



Sir Richard Lambert  
Banking Standards Review  
1st Floor, 60 Gresham Street  
London  
EC2V 7BB

7 March 2014

Dear Sir Richard

### **Banking Standards Review: Consultation Paper**

Thank you for the opportunity to respond to the Consultation Paper arising from the Banking Standards Review. We support your overall goal of raising standards and encouraging better customer outcomes. Restoring credibility and trust is vital to support the rehabilitation of the UK banking industry and a sustainable recovery in the wider economy.

This submission is made by PricewaterhouseCoopers LLP (PwC), the UK member firm of the PwC Network. PwC have dedicated teams examining competences, standards and behaviours with our financial services clients. We are also engaging proactively with banks, regulators and other financial services institutions on the implications of the recent changes in the landscape of trust as part of our Building Public Trust programme.

This letter is not intended to represent the views of our clients, but rather to contribute further perspectives and insights on the proposed initiative and approach. We would of course be pleased to discuss any or all of our comments in greater detail at a time convenient to you.

We recognise the desire to create a new body to deliver this objective but seek clarity on how its purpose and role will differ sufficiently from those currently carried out by banks, regulators and professional bodies. Notwithstanding this, the goal you set out – “to contribute to a measurable and continuous improvement in the conduct and culture of banks doing business in the UK, and to support high standards in the future” – is welcome and timely.

We also agree that “good behaviour” should be defined at all times from the customers’ perspective and believe that a body targeted to identify, develop and apply appropriate industry specific benchmarks to measure *customer outcomes and trust* will support organisations in their ability to achieve this. Organisations that put the interests of the customer at the heart of their business model and decision making processes, and reward employees for ‘doing the right thing’, will help rebuild trust with customers, investors and regulators.

However, we believe that creating such a body on the basis proposed in the Consultation Paper will pose significant challenges. We would like to suggest a number of approaches and perspectives that we hope will enhance the new body’s impact and ability to effect change. These observations focus on three key areas: (1) clarity of purpose and independence; (2) the body’s position and scope within the current banking landscape; and (3) its long-term vision for what success will look like.

The observations that we present in this letter question *who* should be working to champion good behaviour towards the customer, and *how* this can be done in a way that will be effective, credible and

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measurable. We raise these questions with a view to helping drive the proposals forward into actions that will ultimately foster *better outcomes for customers and build trust in the banking profession*.

Our detailed responses to the consultation are attached to this letter.

### ***Clarity of purpose and independence***

- We believe that ambiguities about the purpose, role and vision of the new body need to be clarified as a priority so that the proposals can be taken forward and developed further. The new body needs to set out a clear vision of the future of the banking industry it wants to see, in what timeframe it expects to deliver its own vision and objectives, and its overarching purpose as a body.
- We have reservations that the new body will not be regarded as independent by customers and other stakeholders if it is funded and staffed (even partly) by banks without effective safeguards in its governance structure. The proposals stress that good behaviour by banks should be defined from the customer's point of view, but it is not evident how the proposed make-up of its board will govern and promote this perspective.

### ***Position and scope within the current banking landscape***

- From the current proposals, it is difficult to see how the role of the new body will differ sufficiently from those currently carried out by regulators and professional bodies, and where it will fit within the current and future UK and EU regulatory framework.
- We agree covering the “global activities of UK banks and building societies and to the UK activities of foreign-owned banks” is a “very ambitious agenda”. We agree that the scope of the body's remit should be traditional retail and investment banking institutions and building societies operating in the UK initially; however we see the potential of extending the body's scope (subject to further consultation and under a phased approach) to other types of financial institutions in the interest of creating a level playing field for banks and customers.
- Given the differences in culture between retail and investment banks, and indeed between different banks in the same sector, we feel that there is no single one-size-fits-all solution to building trust and ethical behaviour at banks. It is the role of the *leaders of banks* to set the “tone from the top” and define what “doing the right thing” means for it as an organisation, for its people, and for all its stakeholders; not an external body.

### ***Long term vision of what success looks like***

- A potentially valuable role for the new body could be to act as an advisory “centre of excellence” for banks that focuses on building and restoring trust and sharing global best practice; setting stretching, aspirational targets for banks to define desired employee behaviours driven by their own internal ethical tone and standards of good behaviour; and helping them to identify, develop and apply appropriate industry specific benchmarks to measure customer outcomes and changes in public trust over time. This role would complement rather than overlap with those played by regulators and professional bodies, and would help banks prepare for potential future expansions in the scope of regulation in business culture and behaviours; and indeed meet the increasing demand for transparency from internal and external stakeholders.
- With this potential role in mind, we propose the new body should focus not on the banks' internal processes, training or other key enablers to drive culture and conduct: these are matters for the banks' own leaders and management. Instead, it should concentrate on the external manifestation of good corporate culture such as the measurement of public trust in banking and the

trustworthiness of banks. This could include the benchmarking of external outputs such as customer outcomes and levels of trust, publishing the findings publicly, and acting as an advisor and facilitator to help banks share insights and best practices to improve the outcomes of their conduct and competence over the long term.

- In this way, the new body could become the banking industry's "champion of the customer". The added transparency around banks' behaviours would benefit those banks at the vanguard of improving culture and behaviour by raising their levels of trust and effectively mitigating their ethical conduct and business integrity risk – while simultaneously incentivising the laggards to raise their game.

Our response to the Consultation Paper has been made in a spirit of openness, and with the aim of making a constructive contribution both to the creation of the new body and its evolving role. Transforming culture in any organisation is not a one-step process. It's a dynamic journey, which requires leaders to establish the required tone through articulating desired behaviours and shared values. In combination, these elements create the foundation for raising ethical standards while also accommodating the particular cultural characteristics of the business. For banks to make this journey will require a public commitment by each institution, with regular milestones and transparency on progress.

We are eager to support the Banking Standards Review on its journey towards delivering a new culture fostering higher standards of behaviour at all UK banks and building societies and therefore driving the restoration of public trust. However, there is no silver bullet. We believe that elevating behaviours in banking to higher ethical standards will take time and significant investment from bankers, regulators and professional bodies alike. It will take a generation or so for the culture at banks to fundamentally change.

Our view is that the right "tone from the top" – which must be lived by everyone up and down the organisation – is a vital ingredient in making high standards of competence and behaviour a part of the corporate DNA. If the new body delivers against the long term vision we have outlined, it could play an instrumental role in helping the leadership of UK banks create a tone that rebuilds public trust.

We would be delighted to discuss our views further with you. If you have any questions in the meantime regarding this letter, please contact Kevin Burrowes (0207 213 1395).

Yours sincerely

A handwritten signature in black ink, appearing to read "K Burrowes", with a stylized flourish at the end.

Kevin Burrowes

Financial Services Leader

## **Detailed responses to the Consultation Paper**

### **1. Clarity of purpose and independence (Questions 1, 2, 3, 5 and 17)**

***A need to clarify the rationale and long-term vision for the proposed body*** – While we support the goal of improving behavioural standards across UK banks and building societies, we question whether a body with the mandate and governance structure currently described in the Consultation Paper is able to drive higher standards of conduct, and thereby deliver on improving outcomes for customers. The proposals are predominantly process-orientated, tending to get into detail without first providing a long-term vision of precisely what the purpose or role is for the new body, the industry or its customers. At the same time, the body's proposed role and remit also appears broad and high level – potentially overlapping with regulators and professional bodies. In our view, these ambiguities around purpose, role, remit and long term vision should be clarified upfront so that the proposals can provide a workable basis for a new body that will help improve standards of competence and trust in UK banking. This requirement is a fundamental building-block for the other considerations we put forward in this document.

***Collective action is effective for establishing minimum standards of conduct, and subject to competition requirements, will increase the resilience of the banking industry overall*** - The proposals ask for views on the case for “a collective approach calling for the participation of all banks doing business in the UK”. Certainly, we believe that this joint initiative is a positive step forward, and that the recognition by so many banks of the need to take proactive action should be applauded. Peer pressure between banks to participate and engage collectively will raise industry standards and support the re-building of public trust.

***The consultation should take greater account of the role of banking in society*** – We feel this consultation exercise should place more emphasis on the social role of banking, and – by extension – the way in which individual banks interpret this role to create a core purpose and vision for their business and people. Against this background, we suggest the proposed new body needs to operate on the basis of a clear and explicit view of its own purpose and of the future it is trying to create. Based on this mandate, the body will be able to guide and advise banks on how to behave in a way that brings to life their own purpose as an organisation, supported by their own vision and values.

***The new body will need to show independence from the industry to gain credibility*** – As you point out, “The board's credibility will rest upon its independence from the banking sector”. However, we question whether a body set up and funded – at least initially – by a number of banks would be regarded as independent without strong safeguards in place, and whether it would therefore be able to build credibility with the public, media and bank customers. That said, we fully accept the point that individual customers are unlikely to pay extra in order to be treated properly. One option to explore is whether the funding mechanism could be via the Financial Conduct Authority, as was the original construct for Consumer Financial Education. If funding can only come from banks themselves, the governance structure and make-up of the board may well present the best levers for maximising the body's perceived independence from the industry and its commitment to truly driving improved outcomes for customers. We believe that the agreed purpose and vision of the new body

should drive and define the composition of the board, the diversity of its membership and its relationship with the banking industry as a whole.

***A clearer picture is needed of who the new body's stakeholders are, and of how customers' views will be represented*** – The proposals state, “Good behaviour will be defined at all times from the customers' perspective” – and later add, “The overriding priority of the new organisation at all times would be to represent the public interest.” We feel that such broad and potentially contrasting comments underline the need we voiced earlier for a clear purpose – which we agree should focus squarely on improving outcomes for customers. “Customers” in the banking sector also require further context depending on their position on the balance sheet – as explored below.

## **2. Position and scope within the current banking landscape (Questions 4, 6, 8, 11, 18)**

***Greater clarity is needed around how the new body will fit into the current banking landscape, alongside regulators and professional bodies*** – It could be argued a significant proportion of the proposed body's responsibilities are already part of regulators' current remit – in particular that of the Financial Conduct Authority. Adding a new body to design and monitor standards (even if these standards are built on top of regulatory principles) risks imposing additional, and possibly unnecessary, costs and complexity on the banking industry. It may also cause confusion by blurring the core principles that regulators are already developing. In this context, there are already a plethora of standards-setters at three levels overseeing the banking industry, including (but not limited to):

- ***Global:*** Basel Committee on Banking Supervision, Financial Action Task Force on Money Laundering, Financial Stability Board, International Organisation of Securities Commissions, International Swaps and Derivatives Association, Organisation for Economic Cooperation and Development.
- ***European:*** European Commission, European Banking Authority, European Security and Markets Authority and European Banking Federation.
- ***National:*** Financial Conduct Authority, Financial Ombudsman Service, Financial Reporting Council, Lending Standards Board and Prudential Regulatory Authority.

Given that the supervisory regime has been built up considerably since the financial crisis, we believe that if a new body is created, its purpose and vision need to be not only well-defined but also complementary to regulators and professional bodies, *focusing on fulfilling a particular function that is currently not been served by either group*. It is also worth noting that there are significant policy initiatives in the pipeline that are designed to change how bankers behave—which we believe should also be considered before mapping out the new body's purpose and remit. For example, the Parliamentary Commission on Banking Standards seminal 2013 report, “Changing banking for good”, contains proposals that attempt to drive better standards at banks, including amending the structure of remuneration to address the misalignment between risk and reward and introducing a new Approved Persons Regime in the UK. At a pan-EU level, policy makers are introducing significant conduct rules in financial markets (MiFID 2/MiFID, PRIIPS and EMIR) attempting to change the

relationship between banks and their customers. Moreover, the European Supervisory Authorities are starting to focus more on culture and behaviour by issuing best practice guidance on areas such as forbearance and financial education.

Alongside the potential overlaps with regulators highlighted above, similar questions emerge around the new body's relationship with professional bodies, where there is a suggestion that it might provide a "canopy" under which professional bodies would continue to operate. In our view, the new body should not primarily focus on monitoring the *inputs* to culture within banks, such as ethical programmes and behavioural training, but on supporting and benchmarking the external *outputs* and manifestations of the resulting cultural changes, in terms of customer outcomes and public trust.

***A one-size-fit-all approach to culture and behaviour is unlikely to be a viable approach across the entire banking industry*** – Given the cultural differences between retail and investment banks, we believe a one-size-fit all approach to a heterogeneous banking industry may not deliver the best outcomes for the customers of these contrasting institutions. The 'depth' of these differences vary depending upon the unique characteristics of each market – such as whether it is retail or wholesale; the impact and use of technology; the sophistication of the customer; and the extent to which market activity is domestically or internationally orientated.

We are advocating that the scope of the body's remit should be defined to traditional retail and investment banking institutions and building societies operating in the UK initially, with the possibility of including other financial institutions over time to level the playing field of banks and customers. In this regard, we believe the contextualisation of customers in the banking industry should be considered. Somewhat uniquely in banking compared to others, customers are both depositors and borrowers – and can sit on both sides of the balance sheet and, therefore, conduct to serve the best interests of one customer may not be in line with another.

We believe that the new body's initial focus should be on developing standards for retail banks. Because of retail banking's higher visibility and closer public understanding and engagement, we feel it has a greater chance than investment banking of rebuilding public trust, and may benefit from different approaches to doing so. The cultural differences between retail and other types of banking also extend to the fact that retail banking tends to be more domestically-orientated, while sectors such as investment and private banking tend to be global in nature. For a global investment bank with some operations in London, we believe that signing up voluntarily to be a member of the proposed new body would be the "right thing" to do but may prove to be difficult to implement.

***There is a need to clarify the divided focus on institutions and/or individuals*** – With reference to the aspiration that the new body might "build individual membership over time" among bankers, our view is that this is likely to prove an unrealistic aim in the short to medium term. As the proposals currently stand, the new body's primary relationship will be with those institutions that choose to join it as members. While the section on discipline says the body will have annual discussions with each member bank's independent directors about what more needs to be done to improve standards, its policing role will be limited to reporting to management or regulators, and the member banks themselves will remain responsible for any action over behavioural breaches.



### 3. Long term vision of what success looks like (Questions 7, 9, 10, 12, 13, 14, 15, 16, 19)

***We would welcome an increased focus on the responsibilities of banks' leadership for culture and behaviour in these proposals*** – In any bank, whatever its sector or scope, the ultimate responsibility and accountability for creating the right culture and behavioural norms to promote higher standards and better customer outcomes rests with a bank's own board and executive management. Our experience shows that strong and authentic leadership of banks at the top is required to define, implement, embed and measure the desired culture, values and behaviours that support an organisation's core purpose. Clive Adamson<sup>1</sup>, the Financial Conduct Authority's Director of Supervision, compares ethics to a firm's DNA—an internal force that shapes judgements, culture and behaviours displayed at those key moments that matter to the performance and reputation of firms, and the service that it provides to customers and clients.

In line with this view, we believe that a bank's ethical tone can only be set by the leadership through alignment of their personal actions to their words, and with key enablers in place such as performance management, training and engagement, and personal development; reinforced by appropriate reward and recognition schemes and disciplinary procedures. While the new body may be able to benchmark and advise on banks' culture and behaviours, accountability for changes in these begins and ends with each bank's own leadership, and not with an external body. The role we suggest for the new body – as an adviser setting aspirational targets, providing insight on metrics and sharing global best practice – supports each bank's leadership in discharging their responsibilities towards culture and conduct. But it explicitly leaves them with full accountability for the outcomes.

***Our alternative vision for the purpose and role of the new body: a behavioural "centre of excellence", champion of the customer and bellwether of public trust*** – Taking into account the observations we have made up to this point, we do see a potentially valuable role for the new body – one that would address the various issues we have raised. As highlighted in our executive summary, we believe the body could act as an advisory "centre of excellence" for banks, undertaking a role of setting stretching, aspirational targets for banks to improve the employee behaviours that are driven by their own internal cultures, and helping banks identify, develop and apply appropriate benchmarks to measure customer outcomes and public trust over time. This role would complement rather than overlap with those played by regulators and professional bodies, and would help banks prepare for potential future expansions in the scope of regulation on business culture and behaviours; and indeed meet the increasing demand for transparency from internal and external stakeholders. In order to fulfil this potential role, we believe the body should focus not on banks' internal processes, codes of conduct, training or other inputs to culture and behaviour. These should remain a matter for banks' own leadership, subject to oversight by regulators and input from professional bodies.

Instead, the new body should concentrate on benchmarking or assessing external outputs, customer outcomes and levels of trust; publishing the findings publicly; and sharing insights and experiences in best practices between banks themselves. This role would enable the new body to assume a position as "champion of the customer": the added transparency around banks' behaviours would benefit those

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<sup>1</sup> Clive Adamson (2013), 'The importance of culture in driving behaviours of firms and how the FCA will assess this', Speech to the CFA Society - UK Professionalism Conference, London, <http://www.fca.org.uk/news/regulation-professionalism>

banks that are leading the way in improving behaviour, by raising their levels of trust and enhancing their reputations— effectively mitigating their ethical conduct and business integrity risk. The same transparency would simultaneously incentivise those banks that are lagging behind to raise their game. As the new body gains credibility over time, it could potentially expand its role into spheres such as thought leadership on customer outcomes and international engagement with global bodies pursuing similar goals in other countries.

In discussing these responses, our people mentioned several existing bodies – both cross-sector and in other industries – whose current remit may provide a template for some elements of the new body’s role. We would be delighted to discuss these models and their potential relevance in more detail face-to-face.

***The metrics used will need to reflect the purpose of the new body – and be relevant to each specific bank*** – The four general sets of metrics suggested in the proposals – around culture; workforce competence/development; customer outcomes; and public trust – provide a sensible basis for measurement by the new organisation. However, the precise nature of the metrics applied will clearly be shaped by the new body’s purpose, once it is clarified, and by the characteristics and customer base of the bank being benchmarked. The proposals do not go into great detail in this area, but we would suggest that the metrics should include leading-edge (often technology-enabled) techniques such as behavioural observation, forward-looking and predictive “best practice” reviews and operational key performance indicators, possibly including levels of profitability. The new body could also use measures that focus on what products are being targeted at which types of customer, and how effectively banks are performing in educating customers to make better-informed buying decisions. And a comparison of shifts in public trust in different banks by the new body would be a compelling measure attracting widespread stakeholder interest.

***Self-reporting will be credible if it’s conducted within an Integrated Reporting framework*** – The proposals also ask whether self-reporting is appropriate for banks’ ethical cultures and behaviour. In our view, self-reporting – based on the purpose and remit of the new body – will be regarded as trustworthy and credible by customers and the public if it is seen to be part of the Integrated Reporting (IR) framework developed by the International Integrated Reporting Council. IR links strategy, KPIs and performance, both financial and non-financial, and assurance frameworks that are emerging around it.

Moving to IR would enable banks to undertake self-reporting not as an isolated, stand-alone “tick-box” reporting task, but as part of the ongoing progress towards transparency in annual reporting. To support this move and help to further rebuild trust in banking, we think the new body could play two additional roles in the reporting arena. First, it could help banks move more quickly to implement IR by providing them with relevant and useful metrics, including a blend of behavioural measurement techniques. Second, given that many banks have already set up their own internal ethics committees, the new body could help each committee identify and set behavioural standards that meet a consistent minimum level, reflecting the core values and purpose of the individual bank.