

Professionalising Banking

through Voluntary Standards



Sharmila Sharma, from the Secretariat of the Financial Services Professional Board (FSPB) and General Manager, Professional Standards Development at the **Asian Institute of Finance (AIF)** took the opportunity to interview Lady Susan Rice, the Chair of the Chartered Banker: Professional Standards Board at the sidelines of “The Future of Banking as a Profession” symposium in London recently.

In February 2009, Lady Susan Rice, former Managing Director of Lloyds Banking Group Scotland was in a taxi heading to London Heathrow Airport when the driver asked her, "So, what do you do?" Lady Susan hesitated before admitting to being a banker. At that time, the UK national newspapers were carrying such unflattering headlines of UK bankers almost on a daily basis, to a point where a number of Lady Susan's colleagues felt they needed to put on sunglasses in the middle of winter.

That taxi ride eventually led to discussions between Lady Susan and senior colleagues in the banking industry on the need to restore public trust in UK banks. A meeting of nine UK banks and the Chartered Banker Institute (CBI) at the Lloyds Banking Group's Headquarters in London took place in the middle of a huge snowstorm in December 2010, leading to the launch of the Chartered Banker Professional Standards Board (CB:PSB) in October 2011. The CB:PSB is a voluntary industry-led initiative that is committed to raising the bar of professionalism in banking in the UK. Lady Susan is its current Chair.

The experiences of the CB:PSB in the three years since its launch mirror those of the Financial Services Professional Board (FSPB). The FSPB is an industry-led initiative seeking to develop internationally recognised professional and ethical standards across the financial services industry. The **Asian Institute of Finance (AIF)** is the Secretariat of the FSPB.

What does professionalism in banking mean to you?

Based on literature, professionalism has three common threads. First, professionalism requires individuals – the professionals – not only to have specialist knowledge of a particular area but also broad knowledge of the area. This requirement of in-depth knowledge gives rise to an asymmetry of knowledge between the individual and the client or

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customer who engages his or her services. Second, professionals provide services for the public good because the services provided are needed by society. Finally, professionals must have characteristics such as acting with integrity, being diligent, avoiding conflicts of interest as well as acting on behalf of their client's interest. I think this sums up what it is to be a professional, not just in banking, but more broadly.

Should the client interest or the public interest come first for a professional?

That is a very good question. In a meeting between a professional and a client, the client's interest has to be defined by society's interest. A professional should always deliver services that work for society.

Should the banking industry be professionalised?

There is a lot of talk about how to restore trust in banking, with bankers' ethics coming under the spotlight. I believe

that raising the bar of professionalism among bankers is one way to restore trust. Furthermore, banking already has all the elements of professionalism that we talked about earlier. So, I think banking should be professionalised. And, I think that it is important to do it right now because at least in the UK, the reputations of many banks have been damaged. We need to do something to change that. How do we change that? We do something that has never been done before, that is important and that will make a lasting change.

Over the course of your banking career, have you seen a change in the level of professionalism in the industry?

There was a time when bankers in the UK who wanted a long-term career in the industry would strive to obtain a professional qualification. They were not required to do so but they did. However, somewhere in the 1990s, taking the banking exams was viewed by some as old fashioned. Then, in the late 1990s, there was a view that banks needed to hire very bright PhDs in mathematics and statistics to develop and take advantage of more sophisticated products. By the 2000s, apart from bankers not being qualified in the same way as they were in the past, their roles became more compartmentalised. Many bankers were not able to see and understand the bigger picture. Many also ceased to exercise professional judgements because they thought that information technology was the solution, thus distancing them from the clients. In my view, the lack of professional qualifications in bankers was a major turning point.

What is the current trend in professionalising the industry?

There are two developments in the UK that attempt to professionalise the industry that I am aware of. First, there is now a body in the UK called the Banking

Standards Review Council (BSRC) chaired by Dame Colette Bowe. Second, I have been chairing an initiative called the CB:PSB. We develop professional standards for individual bankers in the UK. The standards are implemented through member banks of the CB:PSB.

Eight banks in the UK founded the CB:PSB¹. We had no mandate. The regulators did not tell us to do this. The government did not tell us to do this. Nobody did. So, it is a voluntary industry initiative.

Professionalisation of the industry, however, is not something that happens overnight. It takes a long time. But I believe we are helping to make it happen through a multi-tiered programme covering foundation, intermediate and leadership level standards.

We launched the Code of Professional Conduct in 2011 and two standards – the Foundation Standard in 2012 and the Leadership Standard in 2014. We will soon be developing intermediate standards by banking specialisation. Private banking for instance, has requested us to develop a standard specifically for the sector.

After the Code of Professional Conduct and the Foundation Standard, instead of developing intermediate standards next, we decided to develop the Leadership Standard because leadership matters. It also meant getting the Chairmen and Chief Executives on board with the CB:PSB programme right at the beginning. However, I would like to stress that the Leadership Standard applies to all leaders throughout an organisation – not just the Chief Executive or Board members. So, it applies to branch managers, division heads and anyone else who leads a group of people even if the group is very small. I feel very strongly about this. Leaders are not just leaders because of hierarchy or title. They are leaders so long as people see them as leaders. Banking is so dispersed. Many people are seen as leaders. So apart from top management of banks saying and doing the right thing, those other leaders have to say and do the right thing as well as model the right behaviour too. Bad decisions and poor behaviour in banks can happen in different ranks of management.

What role do the standards developed by the CB:PSB have in the overall legal and policy framework that governs the banking industry in the UK?

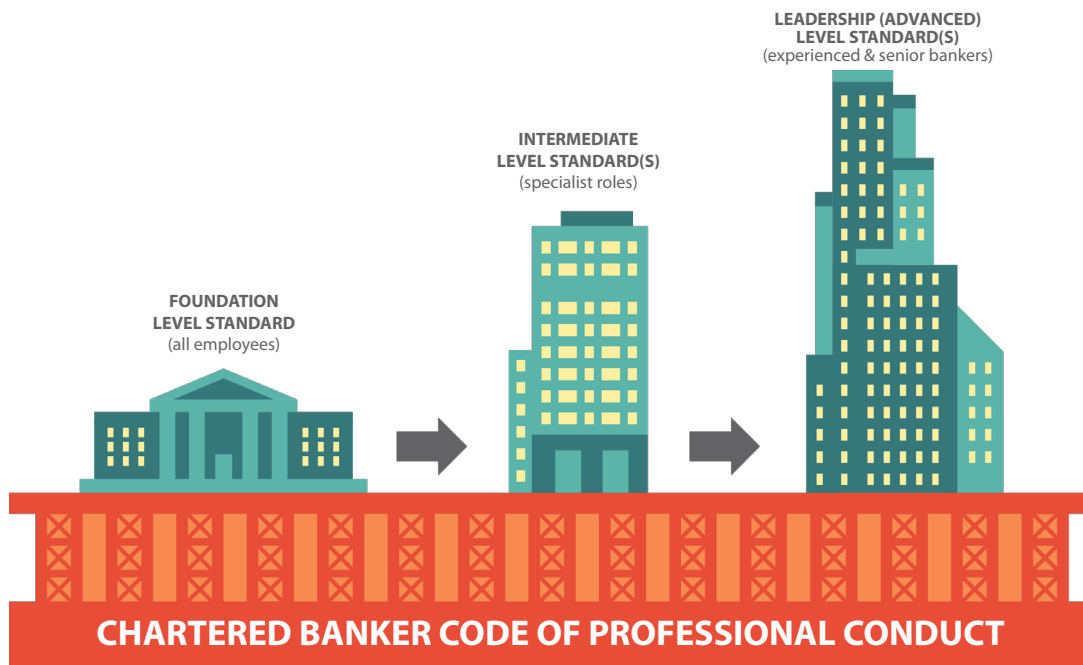
We work closely with both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Every time we publish a standard or an annual review, we write to the regulators. The idea is that we work alongside the regulators.

Is there a place for voluntary standards in the banking industry?

Yes, provided that enough bankers achieve them. It then becomes expected of other bankers to achieve them if they want to progress in their own careers.

How are the CB:PSB professional standards developed?

We have a Professional Standards Board (PSB), which I chair. It is not a



THE STANDARDS JOURNEY

¹ Originally there were nine constituting banks but one bank was later bought over.

fiduciary board. It comprises a senior representative from each of the member banks, the Advisory Panel Chair and the Chief Executive of the Chartered Banker Institute, with two independent members shortly to join the board. We then identify senior individuals from each of the banks who may have some standards-setting knowledge. They form the Professional Standards Committee. The Committee works together with individuals with standards-setting expertise from the CBI to draft the standards.

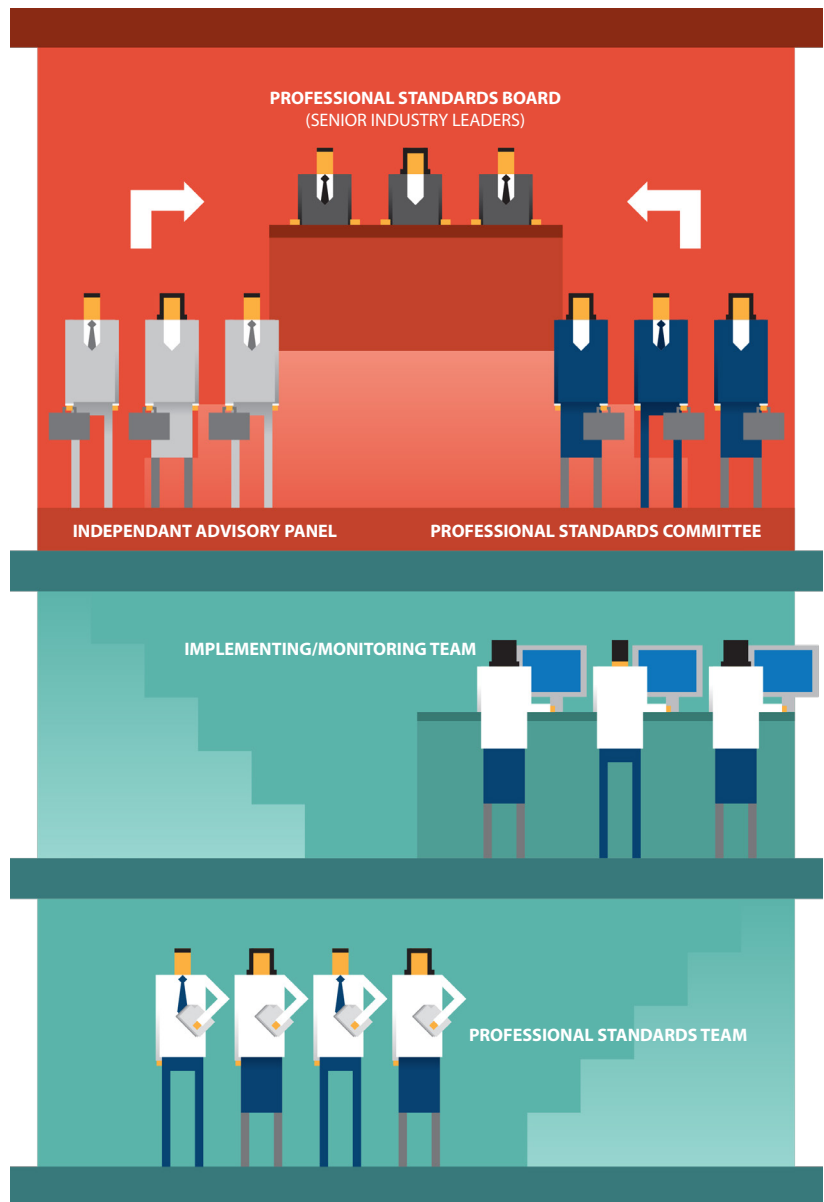
Customers are at the forefront of what we do. So, we have an advisory panel of people from organisations that represent both retail and business customers. All draft standards go through the Advisory Panel. We want our standards to be really challenged.

Finally, the draft standards come to the PSB. We discuss the drafts in some detail and come to an agreement.

The three standards that have been developed by the CB:PSB, are they minimum or maximum standards?

The Code of Professional Conduct is not so much a standard. It is the fundamental way in which a professional banker – whatever his or her job or rank – must act. It is not a minimum or maximum. The standards help to flesh out the Code. Both the Foundation and Leadership Standards deal with the broad professional knowledge required of bankers at both these levels.

This is an attempt to professionalise banking. So, the standards are fairly straightforward. There are a few knowledge indicators, some skills indicators, a few outcomes and some guidance. What really matters is that anyone in a bank must feel equipped as well as empowered to speak up if something wrong is going on. They must also know how to ask questions in a meeting so that the right outcomes are achieved.



CHARTERED BANKER PROFESSIONAL STANDARDS BOARD: FRAMEWORK FOR PROFESSIONAL STANDARDS

What have been the main achievements of the CB:PSB thus far?

For one, I think the development of the code and the two standards is a huge achievement. Someone did not go home, write the code and standards and everyone said yes. A lot of debate takes place before a standard is launched.

Second, are the massive changes that the member banks have made to their internal infrastructure in order to implement the standards. Again, it takes time to change the systems of an organisation. Sometimes it is necessary to let an entire year go by before changes may be effected.

What changes have member banks made to their internal infrastructure?

Some have changed their training systems by building specific training modules to incorporate the requirements of the standards. Some have changed their performance management systems. So at Lloyds Banking Group, instead of saying, "Here are all your objectives. Now tell me, what did you do?", we now ask, "What did you do?" and we also ask "How did you do it?" That is part of every performance management conversation. It gets at ethics, professional judgement, and whether the individual acted in the interest of the customer and ultimately of society. These conversations may not have always happened before. Maybe they did by chance, but now, it is part of the system.

Apart from the performance management system, how else have the CB:PSB's standards influenced the practices at Lloyds Banking Group?

After the 2007/08 financial crisis, many banks, including Lloyds Banking Group, started or were about to start a programme to refresh or revive their unique code of responsible behaviour. What the publication of the Code of Professional Conduct did was to prompt

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its incorporation into the work that was either already ongoing or about to start.

At Lloyds Banking Group, we had two complex and legalistic sounding codes that have been around since the 1990s. We formed a small committee of senior executives to refresh the codes. We first agreed that the two codes had to be put into accessible language. A code of behaviour should be simple. If you make it too complicated, people will forget the code or not follow it. Then we examined the CB:PSB's Code of Professional Conduct and wove it into the two codes just as we were about to re-launch them. The other banks did something similar as most already had their own code of conduct.

What does the CB:PSB hope to achieve in the next five years?

There is something to be said about having a group of very senior executives from each of our member banks who truly believe in the work of the CB:PSB, sitting around the table of the PSB. So in the next five years, we really need to think through what needs to be done.

I do not know what the answer is but for one, our job is to continue to develop the CB:PSB programme and deliver on our commitment to professionalise banking. Second, we also need to continue to try and measure the impact of the CB:PSB because we think there will be an impact. Third, we need to address the challenge of communicating our work more widely to the general public.

The CB:PSB chose not to publicise our work through the media when we

launched the initiative for two reasons. First, I was certain then, and it might still happen today as well, the initiative would attract much cynicism from the media. Second, we wanted to have something concrete before we went public with our efforts.

What are the other main challenges that the CB:PSB faces?

We have a new conduct regulatory regime that will come into force sometime in early 2016. The new BSRC will also be starting its work soon. There is a risk that people will look at all of these initiatives and say, "How is one different from the other?" There are clear differences. The regulators, the BSRC and the CB:PSB operate in different spaces. As the CB:PSB is a little more mature, the big challenge for us would be to recognise what space each of us is operating in as the other programmes mature, to support them and make clear how we tie together.

Any advice for a budding banker?

Don't ever hesitate to ask why if something does not feel right. And, if you are not comfortable with the answer you get, find someone else to ask. Keep asking until you understand what it is that you are doing. That is the heart of professionalism – exercising professional judgement and making sure that the right things happen. It may be a hard thing for them to do but that is what I would advise and have tried to do myself.

Lady Susan Rice chairs the Chartered Banker: Professional Standards Board (CB:PSB) to help create professional standards for bankers in the UK. Susan is a non-executive director on the Court of the Bank of England, where she chairs the Audit and Risk Committee. She also sits on Scotland's First Minister's Council of Economic Advisors. She recently became the President of the Scottish Council of Development and Industry, a first for a woman to be elected in that role.