

ResPublica's submission to the Banking Standards Review

ResPublica welcomes the opportunity to respond to this consultation and help shape the final recommendations of this Review for a new independent banking standards body. This body will play a key role in restoring ethos and virtue to the banking sector. It is vitally important for it to promote and safeguard the highest standard of good conduct.

ResPublica will be publishing a report in May 2014 which will review the way in which the banking industry governs and organises itself. This project will explore industry standards, how to improve customer responsiveness, as well as professional training and development options for the sector in order to restore ethos, promote leadership and create a path towards virtuous banking. We would be open to discussing our findings with the Banking Standards Review in the development of this new body.

Question 1 – Do you agree with this objective?

We broadly agree with this objective set out for the new standards body. However, we would make the following points on what it is lacking:

- The objective does not touch on the social purpose of banks as social institutions. One of the reasons for such a mass fall-out with the sector and the current lack of trust from customers is the absence of a social mission for our banks. This is crucial as our banks are uniquely placed to provide transformative services and support throughout a citizen's life. We urge the Banking Standards Review to take this into account.
- In order for the objective to be effective it is crucial that *'the conduct and culture of banks doing business in the UK'* is explored and defined. As this could potentially be an objective for the whole sector, it is important this is made clear.
- This new body should ensure it covers a diverse mix of ownership structures. The promotion of diversity is in the interest of effective competition, consumer choice and systematic stability. In order to ensure a level playing field, the objective statement should recognise this body is for a mix of ownership structures.

Question 2 – Do you agree that there is a case for a collective approach calling for the participation of all banks doing business in the UK?

The collective approach must ensure it incorporates a diverse mix of ownership structures.

Question 3 – Do you agree with the proposed role of the new organisation? Question 4 – Do you agree with the proposed scope?

As mentioned in Q1, we believe that creating a social purpose of banks is crucial in the post-2008 landscape; therefore we applaud the proposals to debate a bank's role in society.

There is a danger that this new organisation will make the same mistakes of past attempts to do similar. Standards and codes of conduct existed in some form or another before 2008 and failed to stop irresponsible behaviour.

Too many rules can incentivise dissent and generate loop holes. The new body must be weary of creating structures that unnecessarily duplicate existing arrangements. It should not replicate the regulator.

Question 5 – *Do these proposals go far enough to ensure the body has credibility?*

This Parliament has, quite rightly, witnessed the most significant programme of financial reform in recent times. Yet the public, who have continually expressed their support for financial reform, have had little involvement.

However independent this new body may be, the fact remains that it is funded by those who it will regulate. In order to secure credibility from the general public (the banks' customers), we recommend the following:

- Either this consultation be extended to include the views of the public, or a further round of consultation is opened for the public to comment.
- The make-up of the board should involve an element of democratic participation. This could be achieved through creating a 'community commissions' made-up of small business and community leaders who can submit their views on the appointment of potential board members. These could take the form of 'citizens' juries' as used in Australia, which open up community-wide discussions on important issues.

In order to further credibility and ensure independence, we recommend that the Chair of the body be from outside the financial sector as well as the majority of board members.

Question 6 – *Do you agree with this analysis? What are the pros and cons of aspiring to build individual membership over time?*

We sympathise with the membership difficulties this new organisation will encounter and therefore agree that in the early stages the prime relationship should be with the banks and building societies. But we also recommend that all those who become members of the new standards body must (within a five year period) seek to have the majority of their staff signed-up as members of the new body as well. With the intention that all those on the payroll will eventually become members.

Question 7 – *Is there a case for a more pro-active approach to managing ethical issues, and if so how should it be managed?*

Yes there certainly is a case for a more pro-active approach to managing ethical issues but the real question is how it should be achieved.

The new body could take example from the Advertising Standards Authority; an independent non-statutory organisation, funded by the industry, which produces a respective code of conduct.

Question 8 – *Do you agree with the proposals to build on best practice as set out in the regulators’ guiding principles?*

To some degree yes but there is a danger of creating competing principles which would not work well. The principles of this body should be the ‘gold plate’ standard, otherwise it holds no weight.

Question 9 – *What would be the best way of assessing the implementation of a bank’s code of conduct?*

We believe that continuing professional development is key to creating and sustaining ethical levels of conduct in the industry. Attainment must be a challenge.

A code of conduct should be a living document and an evolving project; adjusting to industry and external changes and incorporating employee feedback. This co-production approach with staff will ensure that employees at all levels are aware of the code.

The new body should make note of the response to Q3 and Q4 - standards and codes of conduct existed in some form or another before 2008 and failed to stop a breakdown in behaviour.

Question 10 – *Do you agree with this agenda?*

Competition between standards should not be encouraged as this could lead to confusion within the industry over which set of standards to adhere to. As we argue throughout this submission, there needs to be a ‘gold standard’ as exists in the medical and legal professions.

Question 11 - *Would you support the proposed relationship with the existing professional bodies being to provide a ‘canopy’ under which they operate, accrediting or in some way validating the training they offer to bankers?*

As mentioned in Q8, in order for this body to be respected and successful, it must represent the ‘gold plate’ standard. To achieve this, it should push for Royal Charter status to ensure that it is the apex institution for standards within the industry.

Question 12 - *Is the proposal for assessing banks’ and building societies’ in-house training sensible and practical? Could the new organisation play a helpful role in the certification process?*

If it is involved in such a way, it could assess banks’ and building societies’ in-house training by ‘rubber stamping’ their authenticity, thereby ensuring continuity and standards in the certification process.

Question 13 – *Do you think such a benchmarking exercise would be of value?*

Yes it could be a useful exercise. We recommend that the information be made publicly available and presented in league table format.

- Targets such as SME lending and community investment should also feature – targets to help battle financial exclusion.
- Assessment should not be between peer groups but to a ‘high benchmark level’ to encourage aspiration and to avoid a race to the bottom.

Question 14 – *Are these the right groups of metrics? Would you propose others?*

In addition, we would propose the following:

- Complaints – the number of complaints made to the Financial Ombudsman Service should be compared.
- Financial inclusion targets – such as community investment and to some extent SME lending.
- Assessment should not be between peer groups but to a ‘high benchmark level’ to encourage aspiration.
- Highlighting the number of whistleblowers (although of course ensuring anonymity).

Question 15 – *Would it make sense for banks to adopt a set of standard questions to add to their existing surveys?*

Yes, but the surveys should be designed by the standards body (or at least that section that is concerned with standards). It is easier for employees to suggest proposals for improvement or reform if the survey is designed by a body independent of their employer.

Question 16 – *Is self-reporting appropriate? Might other methods deliver better results?*

Yes – if there is a standard format to ensure consistency.

Question 17 – *Are there non-bureaucratic alternatives to this approach that might work better? Is there a role for kite-marking?*

Yes we believe there are non-bureaucratic alternatives such as continued professional development being maintained at all levels and introducing degrees of experience to clarify how developed/trained and employee is (the more so, the more likely they are to behave correctly). Kite-marking has its place, but it only will be seen as a mere ‘rubber-stamp’ unless partnered with other means of differentiating between good and bad practice. A new ‘chartered’ status for banking, with degrees of proficiency as they do in accounting, would also be advantageous here.

Question 18 – *Do you agree with this proposal?*

Yes – the sector should look to other professional industries for examples of best practice. We also believe there should be ‘chambers’ for specialised components of the industry to ensure that the

disparate components of the financial industry are not pigeon-holed to such an extent to make this proposal meaningless. The Bar Council is a good example of how specialisms can be contained within a single professional body.

Question 19 –*Should the new organisation aspire to such a role?*

Yes.

Conclusion: *What would success look like?*

- The creation of a primary and apex standards body for the banking sector.
- The inculcation of virtue and a social purpose in the banking sector.
- Mass membership to the new body across the whole sector.

And would this structure, if it had been in place ten years ago, have helped avert the banking crisis?

If it were achieved as we have laid out in this submission, then yes. It is less about the structure of the body, and more about its ultimate aim. No set of standards can or body to regulate standards can prevent financial crises. But a clear set of standards with a comprehensive ethical underpinning will prevent at least some financial crises from occurring or, if they do, mitigate their effects on society and the wider economy.