# Sir Richard Lambert

## shares his views on the UK's Banking Standards Review Council

with Dr Raymond Madden, CEO of Asian Institute of Finance (AIF)

Countries around the world, particulary those worst affected by the Global Financial Crisis, are hurrying to repair the fractured trust in their financial institutions. In some of the worst hit developed markets such as the US and the UK, financial institutions have been painted as morally vacuous entitites with little sense of accountability and responsibility. In response, the Bank of England together with the banking industry has established the Banking Standards Review Council (BSRC), an independent body designed to promote high standards of behaviour and competence across the UK banking industry. In doing so, the Council hopes to restore public faith and trust in the banking system by transforming the industry into a more accountable and morally sound sector. **AIF's** CEO Dr Raymond Madden conducted an in-depth interview with the BSRC's architect, Sir Richard Lambert, in which they discuss the goals and the mechanics of the BSRC. Sir Richard led a UK-wide Banking Standards Review, which formed the foundations of the BSRC. The interview is published here in full.

**Your review is very timely. We read the responses [to the review], which were illuminating in giving a broad sense of what people are saying. It would be useful to know from your thinking, having done the review and having received the responses, how do you see this (the BSRC) panning out?**

Banks of all kinds and building societies will be asked whether they are prepared to support this initiative and help contribute to its costs. Once it's up and running it will have a number of strands of work. One is that it will undertake an annual culture assessment of banks and building societies.

**More recently the trade offs have been changed by the fact that banks are being fined massively for bad bets which they took in order to raise their return on equity. Between 2011 and 2013, UK banks paid more than GBP20 billion in conduct costs.**

The survey will look at the standards of behaviour, customer outcomes, etc. The BSRC will publish the results of this assessment which will be self-reported by banks but with the BSRC, as it was, kicking at the tyres. The idea would be for banks to commit to and demonstrate a process of continuous improvement in terms of behaviour and standards.

**How do you reconcile this with the fact that shareholder demand for return is a cornerstone of any banking operation?**

I think I would say that the trade-offs have changed in the years running up to the catastrophe. Shareholders were demanding return on equity from the banking sector that could only be achieved through high leverage and risky operations with the consequences that we now know about.

More recently the trades off have been changed by the fact that banks are being fined massively for bad bets which they took in order to raise their return on equity. Between 2011 and 2013, UK banks paid more than GBP20 billion in conduct costs. The idea is for the BSRC to encourage banks to pay more attention to these behaviours to help mitigate the conduct penalties. The numbers are of course even bigger in the US.

**It's interesting because the environment is changing. Do you see any potential conflict of interest with the banks having to contribute financially to fund the BSRC?**

Obviously there is a perception that if the banks are paying for the BSRC, it will be a creature of the banks so it has to demonstrate that it is not. One thing it won't be is a lobbying group. It won't be anything like a trade association, it won't be like the British Bankers Association. And it will have to, from time to time, show that it is willing to make the banks annoyed by criticising them so it has to be robust and tough.

**We've wrestled with this here [with our Financial Services Professional Board (FSPB)]. We're going to advocate standards and it's going to be voluntary. Do you have different views on that and what's your view on regulatory versus voluntary?**

I think the whole point of this thing is that it's not regulatory. The point of it is, and this is the view taken by the banking authorities, that you can't write rules for integrity. Banks have to do that themselves. But if we arrive at a world where the only thing that banks are interested in is the letter of the regulation rather than any kind of moral judgment of their own, then we'll be in big trouble.

Some banks still claim this is a bad apple problem that there are a few bad apples, but they can sort those out. I think, increasingly, that this is just wrong—there's something wrong with the barrel. If we just leave it to the regulators to fix the barrel, then we'll end up in a world where trust won't be rebuilt because you can't rebuild trust just by following the rules, and the volume of regulation will be such as to stifle risk and opportunity.

**How do you think we'll bring about this change? I think it's very easy to intellectualise and say, "Yes we agree". But what would banks have to do in reality to look at things like integrity and ethics?**

They will have to agree to report on a set of metrics every year, publish the report and make it subject to commentary and appropriate criticism by this new body. The idea is the BSRC will be in the excellence business, not the discipline business. So it will either be defining good practices and championing them whereas with less good practices, it will attempt to nudge the banks in the right direction by disclosing these practices.

**Say, if I'm working at Barclays or HSBC, what's likely to happen if I'm a middle or senior level manager within that organisation? How, on a grassroots level, would it look like?**

I think it won't look like much to be honest if you're working with a bank with 120,000 employees. The question the body will be asking is, "Do you in your position as you described it, understand what the stated values and the codes of conduct of the bank are? Is the way you are doing your business shaped by those values and codes? Is the induction process, the promotion process, the remuneration process, the discipline process aligned with the stated values of the bank or not?"

**The idea is the BSRC will be in the excellence business, not the discipline business. So it will either be defining good practices and championing them whereas with less good practices, it will attempt to nudge the banks in the right direction by disclosing these practices.**

**There has been significant volume of customer complaints about banking services and products, and some of the responses from the banks were, "You'd expect that because we're one of the biggest banking retailers in the market. We're no worse than anyone else." Do you think that mindset is changing?**

I think it is. It's changed by a number of things. I think LIBOR was a wake up call. They realised that it was a serious systemwide problem they had not been aware of. Take Lloyds Banking Group for example. They were fined by the FCA, I think the bill was GBP28 million, because the sales targets they were imposing on their luckless retail frontline operatives were such that these people were selling products to their partners and neighbours in order to meet them. And if you get a fine and public shaming, you sort of think hard about what you're doing.

**Is there any suggestion that by doing this to UK banks, including foreign banks operating in the UK, the banks will be potentially disadvantaged in some way? Has that been debated?**

It has and the decision is quite difficult to make. I think banks have a kind of narrow window of opportunity to get the initiative and raise their game before the memories of what happened to 2008/09 blur and more bad stuff comes and there's more bad stuff to come. We await with nervous anticipation details about the forex benchmark manipulations so it's not that we can shrug our shoulders and say it's all been sorted because it hasn't.

**What advice would you give to emerging markets like Malaysia and any other country interested in doing something along the same lines?**

You have to be a constructive critic rather than the opposite. We all have an interest, a strong interest, in a healthy banking sector to reinvigorate and strengthen economies, and provide jobs and prosperity for the country. I think there's an opportunity in Asia to get on the front foot and strengthen the marketplace such that customers and clients can trust and support the banking industry which is what's it's all about – building trust between banks and customers.