainly two or three days a week, not fewer.

JOSEPH HEALY
Co-founder and Co-CEO,
Judo Bank

The cultural and operational adoption of greater flexibility and organisational agility has been a lasting legacy of the pandemic. Last year, and this year so far, has represented a real-world stress test in how an organisation can adapt to a crisis and not lose momentum in a market and in operational sense. As a result, we have grown inside a year in a way that would take several years in normal conditions. We haven't wasted this crisis.

DANIEL KLIER
Global Head of Sustainable Finance,
HSBC

There is an incredible opportunity now to work in a much more flexible way, but I think we've also realised how important physical proximity still is for creating a strong team culture and for areas such as talent development. We'll retain a lot of the flexibility and the trust given to people, while at the same time realising that we still need to have spaces so people can meet. That is so important in order to give people energy and drive, especially for younger people who join the organisation.

CHRIS LESLIE
Chief Executive,
Credit Services Association

Trusting employees to do the right thing, get on, and complete their tasks. I think this has been much less about looking over the shoulders of staff and taking the old-school approach to performance management. It's been very much about everybody pitching in as a team, and I think it's actually helped improve team working and led to more regular dialogue. I do want to get back to seeing people in social spaces – it's very difficult to build new relationships with clients or customers without having some face-to-face connection – but I think we'll be able to achieve that balance.

CHRIS McHUGH
Director,
Centre for Sustainable Finance, The London Institute of Banking & Finance

It's a bit of a paradox for me. I used to travel and go to conferences and through the transition to working online, the conferences have become different. But I've travelled the world through Zoom, been to more 'countries' and met more people than I possibly could have done if I had been getting on a plane. Even if we go back to conventional conferences, I want to hang on to that ability to gain more access to more people and be able to connect in ways that I probably couldn't do otherwise.

MONIQUE MELIS
Managing Director and Global Head of Compliance and Regulatory Consulting,
Duff & Phelps

We've had time to think much more about diversity and promotions and how to structure the teams. I think we've also had more opportunities to pay attention to all the behavioural and human aspects during this period. The pace of just doing business has calmed down a little, so all those other elements have come to the fore and I think that they will play into resilience very positively going forward.

LUKE NORTON
Product Analyst, Core Lending Products,
Santander

I've noticed that the pandemic has really broken down barriers when it comes to recruitment. In many cases, there is now no longer a requirement for roles to be based in a single location (e.g., in head offices) given the prominence of remote working. This enables managers to recruit the best talent from the entire organisation, and are not limiting their search by geography. I hope this is a practice that Santander, and all other businesses, continue to implement for the foreseeable future, where it is relevant to do so.

DAME SUSAN RICE DBE
Chair,
Banking Standards Board

One of the things I've been interested in is the democratisation that has come with Zoom meetings. When you're looking at a screen of faces, everyone has the same-sized tile and everybody is the same in that sense. I think that's absolutely wonderful, particularly for more junior people or those who might normally find themselves holding back. I think everybody can contribute to the conversation equally and there's something very attractive about that.

ANDREW ROGAN
Director of Operational Resilience,
UK Finance

The embrace of flexible working set against the death of presenteeism are two outcomes I hope will endure. The idea that you can do your job only by being in the office at 8am and not leaving until 7pm is a throwback to another era and one that this pandemic has firmly put to bed. We are in fierce competition for talent with industries that have not only embraced, but encouraged, flexible working, so if we are going to attract the next generation of talent we need to empower people with the choice of working across different settings, and in a way that enables them to better manage and balance their lives.

MARK SAUNDERS
Director of Business Banking,
NatWest

For me, one huge positive change during the pandemic is centred around people's positivity, proactivity and willingness to work together to go the extra mile for the client across different businesses/divisions – clearly linking to NatWest's culture.

While many staff within NatWest have always been customer centric, the challenge of working from home and problem-solving at speed really brought the best out of 'NatWest Team United' with marketing, frontline staff, operations, technology, risk and many others really coming together to create win-win outcomes for our clients in super-quick time.

"Even if we go back to conventional conferences, I want to hang on to that ability to get more access to more people and be able to connect in ways that I probably couldn't do otherwise."

Chris McHugh,
The London Institute of Banking & Finance

The legacy here will be the 'can do' collaborative, inclusive culture that this crisis essentially enhanced – something that I am hugely proud to be part of.

SIMON THOMPSON
Chief Executive,
Chartered Banker Institute

In terms of the Institute, we will be retaining our ability to deliver learning and assessment completely remotely to anywhere in the world, which is something we've done quite successfully. And then, thinking more broadly, while all our Institute colleagues have been working remotely, the technology has, in one sense, brought us much closer together. We're a much closer-knit team now than we were before, and that's something we very much want to hang on to.

JO WAKEFIELD
Capability Lead – Professionalism,
NatWest Group

Looking through the lens of colleague professional development, once the first lockdown was announced, we worked closely with the Chartered Banker Institute to ensure colleagues would be able to continue to study while working from home. This necessitated changes to the qualification registration process, a switch to all online learning and the biggest change has been the opportunity to sit an exam from home using remote invigilation. While this has been particularly helpful to keep our colleagues safe during the pandemic, there are clear benefits to this approach going forward, such as no travel time to exam centres therefore less time out of the business. Having the opportunity to sit an exam in familiar surroundings can make it less stressful. CB

INSTITUTE ADVOCATES

Why financial well-being matters for industry and individuals

Personal well-being has climbed up the agenda for many people as a result of the pandemic and subsequent restrictions. Here, recently appointed Trustee Sue Primmer explains why financial well-being is also vital.

A chance encounter at an industry event led Sue Primmer along a path that has seen her work with the Institute and most recently be appointed as an independent member of its Board of Trustees. With a long-held interest in culture, conduct and ethics both within and outside financial services, and a range of experience across public and private sectors as well as working with people across society, Primmer's passion for both personal and financial well-being has found a natural home.

The pandemic continues to be a hugely disruptive event that has wrought significant changes and highlighted the vast numbers of people disenfranchised in society. Levels of hardship have led to growing demand on charitable and voluntary organisations and, with unemployment levels not expected to peak until the government's job retention schemes end, the socio-economic fallout could last for some time to come.

"The COVID-19 pandemic is not only a global health crisis; it has also severely affected our economy," says Primmer, who is Chief Marketing Officer at financial services consulting firm Sionic. "It's incredibly important that we have a healthy financial system that carries on through the pandemic and beyond, and that people have jobs to return to. So financial well-being in the broader sense of supporting that healthy economy is vital."

"Using a framework of sustainability, [namely] the UN Principles for Responsible Banking, the industry has become much more outward looking and values driven. And the Institute, with its 145-year heritage, has played a key part in that."

Sue Primmer,
Sionic

A focus on longer term economic well-being

Part of having a healthy economy means that banks need to be profitable, Primmer acknowledges, and that they are part of a broader infrastructure of a functioning global economy. "Beyond that, I think there's a discretionary role that banks must play, for example, choosing to invest in the green economy, choosing to think long-term about sustainability, and indeed having that long-term horizon rather than just a focus on short-term gain."

There's certainly been a growing trend towards that longer-term perspective, which emerged after the 2008 financial crisis and has formed part of the renaissance of the industry as it continues to rebuild trust. "Using a framework of sustainability, [namely] the UN Principles for Responsible Banking, the industry has become much more outward looking and values driven. And the Institute, with its 146-year heritage, has played a key part in that."

Working on societal financial well-being

Financial well-being at an institutional level is, therefore, vital to the smooth functioning of a modern economy and the emphasis on professionalisation, not to mention regulation and conduct, has helped to embed that deeply within the industry. On a personal level, financial well-being still has some way to go says Primmer, pointing to areas such as financial exclusion and education as priorities.

"One of my previous roles was as Assistant Chief Executive of Hackney Council. You see the acute accumulation of various challenges that people face and so much of it stems from the fact that they may not even have a bank account. That means, for example, they're unable to prove they have an income that would enable them to rent an appropriate property, and so on."

While the industry has made great steps in addressing financial exclusion and the basic need for a bank account, Primmer says that there are still large areas of finance that remain "unintelligible". "It's not OK that so many people don't really know, not just about investment banking or wealth management, but fundamentally what banks are for or how their money works. It's not OK that so many don't have access to credit, or are over-insured, and the industry needs to address that."

An opportunity to make a difference

It's one of the areas that particularly drew Primmer to the Chartered Banker Institute, where she could see an opportunity to use her business acumen, communication skills and educational heart to support initiatives focused on promoting professionalism and ethics within the financial services industry.

"The fact that the Institute fuses financial well-being with public good is really important. For me, that rests around the public understanding money as well as the actual functioning of the economy," says Primmer. "I haven't yet seen any other organisation that so captures the importance of professionalism and ethics with that focus on the public good."

"The fact that the Institute fuses financial well-being with public good is really important."

Sue Primmer,
Sionic

Well-being, of course, has been of great importance particularly through the pandemic and Primmer has been impressed with the support the Institute has provided to its members. "Initiatives aimed at reassuring members about areas such as the digitisation of examinations, exploring the broader issues and impact of diversity and inclusion and finding new and different ways of reaching out to members has been part of that whole well-being agenda," she says. "I am also hugely impressed by the Young Banker of the Year competition – it's inspirational, international – and shows the pivotal role the Institute plays in helping banks harness the talent they already employ, to the benefit of customers and society at large," Primmer adds.

"Over the longer term though, the Institute has stayed true to its core of promoting the importance of professionalism in banking and finance, and of underpinning [the fact] that the role of bankers and professional services people matters – and can make a difference. By giving people that belief, the Institute is empowering them to do what's right and that will lead to an economy and a society with financial well-being at its heart."

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 CB

BANGOR BUSINESS SCHOOL

Back to Brussels?

Are there benefits to banks of rejoining the European Union, asks John K. Ashton, Professor of Banking, Bangor University.

On 1 January 2021, the United Kingdom finally left the European Union [EU] after more than 40 years' membership. The Brexit debate directing this departure has been one of the UK's most divisive and emotional political developments in living memory. In this national dialogue there have been many strong words and assertions as to the possible benefits and costs of leaving the political and economic union.

These debates continued over time as the UK went through an agonisingly prolonged period of negotiation to secure a deal in order to leave the EU on the best terms possible. Of course, while assertions to the efficacy of these benefits or costs remain unclear, now the UK has finally departed the EU we are beginning to gauge at least the short-term effects of this decision.

This new information will engender future discourse as to whether this was a good decision or otherwise. If the 'leaver' arguments that Brexit will be a fantastic success appear to be incorrect, overstated or misguided, determining the effects and implications of rejoining the EU may become a pressing policy question. Such a discussion could occur across the UK or potentially for Scotland if it leaves the United Kingdom in future.

New research from Bangor University, in collaboration with Mardin Artuklu University in Turkey, has considered the impact of joining or undertaking accession to the EU for the banking industry. This work from John Ashton and Mehmet Maksud Onal has quantified these benefits through examining how the process of accession influences both bank financial performance and one aspect of banking regulation – that of corporate governance for banks.

This assessment is undertaken for banks from nations that have joined or tried to join the EU in the past 20 years. Specifically, the experience of 211 banks between 2000 and 2015 from 11 'new' EU member states, five candidate states and a control sample of banks from four long-standing EU member states is examined.

We report the accession process whereby nations join the EU has a substantial benefit for banks. Adherence to and compliance with new and progressive corporate governance regulation is greater for nations undertaking the accession process relative to banks from long-standing member states. For example, board independence, CEO duality and female representation on boards is enhanced far more for banks from candidate states, relative to banks from EU member states. Further, the financial performance of banks from candidate states is seen as superior to those from member states . Therefore, actually joining the EU can bring substantial financial and regulatory benefits for the banking industry, relative to being a bank from a long-term EU member state.

Why would this outcome occur? To join the EU a candidate state must fulfil several accession conditions and abide by the Copenhagen criteria to improve their economic, social, political and cultural standards. After EU accession, new member states must apply and comply with all extant European Directives together with existing members of the EU.

"Board independence, CEO duality and female representation on boards is enhanced far more for banks from candidate states, relative to banks from EU member states."

John K. Ashton,
Professor of Banking,
Bangor University

Of course, as we know clearly from the Brexit episode, not all nations fully embrace all EU laws and directives and may be more or less keen on implementing these changes. Indeed, candidate states do not always engage with the accession process and nations may join the EU as much for political opportunism and the potential economic benefits of membership as a commitment to

EU values. This can have adverse future consequences, including backsliding on past agreements and ongoing dissatisfaction with EU agreements.

Alternatively, joining the EU may lead to fundamental economic and social change as collective EU values are embraced in a ‘lesson-learning’ process. During the accession period, candidate states and their companies may experience radical change fostering convergence with EU rules and resolving existing national policy challenges. Not least convergence with EU standards and values can present national benefits through encouraging inward investment, establishing a favourable policy regime and attracting foreign investors. The EU also encourages greater compliance through persuasion, whereby progress towards accession goals is rewarded and its benefits are withdrawn for a lack of compliance.

Using a number of descriptive and inferential statistical approaches and re-examining the sample from a range of perspectives, we formally test whether nations join the EU for purely economic and external benefits by examining if banks adopt a cost-benefit approach to implementing regulations. Alternatively, if regulations are adopted through ‘lesson learning’ and embracing EU ideals, compliance is expected to be more successful. We report findings consistent with external incentives motivating accession. While banks from candidate nations adhere to regulation and in turn have superior financial performance, once EU membership is achieved slower corporate governance compliance emerges. This lower adherence to EU regulations and laws is linked to lower financial performance in the banking sector of these member states.

Returning to the issue of Brexit, what does this result tell us going forward and from a UK perspective? Initially, we can infer that many nations have also faced less than full satisfaction with EU principles. Indeed, such dissatisfaction appears to be widespread among new member nations. A key difference is, of course, rather than leaving the EU, the preferred method for managing this state of affairs is less compliance with EU directives and regulations once full membership is attained.

Further, having to navigate the accession process, whereby EU laws and regulation must be achieved to ensure membership, provides financial benefits for banks from candidate nations. Indeed, the journey towards accession is far more influential than actual membership of the EU on ensuring new EU regulation is introduced. If the UK were to revisit rejoining the EU, substantial institutional, legal and regulatory change would be required, at least during the accession period. While such a process would be disruptive, it would also bring financial benefits, at least until full membership is attained. CB

PROFESSIONAL FINANCIAL ADVICE

Can you ease the compliance headache?

Whichever way you look at it, bureaucracy can be onerous. The importance of meeting regulatory requirements is not for debate, yet the impact on advisers and small advisory businesses can seem disproportionately high. What, if anything, can help ease the burden?

Business has been rocked by COVID-19. This has become the familiar refrain around the corporate world – and it is at least likely that the shock waves resulting from the pandemic could hold many firms hostage to fortune for a long time yet. For many, however, adapting to the uncertainties and revised physical business practices does not compare to the weight of admin that confronts a highly regulated industry such as financial services.

In fact, it is compliance that is proving to be the top grievance among professional financial advisers who are finding it increasingly hard to just get on with the job at hand. Australian financial services research company Investment Trends has been carrying out an ongoing study since April 2020. It indicates that among the adviser community, 68% of respondents cite "compliance burden" as their number-one concern, pushing "disruption from COVID-19" into second place at 59%.

Related to that finding is the way the compliance burden restricts trade for advisers, many of whom reported a significant demand for financial advice that was difficult to honour due to increased costs and other constraints.

Additionally, the findings of a 2019 Thomson Reuters study have become a popular benchmark of sentiment surrounding the impact of risk on the financial services industry. The *Cost of Compliance* recognises marked changes in the regulatory environment over the past 10 years, many of which were born out of a need to address risks following the 2008 financial crash, and avoid history repeating itself.

The report pinpoints culture and conduct risk, personal liability, and technology as the three most significant changes over that time to impact the role of compliance officers – indicating that a more holistic approach to risk management culture, as well as accepting a material increase in liability for decisions made, needs to evolve as an inherent part of the business.

However, the overwhelming feeling remains that small advisory firms and sole-trader advisers are again left with the short straw whenever regulatory change occurs. With no dedicated compliance office to turn to, advisers are potentially left struggling to please both their clients and the regulator.

A question of cultural change

As catch-22s come, this one is difficult to resolve. Regulatory adherence is accepted as essential to the credibility of the services being offered, but how can adviser professionals meet cumbersome compliance requirements while maintaining profitability?

The Financial Conduct Authority (FCA) is keen to frame compliance within a business's culture, as it prioritises the protection that customers expect in the sector. It says "this will help firms demonstrate externally to potential clients and other interested stakeholders that they are doing the right thing by their clients. It should also help the long-term sustainability of the business".

The FCA also stresses that it caters for smaller service providers through a raft of advice resources online, from a Regulation Round-up email covering relevant developments, to a dedicated webpage for financial advisers.

It cites pensions transfer advice – a decision identifiably fraught with risk surrounding the approach to selling – as a good example of a wider drive to keep things simple and manageable. If you want to assess customer suitability for a defined benefit pension transfer, you can follow the assessment tool online, complete with a series of short explainer videos.

Meanwhile, compliance training specialist Skillcast has spent 20 years perfecting training tools that take a more preventative approach to risk management – the adage being that forearmed is forewarned.

"Too many financial firms and advisers take a reactive approach to compliance, and are stuck with weak controls, poor customer service and costly remediation that drains their management time," explains Director Vivek Dodd. "In contrast, those that are proactive can get on with their business with confidence, while building trust with their customers."

Skillcast's model encourages the competitive advantage by promoting its e-learning and regtech tools as positive business enablers rather than clunky regulatory obligations.

Tech as a fast-track solution

For the authors of the *Cost of Compliance* report, the rapid growth in technology solutions in financial services has played a large part in changing the regulatory environment. A victim of their own success, the growth of FinTechs and digital financial instruments has seen the compliance functions play catch-up for much of the past decade. But they believe that the drive for automation in the compliance function itself will increase speed and accuracy to the benefit of businesses and advisers, who can then get back to the added-value service that defines their trade.

Joe Norburn, veteran financial services expert, made the case in *IFA Magazine* in February 2021 for automation as the saviour for advisers left sinking in a sea of regulatory change. Quite apart from the forced acceleration in tech solutions due to COVID-19, Norburn claims that advisers now have access to auto-transcription software which, in the daily course of business, can free up "more than 14 hours per week" of advisers' time and lead to "huge cost savings".

> **"Too many financial firms and advisers take a reactive approach to compliance, and are stuck with weak controls, poor customer service and costly remediation that drains their management time."**
>
> Vivek Dodd, Skillcast

The FCA echoes these indicators of increased efficiency, albeit through more direct practices such as the use of video conferencing to cut out travel time and holding more consultations during the day. Learning materials for continuing professional development (CPD), too, are now optimised for online learning in modules which, the FCA claims, can more easily fit into a busy adviser's workload.

Don't have time to read through a mass of information on conduct rules? You can listen to a podcast instead at: fca.org.uk/multimedia/inside-fca-podcast-importance-conduct-rules-smcr

The message is therefore clear: compliance requirements are not going anywhere fast, and financial advisers will have to innovate their way towards better time management models to keep abreast of regulatory change. However, the upside is if you get the mix right, your reputation and integrity can only benefit. CB

MSC IN DIGITAL AND RETAIL BANKING

Training the bankers of the future

Banks today face a difficult human resources challenge. As the financial sector digitises rapidly, how can organisations plan for jobs that may not yet exist – and rapidly adapt existing roles?

Technology is the great disruptor and, in an atmosphere of change, the way that bankers are trained and prepared for their careers must also evolve.

That's why it's a privilege for the Chartered Banker Institute to accredit the Cranfield School of Management's MSc in Retail and Digital Banking. This innovative programme with our world-class business school partner, running since 2018, is the UK's first master's-level apprenticeship for senior banking professionals and aims to develop retail and digital banking capability.

"Cranfield's MSc in Retail and Digital Banking, accredited by the Chartered Banker Institute, helps future leaders develop and demonstrate the knowledge and skills needed to shape the future of banking," says Simon Thompson, Chief Executive, Chartered Banker Institute.

"At a time when banks and banking are being shaped by new technology, future generations of banking leaders need to develop their professional expertise in a wider range of fields than ever before, including banking, technology, management and leadership. In a digital age, human capital is just as important – if not more so – that banks' financial and technological capital. We look forward to welcoming those who successfully complete the MSc to our rapidly growing, global family of Chartered Bankers."

More opportunities

The two-year part time programme, which was initially open only to Metro Bank employees, now welcomes applications from all over the world. It is suitable for self-motivated individuals with technical backgrounds who wish to gain a good knowledge of finance, management and retail banking, and for experienced professionals with a background in finance, who wish to have a detailed understanding of the link between finance, management and technology in financial services.

Drawing on faculty from across Cranfield School of Management, the MSc programme is led by Cranfield's Economic Policy and Performance Group, which has been consistently ranked in the top 10 in the *Financial Times*' Global MBA Ranking for its teaching of economics in relation to Cranfield's full-time MBA programme. The course has been designed in consultation with senior banking practitioners, academic experts and the Chartered Banker Institute, reinforcing its relevance to the modern financial world. The faculty is also supported by a team of international visiting industry speakers and professors who bring the latest thinking and best practice into the classroom.

> **"There is a real need for future leaders to understand the changing nature of banking in the digital age."**
> Professor Catarina Figueira,
> Cranfield School of Management

From banking to tech, or vice versa

Employer organisations can sponsor high-potential or high-performing employees on the programme, with recent sponsor firms including Metro Bank, HSBC, first direct and M&S Bank. This enables an organisation to strengthen its leadership pipeline, improve retention, and empower a network of individuals to work on meaningful and transformative initiatives which will improve practices of ethical, responsible banking.

"Speaking to professionals across the banking sector, there is a real need for future leaders to understand the changing nature of banking in the digital age," said Professor Catarina Figueira of the Cranfield School of Management. "It's a very exciting initiative." CB

2025 FOUNDATION

Supporting the next generation

A new pilot initiative expands the reach of the Institute's 2025 Foundation programme, as our CPD Manager Moira Houston explains.

With the Chartered Banker Institute's 150th anniversary as its focus, the 2025 Foundation builds on the organisation's original aims by providing financial and mentoring support to young people keen to pursue a career in banking.

Established in 2016, the Foundation works closely with The Robertson Trust to identify those who could benefit from the scheme. The 2025 Foundation is currently delivering support to four scholars, who are now in their first and second years at university.

Vincent Jan Cordenio is one of those undergraduates. The scheme, he says, "shows me that I have the potential and that I bring something to the table to be given the chance to be part of a great organisation. It's a significant step for me in terms of achieving my higher goals and aspirations and I am looking forward to being bold and ambitious."

New pilot programme

The 2025 Foundation is now collaborating with the EY Foundation as part of its Smart Futures programme to build awareness of the career opportunities available in banking and financial services to 16- and 17-year-olds, with a pilot scheme running in 2021. Moira Houston, Continuing Professional Development (CPD) Manager, Chartered Banker Institute, explains how the new initiative will work.

"The EY Smart Futures programme operates across a number of sectors but there was a gap for the banking sector, which we felt was an opportunity for us to broaden awareness of the types of careers available in the sector," she says. "The programme is open to young people who are in receipt of free school meals, offering them an opportunity to gain experience that will boost their career prospects."

Developing skills and experience

Eleven young people from across the UK will embark on the programme starting in April 2021. Beginning with two weeks of hands-on experience, the curriculum includes a further 10 months of mentoring support. Week one will see participants learning a range of skills designed to help them in the workplace, including workplace etiquette, CV writing and presentation skills. In week two, they will undertake business work experience, through a three-day virtual placement with a bank and completion of a meaningful business project.

"We've had a huge amount of enthusiasm from the three banks involved in the pilot programme, Sainsbury's Bank, TSB, and United Trust Bank," says Houston. "In developing the programme, we've held workshops with young people already working in the banks to find out what they would have liked to have known before starting out in their careers, and we've used that to tailor the programme for the pilot scheme."

Raising awareness

The programme aims to provide an insight into the opportunities that a career in banking can offer and, as Houston points out, it is designed to challenge participants. "It's a very active programme. In the second week, participants will be called on to use the skills they've developed to undertake a project for their bank. They will also take part in a 'Dragons' Den'-style competition where they will be called upon to present an idea to a panel of judges.

> **"The programme is open to young people who are in receipt of free school meals, offering an opportunity to gain experience that will boost their career prospects."**

"On completion of the programme, participants will spend approximately 10 hours studying for the Introduction to Responsible Banking e-learning module, which is based on the Institute's qualification programme, and can be included on their CV."

With the pilot programme already well received and attracting interest, Houston hopes that it can be expanded as an extension of the 2025 Foundation, helping a new generation of potential bankers to enter the profession.

The 2025 Foundation relies on your support to make a difference to young people who wouldn't otherwise have the opportunity to pursue a career in banking. If you would like to make a financial donation or become involved as a mentor, email us at: 2025@charteredbanker.com. CB

YOUNG BANKER OF THE YEAR

Perfecting the art of the impossible

As Young Banker of the Year goes global for the first time in its history, *Chartered Banker* speaks to past judges about the competition's impact on both participants and wider society – and shares their advice for this year's hopefuls.

The banking sector is going through a metamorphosis. With the sweeping changes in working practices rolled out during the COVID-19 crisis and a growing pressure on organisations to step up their sustainability goals, the opportunities for innovative thinking that challenge the status quo are arguably greater than ever.

The Chartered Banker Young Banker of the Year competition provides the space – and platform – to do just that, and the competition's judges are passionate about the transformational potential for those involved.

"It seems to me that in the earlier years of one's career it is all too easy to learn, to deliver, to do what's expected," says Dame Susan Rice DBE, Chair, Banking Standards Board and competition judge.

"It's often hard in many organisations to find the time or space to raise a novel idea or find the receptive person who might help those early in their careers to develop something new. There are people who are very ambitious, who would like to do more, but they get caught up in this process of doing what's expected of them. It's hard [for them] to begin to contribute their thoughts and put them back into the business.

"This initiative is a fantastic opportunity for young bankers to develop an innovative idea, whether it's for a product or a service. It opens the door for them to start inserting their ideas into their institution."

Growing social value

This year's competition focuses on the sustainability space, aiming to encourage ideas that benefit customers, colleagues and the community while aligning with the UN's Sustainable Development Goals.

For Sir Roger Gifford, Chair, Green Finance Institute and competition judge, the initiative encourages excellence in the whole banking sector at a time when the industry

THE JUDGES

DAME SUSAN RICE DBE
Chair, Banking Standards Board

KARINA ROBINSON
CEO, Robinson Hambro and Master, The Worshipful Company of International Bankers

SIR ROGER GIFFORD
Chair, Green Finance Institute

> **"Aspire to make a change then think of a product that can help do that. Don't compromise on your aspirations."**
>
> Sir Roger Gifford,
> Green Finance Institute

is coming under pressure from all angles.

"There's no industry that needs it, or has needed it, more than banking, which has been subject to all sorts of negative vibes in the past 10 years about money being more important than social value," he says.

"Those of us who have been in banking for decades think it's much more about social value than it is about banking, than it is about money, particularly if you worked in an organisation like mine that doesn't have a bonus culture. So, I think one part of the competition is about getting people to participate, bringing the best and the brightest of the next generation of bankers through in a format that gives them a chance to shine and to think afresh. It's a programme that's clearly going to reward them if they come up with something really interesting and good."

"The competition flags up the art of the possible and makes real the all-important connection between the work that a banker does and the purpose of the organisation."

Dame Susan Rice,
Banking Standards Board

Positive exposure
For participants in the competition, the platform can provide career-enhancing exposure, as well as an opportunity to deepen connections with colleagues.

"It means that entrants will be noticed in their organisation because they may have to turn to more senior individuals than they would normally deal with day to day," continues Rice. "They may have to work with teams, departments, or individuals who are not in their immediate business area in order to get the support they need for their initiatives. That can give them exposure in the organisation and that's really helpful for someone who's moving up in their career."

Transference of ideas
It's not just participants' careers and professional skills that can benefit. The impact of the competition, Rice adds, invariably improves customer experience.

"I think, perhaps with only one exception, all of the previous entries have been focused on the customer and customer benefit, and that gets down to the heart of the purpose of their organisation. It should make us all question, 'What's the purpose of a bank?' And the extent to which people are led to keep that focus in mind and to have their peers and others in their organisation realise that focus is valued.

"Some ideas may be developed within one organisation, but they are certainly repeatable in others. There's no reason why others can't do something similar. So, there's a real benefit in terms of transference of good ideas and a belief that these things can be done. The competition flags up the art of the possible and makes real the all-important connection between the work that a banker does and the purpose of the organisation."

Societal impact
While the competition has always had a knock-on effect on the wider sector, the Young Banker of the Year competition has evolved as an accelerator of issues that need to be pushed up the agenda.

"I think the social impact has become even more a key part of the competition in the past 10 or 12 years," says Gifford. "There is also an opportunity for the Institute and others to put forward the direction that they believe banking is going. We reward those areas that we feel are most valuable and currently they are around a number of important agendas."

Key areas this year are diversity and inclusion, as well as the environmental, social and governance (ESG) agenda.

"If somebody came along with a scheme that was brilliant but didn't have much social value – i.e. it was just a way of making more money – I don't think we would be giving the award to that person. It's important to send the right signals about the direction that we want this award – and banking more generally – to go in," explains Gifford.

Fellow judge Karina Robinson, Master of the Worshipful Company of International Bankers and CEO, Robinson Hambro, believes there is something powerful in the "youthful enthusiasm" of participants.

"The Young Banker competition is one of the highlights of the year in office for any Master [of the Worshipful Company of International Bankers] as it exposes them to youthful enthusiasm and the power of banking to improve society. The finalists in my year are a case in point, with apps aimed at helping the environment, those in need of court protection and gender balance."

Aspire to change
What advice would our judges offer participants, either those who have already entered this year's competition or those thinking more deeply about their organisation's current offering?

YOUNG BANKER OF THE YEAR

Robinson's top tip is simple. "Be yourself," she says. "And gather all the learnings from the competition – whether you win, are placed or not placed, the effort you put in will undoubtedly benefit you."

For Gifford, the emphasis should be on the courage to take risks.

"It sounds terribly naff, but I would say let yourself dream and then create," he says. "If you have an idea or a feeling about the way things are working, or that they're not working well enough, then think of a financial product that meets that or helps to meet it. In other words, aspire to make a change then think of a product that can help do that. Don't compromise on your aspirations."

With so much focus on sustainability sweeping across investment strategies, Gifford also says it would be a smart move for participants to concentrate on the area of climate change and biodiversity. But, he says, it's vital for projects to be win-win.

"One of the crucial messages is that the environmental movement has moved out of the hands of environmentalists and into the hands of companies and bankers and governments," he adds.

"It's commercial thinking that's driving it, even more than environmentalist thinking. So yes, we want a sustainable future, but it's got to be one that makes sense commercially. It's got to be one that still gives our pension funds the right yield and gives our lenders the right return on their loans."

Nothing ventured...

With exposure throughout the Institute's membership of more than 30,000 – as well as across the wider sector – Rice believes being part of the competition will always be a positive experience for any participant.

"The advice I'd give is 'nothing ventured, nothing gained'," she says. "And even if entrants don't make it to the stage of being a finalist, I think the whole competition is so well run and everybody is made to feel valued. Whatever stage they get to, they will have learned something. They will have learned about themselves, what they can achieve and perhaps how to operate a little more effectively in their organisation.

"They will have learned about their colleagues and engaged with new colleagues in different ways. They will have learned something about their organisation they may not have known and about their industry. That's a huge amount of learning. That will help participants mature in their roles and will do a lot for them in career terms. Whether they win as a finalist or not, it's a win-win if they get involved in the initiative in the first place."

Transforming the everyday

With a new set of projects set to be presented to the competition's judges throughout April and May, Gifford says the event encourages entrants to find opportunities to elevate the everyday.

"The other thing I love about the competition is that it's not actually about capital markets and the big bond stuff," he adds. "On the whole, it's about the day-to-day practical retail. It's about investment products for me, as a person, and my pension fund, rather than whether I'm a big institution investing $100m in a new bond. Be brave and bold and aspire to become the very best." CB

PERSONAL DEVELOPMENT

A matter of principle

Unable to carry budget over into the next year, Learning Development Manager Cormac agrees to pay a supplier early, dividing her fee into two sums that he can approve himself. Are his actions cause for concern, asks Bob Souster, or is it within his remit to game the system?

The scenario

Cormac is the Learning Development Manager for Eastland Bank. He is responsible for creating technology-based training packages for the bank, and over the past five years has successfully helped it to move away from dependence on face-to-face tuition in favour of blended, computer-based learning.

Cormac's workload is based on an annual budget. Departmental heads submit their requirements to him in October of each year and his budget is prepared according to their needs. The bank's financial year runs from 1 January to 31 December. If unscheduled requirements arise during the year, budget increases are seldom sanctioned. If the budget allocated to Cormac is not used within the financial year, any surplus is not carried over, as the bank operates a zero-based system for service departments. Once his budget is finalised, Cormac has a mandate to sanction any single item of expenditure up to £5,000.

> "By dividing the project into two phases, Cormac would be able to pay Amanda in advance and in full in the current year if she were prepared to issue two separate invoices."

Over the past year, Cormac has occasionally engaged the professional services of Amanda, a self-employed specialist software developer. Amanda worked in the banking industry for several years before deciding to start her own business in 2018. She works from home and does so entirely on her own. Since setting up the business, she has been able to nurture relationships with 10 other clients. She has already built herself a good reputation by delivering services on time and within the specified budgets.

Cormac contacted Amanda to discuss a forthcoming project. He explained that he could not devote time and resources to this for a few months, so the development work would have to take place in the bank's next financial year. However, Cormac stated that Amanda should draw up two invoices of £5,000 for the work to be done, and these should be submitted as soon as possible. The first invoice should be for Phase 1 of the project and the second for Phase 2.

Cormac explained to Amanda that he had been able to make £10,000 of savings in his budget for the current year, but he anticipated that he would not be able to carry over the expenditure to the next financial year. His manager had informed him that the bank would be implementing cost containment measures soon and that training and development expenditure would be substantially reduced. By dividing the project into two phases, he would be able to pay Amanda in advance and in full in the current year if she were prepared to issue two separate invoices.

As a sole trader, Amanda agreed to accept the project on the terms suggested by Cormac. She was only too happy to receive the additional and unexpected working capital, which would remove some of the cost pressures facing her. She also felt confident that she had the capacity to undertake the work over the next few months.

What are the ethical implications of Cormac's actions? 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.

PERSONAL DEVELOPMENT

The analysis

If Eastland Bank is a large institution, the facts of the case study may appear trivial, as Cormac's proposed expenditure of £10,000 is probably quite a small proportion of the expenditure of his department within the context of an entire year's activity. It may appear that Cormac is simply gaming the system to add value to the bank, and by not doing so he may lose this opportunity. He has been advised of future budget constraints, and one consequence of this may be the need to forego the project altogether if other training needs are prioritised.

However, there are two issues arising from the case that may be of concern.

First, it is important to consider the role of accounting systems, and in particular the role of budgets in the context of internal control. Budgets are a tool for both planning and controlling business activity. Wherever possible, they should accurately reflect work done in each accounting period and should enable managers to drill down to income and expenditure associated with each activity. For Cormac's department, it is unlikely that there will be income, unless the bank sells its training solutions to third parties or operates a transfer pricing system.

If Cormac processes the payments to Amanda in the current accounting period but the value is added by Amanda in the next accounting period, this will result in the budget not accurately reflecting the activities represented. Cormac may decide that expenditure of £10,000 is not significant enough to be misleading, or cause a distortion of his department's activities, but his actions are questionable. If the expenditure were much higher he would undoubtedly be called out by his managers for manipulating the system, so arguably they would be right to do so in this instance, as the principle is exactly the same.

A further consideration is that Cormac's proposal to divide the project into two phases to make two payments is dishonest, especially if the project to be undertaken by Amanda is not actually divisible.

Second, Cormac may not have paid due regard to the consequences of his actions. His proposal may be a noble cause if he is confident that Amanda will deliver quality work, on time and within budget, as she has done before. The bank will benefit, Amanda will benefit, and Cormac will have achieved results that are consistent with his brief.

However, Amanda is a sole trader who works entirely on her own, so Cormac should be aware of the risks when suggesting the bank should pay in advance. For example, Amanda could be affected by illness or injury, impeding her ability to work or even preventing her from working at all. Sole traders are subject to their own risks, including the ability to spread their time effectively across the needs of all their clients.

> **"It may appear that Cormac is simply gaming the system to add value to the bank, and by not gaming the system he may lose this opportunity."**

The case study suggests that Amanda is good at her job and delivers high-quality results, but is she competent in other ways? Does she run her business efficiently? Does she pay her tax in full and on time? Are there any circumstances that may compromise her ability to deliver the work required?

Ultimately, Cormac should be aware that if for any of these, or other, reasons Amanda cannot fulfil her obligations under the contract, the bank will have spent £10,000 that will be difficult to recover. 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

Why climate change is money in the bank

Back in September 2015, Mark Carney, then Governor of the Bank of England, brought the cold, hard facts of climate change into the comfortable surroundings of a Lloyds of London dinner. In his speech, he warned of a coming market panic when investors, insurers and banks realised their exposure to climate risk, as Ian Henderson recalls.

By the end of 2020, Carney had left the Bank but he hadn't left the subject. In fact, his clear, calm analysis of the facts became even more chilling in his series of The Reith Lectures on BBC Radio 4 last December. California and Australia had caught fire. Ice loss at the Poles had accelerated. More species had become extinct. And the five years between his speech and his lectures were the warmest on record. Ever.

Yet Carney was not bringing a message of doom, but of hope. For him, the key driver of a survivable future for humanity is the tipping point he sees coming in the financial sector's focus on the transition to a net-zero carbon global economy.

We have a global carbon budget – the amount of carbon that can still be released before our world becomes dangerously volatile and destructive. As Carney says, "net zero (carbon) isn't a slogan, it's an imperative of climate physics". And shifting to net zero is not just urgent and essential, it's also an enormous opportunity for banks and others in the financial services industry.

He's not the only one saying it, either. BlackRock chief Larry Fink's 2021 letter to CEOs says explicitly for the first time: "Climate transition presents a historic investment opportunity." Fink's conversion was reportedly accelerated by seeing how climate change was damaging his favourite fishing lake in Alaska. But as one of the world's most hard-headed investors this runs a lot deeper, to his fiduciary duty to the firm. As Fink's letter concludes: "Climate risk is investment risk."

Some US$8tn of BlackRock investment shifting away from the potentially 'stranded assets' of fossil fuels and into technologies such as hydrogen as a fuel, carbon capture, smart farming and distributed electricity storage will inevitably make a difference. So will high-profile innovators such as Bill Gates, whose latest ocean-crossing yacht runs entirely on hydrogen and produces only water as waste. Not everyone is going to get a superyacht in the future, but it's a way of proving the technology works.

Perhaps more important still is the shift in political and societal will, accelerated by campaigns such as those by young Swedish activist Greta Thunberg to local groups advocating cycling or reduced food miles. Social movements powered by digital media are now fully capable of changing opinion at massive scale, as we have seen from Brexit to Black Lives Matter. That, in turn, can create increasing pressure on governments to deliver on the net-zero commitments already set by 126 countries.

According to Carney, there are three ways in which banks and other finance organisations can, without exaggeration, save the planet: reporting, risk, and returns. On reporting, what gets measured gets done; so larger firms need to sign up to a standard called the Task Force on Climate-related Financial Disclosures [TCFD] disclosing climate risks. Investors will increasingly demand to know what's in their pensions and savings.

Climate risks are different from conventional financial risks because nobody's ever had to deal with them before. They're sudden and they can happen everywhere at the same time. You can't diversify away from them. So, banks need to understand the climate risks they're financing and work with clients to manage them down.

"As Carney says, 'net zero (carbon) isn't a slogan, it's an imperative of climate physics'."

And finally, the big one: returns. Markets work on fear and greed, and Carney, Fink, Gates, Bloomberg and many others agree the transition to net zero could be "the biggest commercial opportunity of all time".

Climate change should not be seen as something too big to do anything about, or something that won't affect us. It will, unless we change the climate for the better. And we can, by reinforcing the momentum to net zero. There's a good chance that by fixing the planet, we can improve the lives of all the people on it. CB

Ian Henderson is CEO of AML Group
aml-group.com

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