

Banking Standards Review

March 2014

Committee on
Standards in
Public Life

Chair: Lord Paul Bew

RESPONSE FROM THE COMMITTEE ON STANDARDS IN PUBLIC LIFE TO THE BANKING STANDARDS REVIEW CONSULTATION PAPER

1. The Committee on Standards in Public Life is an independent advisory body to the Government, which monitors, reports and make recommendations on all issues relating to standards in public life. The Committee promotes high ethical standards in public life in the UK and works to ensure that the Seven Principles of Public Life - selflessness, integrity, objectivity, accountability, openness, honesty and leadership – underpin all aspects of public life.
2. In 1994, when the Committee was established by the then Prime Minister, its terms of reference were ‘To examine current concerns about standards of conduct of all holders of public office, including arrangements relating to financial and commercial activities, and make recommendations as to any changes in present arrangements which might be required to ensure the highest standards of propriety in public life.’¹
3. Those in public office were originally defined as ‘ministers, civil servants and advisers; Members of Parliament and UK Members of the European Parliament; members and senior officers of all non-departmental public bodies and of national health service bodies; non-ministerial office holders; members and other senior officers of other bodies discharging publicly-funded functions; and elected members and senior officers of local authorities.’² In 2013, the Committee’s remit was extended so that it ‘can examine issues relating to the ethical standards of the delivery of public services by private and voluntary sector organisations, paid for by public funds, even where those delivering the services have not been appointed or elected to public office.’³
4. Although the Committee’s remit does not extend to purely private sector organisations like banks and building societies, it maintains an active interest in the factors that influence the general ethical climate in the United Kingdom, regardless of their sectoral background. Standards failures can have a general impact and reduce wider public trust in public and private institutions regardless of the sector from which they originate; equally, efforts to raise standards in one sector are to be welcomed as part of a commitment to raising standards in public life in the broadest sense. Efforts to raise standards in both public and private sectors, particularly those which highlight initiatives or examples of good practice, also provide considerable scope for mutual learning and cross-fertilisation. As the Review states, ‘A sound banking system is unquestionably

¹ First Report Standards in Public Life CM 2850-I May 1995

² Hansard (HC) 25 October 1994, col 758

³ Hansard (HL), 28 February 2013, col WA347

a public good.’

5. The Committee therefore welcomes the approach taken by Sir Richard Lambert to recommend the creation of a new body that would help to define, advocate and embed standards of good conduct in banking, with the aim of building a profession that operates within an ethical framework as well as a framework of technical competence.
6. The Committee’s responses to individual and groups of questions are set out below. The list of original questions is at Annex A.

Responses to Questions

Questions 1 and 2: The Committee supports the objective of establishing a single independent body to champion better banking standards in the United Kingdom. A single body with the ability to speak with a strong and credible voice in support of high standards of conduct in banking should be able to drive and champion change in the banking sector and be a valuable addition to the range of organisations promoting high ethical standards in individual sectors and professions. We also agree that a collective approach is the best way to achieve reach and to effect a genuine culture change in the industry. We do, however, have some concerns that an emphasis on target-setting may undermine the desire to build a culture of high standards. While individual targets may be beneficial in addressing specific behaviours, the Committee notes that the principles-based approach to professional standards, supported by Codes of Conduct, that is mentioned later in the document may be more helpful in building integrity and changing the culture of banking.

Questions 3 and 4: The Committee agrees with the proposed role and scope of the organisation, and in particular with the emphasis on customer perspectives in defining standards. In its proposed role as thought leader, we suggest that the new organisation works with others active in promoting high standards, including the Committee on Standards in Public Life, to develop the broadest possible base for establishing best practice.

Question 5: The Committee endorses the recommendation for the Seven Principles of Public Life to be built in to the appointments process for members of the new body. We suggest that the Seven Principles might also be a valuable starting point for the organisation’s Code of Conduct, helping to establish its credibility with the public by drawing on publicly recognised standards of propriety. The General Medical Council, for example, has used the Seven Principles of Public Life as the foundation for its Members’ Code of Conduct, which aims to

‘command the confidence of all our key interests.’⁴ The Committee on Standards in Public Life’s national survey of public attitudes, conducted biennially since 2004, clearly shows that the Seven Principles continue to be recognised and prioritised by the public as appropriate descriptors of the standards required for those in public life.⁵

Question 6: While the detail of membership arrangements is not a matter for the Committee, we endorse the building of an ethos of professionalism and professional responsibility as a means of developing and reinforcing high ethical standards in practice. There would be an advantage in the new organisation having regard to the ethical aspects of codes of practice as they apply among other professions relevant to, and associated with, banking.

Question 7: The Committee endorses a pro-active approach to managing ethical issues within banks which is not restricted to one section of the organisation in terms of governance structures. Ethics should be fundamental to the operation of banks and the industry as a whole, and should be the responsibility of all individuals, including leaders. High ethical standards are good for efficiency and benefit the economy through their effect on international confidence, as well as being a good in their own right.

In the Committee’s Fourteenth Report, Standards Matter, we recommended ‘active governance’ through a double-pronged approach of embedding ethical principles in the policies, practices and culture of the organisation and through robust and effective leadership.⁶ In our Fourteenth Report we also recommended that:

“Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored. There may also be a case for periodic intrusive challenge of ethical standards in different parts of the organisation.”

However, the Committee also believes that ethical principles should not only be seen as a risk to be addressed but as an essential element of the culture to be promoted and should be highlighted as the responsibility of all individuals. There may also be advantages in providing public assurance either in annual reports or as part of corporate social responsibility statements

⁴ General Medical Council website: http://www.gmc-uk.org/about/register_code_of_conduct.asp

⁵ Survey of public attitudes towards conduct in public life 2012, September 2013. Prepared for the Committee on Standards in Public Life by Isabel Taylor, Nicole Martin and the Committee’s Research Advisory Board using data collected by TNS-BMRB through the TNS CAPI OmniBus survey.

⁶ Fourteenth Report Standards Matter: A review of best practice in promoting good behaviour in public life CM 8519 January 2013,

to the effect that ethical issues are regularly considered at board level.

The Committee strongly endorses the introduction of effective whistleblowing mechanisms. It is essential, both for individual banks and the banking sector more widely, that individuals have the ability to raise concerns internally, have confidence about the internal procedures and assurance, and have the confidence that concerns will be properly investigated and, where appropriate, followed up by action. This is an important aspect of effective corporate governance. The Committee believes that a culture of openness needs to be encouraged and codes of practice on whistleblowing should be instituted and regularly reviewed to enable concerns to be raised. As the Committee noted in its Tenth Report:

“Effective whistleblowing is [...] a key component in any strategy to challenge inappropriate behaviour at all levels of an organisation. It is both an instrument in support of good governance and a manifestation of a more open organisational culture.”⁷

Questions 8 to 17: In the Committee’s Fourteenth Report *Standards Matter*, we reviewed what works best in promoting high ethical standards in organisations providing public services and asked what needs to be done by whom to continue to embed high standards in public life. The conclusions set out in that report relate primarily to the public sector but, we believe, have read across for those in banking.

The Committee concluded that the key elements for promoting and achieving high ethical standards were:

“robust principles, effective codes tailored to the particular circumstances of the body concerned, training and guidance, good, relevant prompts, strong leadership and organisational processes demonstrating the principles in practice, sure and effective responses to unethical behaviour and independent scrutiny. Together these elements help an organisation to achieve the right culture.

Many of the requirements for high standards require action at an organisational level. But high standards also require individuals to take personal responsibility – by observing high standards themselves, by demonstrating high standards to others through their own behaviour and by challenging inadequate standards when they see them. Mindlessly following rules and processes is not enough if people do not also engage their judgement about what is important. An individual who has internalised sound ethical principles and the reasons they are important is better able to make appropriate decisions than someone simply following a set of rules.”⁸

We recognise the split between the regulators’ role in enforcing sanctions and the standards body in championing good practice. Each will need to be robust and transparent in its

⁷ Tenth Report Getting the Balance Right Implementing Standards of Conduct in Public Life Cm 6407 January 2005

⁸ Fourteenth Report Standards Matter: A review of best practice in promoting good behaviour in public life CM 8519 January 2013.

activities in order to raise standards in banking and give the public confidence that standards are being raised and wrongdoing punished. We would hope that the principles of transparency and openness governing the work of the new standards organisation will extend to its interactions with the banks and the regulators in reporting any wrongdoing. Such transparency could only enhance the credibility of the standards organisation, boost public confidence that wrongdoing is being tackled and demonstrate that the bodies responsible for standard setting and standards enforcement are working effectively together. As we noted in our Fourteenth Report, 'there need to be visible incentives for good behaviour and sanctions for bad behaviour.'

Particular initiatives, like kitemarking, may be a beneficial incentive mechanism for the standards organisation to adopt in order to drive better behaviour, but we believe that a focus on leadership and training, 'active management and constant vigilance'⁹ and transparency and openness are the best drivers for reinforcing and embedding high ethical standards

The Committee is particularly interested in the Review's focus on leadership and training as a means of embedding standards, as this chimes with our work on reinforcing ethical standards in practice across public sector organisations. The Committee is currently gathering evidence on the best methods of including ethics in internal processes such as induction and professional development in order to make recommendations to help public sector organisations promote a culture of high ethical standards. We note that the new banking standards body would be an accreditor rather than a provider of training, and would be interested in learning more about the review's approach to defining quality criteria and success measures as part of any accreditation process. The Committee would welcome the opportunity to discuss training and leadership with Sir Richard Lambert and his team.

The Committee is also interested in the Review's proposals to measure the impact of the proposals to raise standards, and the public's trust in banks and banking, through the use of surveys and interviews. The Committee has, since 2004, conducted biennial surveys to monitor current attitudes, analyse the standards of behaviour the British public feel public office holders should be kept to, the extent to which these standards are believed to be upheld, and the perception of how well the systems put in place to enforce them are operating. Such surveys have been a useful barometer of the reach and impact of measures to raise standards in public life, and should prove equally beneficial to the banking sector.

⁹ Fourteenth Report Standards Matter: A review of best practice in promoting good behaviour in public life CM 8519 January 2013.

Question 18: As mentioned in our answer to Question 6, we endorse the building of an ethos of professionalism and professional responsibility as a means of developing and reinforcing high ethical standards in practice. The best means by which this can be achieved is a matter for those within the banking industry.

Question 19: The Committee strongly endorses the proposal that the new organisation should aspire to the role of thought leader rather than banking lobby group. We would hope that such an organisation would engage with other organisations responsible for standards of conduct in the banking industry across the world, but also with other organisations active in promoting ethical standards in particular professions and in public life in order to access the best of current thinking and practice in raising standards.

Annex A: List of Questions

Question 1: Do you agree with the objective to establish a new independent organisation with the aim of defining and raising standards of conduct and competence in banking?

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?

Question 3: Do you agree with the proposed role of the new organisation to set standards of behaviour and competence for banks and building societies, and to define metrics against which they could benchmark?

Question 4: Do you agree with the proposed scope of the new organisation to include all British banks and building societies, and foreign banks doing business in the UK?

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

Question 6: Do you agree that the new body should initially work with banks and building societies rather than individuals? What are the pros and cons of aspiring to build individual membership over time?

Question 7: In the section titled 'Ethics', a case is made for a more pro-active approach to managing ethical issues. Do you agree with this, and if so how should it be done?

Question 8: Do you agree with the proposal to build on best practice as set out in the regulators' guiding principles?

Question 9: What would be the best way of assessing the implementation of a bank's code of conduct?

Question 10: Do you agree with the agenda outlined in the 'standards of competence' section?

Question 11: Would you support the proposed relationship with the existing professional bodies?

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

Question 13: Do you think a benchmarking exercise, to help banks identify areas for improvement, would be of value?

Question 14: Are the groups of metrics outlined in the section titled 'Benchmarking' the correct ones? Would you propose others?

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

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

Question 17: Are there non-bureaucratic alternatives to the approach outlined in the section titled 'discipline' that might work better? Is there a role for kite-marking?

Question 18: Do you agree with the proposition that the new body should aim to become, in time, a membership organisation for bankers to join?

Question 19: Should the new organisation aspire to a role as a thought leader in banking, sharing best practice and helping to propose solutions to challenges that arise in the future?

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