



Institute
and Faculty
of Actuaries

Banking Standards Review

Institute and Faculty of Actuaries Consultation
Response

10 March 2014

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



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

10 March 2014

Dear Sirs

Banking Standards Review – Consultation Paper

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Banking Standards Review. An increasing number of IFoA members have taken up opportunities within banking; some of these roles are in traditional areas such as pensions, insurance and investment. However, others have moved beyond those traditional actuarial responsibilities and are now working in purely banking functions. Some of our members working in banking, in both traditional and new roles for actuaries, have contributed to this response which has been overseen by our Finance and Investment Board.

The IFoA is a professional body whose membership is composed of individuals. The IFoA's Royal Charter sets the Objects as "in the public interest, to advance all matters relevant to actuarial science and its application and to regulate and promote the actuarial profession." The IFoA is independent of firms that employ actuaries and is able to offer informed comment as appropriate. Our members working in the banking sector have been able to offer responses to the questions based on knowledge and experience, but those responses are independent from the views that their employers may hold.

This consultation response is not the correct place in which we can fully set out the standards to which actuaries are subject; however, I, or one of my colleagues on the Presidential team, alongside the independent Chair of our Regulation Board, would welcome the opportunity to discuss our experience of regulation within the IFoA.

Question 1: Do you agree with this objective?

The IFoA commends the Review's high-level objective of "*improving standards in the conduct and culture of banks doing business in the UK, and to support high standards in the future*". The experience of the IFoA is that consistently high standards are closely associated with technical excellence and an expectation of professionalism and ethical behaviour.

We note the Review's specific reference to corporate bodies, i.e. banks. Ultimately, it is the behaviour of individuals, based on their own standards and motivations that translate high-level corporate objectives into the practical actions that benefit customers. Improvements in corporate conduct can be achieved by organisations at the corporate level, as recognised by the IFoA's "Firms Initiative", but we would also emphasise the contribution that individuals, exercising personal responsibility, offer to improving standards in the industry. Subsequently, as part of the Review's overall objective, consideration could be given to how corporate bodies seek to ensure ownership of any conduct standards by individuals and how improvements could be implemented where existing approaches fall short.

The Review also comments that “*good behaviour will be defined at all times from the customers’ perspective*”. While the IFoA appreciates the benefits of considering the customers’ interests (as recognised in our own Objects), we recognise that there are many stakeholders interested in banking standards. Suitable recognition of these interests, albeit sometimes competing, may be appropriate in specific circumstances. In many cases, the long-term sustainability of the banking business model requires the alignment of interests of all parties.

Moreover, the proposed scope of the new body will include both retail and investment banks whose customer profiles are very different. The Review should be mindful of how the nature of a bank’s business impacts upon its employees’ understanding of the “*customer perspective*” and, equally, on their customers’ definition of “*good behaviour*”.

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 IFoA agrees that a collective approach across the industry could produce benefits. However, we would encourage the Review to provide further details on its definition of a “bank” and on the institutions that will be subject to scrutiny.

It is for the Review to consider the extent of its remit, but we support the view that collective effort is more likely to be successful than an individual bank embarking on its own particular efforts.

The leadership of institutions ultimately bears responsibility for the conduct of the corporate entity. We would suggest that other individuals working in the industry in non-leadership roles should also bear responsibility for conduct across the sector, but dependent on the specific level of individual responsibility. The Review recognises that employees move between institutions. Where employees are accustomed to best practice, movement of employees between organisations could encourage cross-fertilization across the industry and should facilitate the improvement in standards the Review seeks to achieve.

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?

We have considered this question in two separate sections:

- a. **Standards of behaviour and competence**
- b. **Metrics and benchmarking**

Standards of behaviour and competence

Aspects of basic competency in banking can be addressed by a series of professional exams to ensure a minimum standard of knowledge and understanding. The IFoA is aware that the Chartered Banker Institute has recently developed its education and qualification syllabus and established a Professional Standards Board. We note the other qualifications in specific technical areas in the Appendix to the consultation.

We would encourage the Review to consider how to best complement the efforts of all other organisations (including the IFoA) and to minimise any duplication or confusion, both in regulatory and professional matters. For example, the Review could encourage banks to provide for employees wishing to study for a relevant technical qualification.

Challenges to raising banking standards cannot be met by technical training alone. The powerful areas to be addressed are individual behaviours, particularly professionalism and ethics. Based on

the IFoA's experience, technical training coupled to personal responsibility and professionalism is likely to establish high standards of conduct throughout the sector.

The IFoA is supportive of the new body acting as a thought leader, which would be one factor to distinguish it as a professional body, rather than a trade body, such as the British Bankers Association (BBA).

Metrics and benchmarking

Many of the behavioural and ethical issues to be tackled are subtle and may not solely be captured by metrics. While the idea of making publicly available league tables to encourage a “*race to the top*” is appealing, metrics alone do not guarantee a change in behaviour, but could rather encourage an attitude of nominal compliance.

We note that the annual reports of banks (along with other Pillar 3 disclosures) already provide opportunity for banks to publish statements about the quality of their approach. There may be other publicly available data which would provide the metrics required, thus making any additional reporting proportionate. An independent professional body that publishes an assessment of the status of the industry, based on surveys of its membership, could be more powerful. The Review may wish to consider any reporting role of an independent body.

Further to our response to question one, we suggest the Review not only considers a focus on consumer outcomes, but includes in its scope the interests of other stakeholders. Whilst it is important to ensure that bank staff properly consider the needs of customers, having due regard for the needs of all other stakeholders may further encourage the adoption of suitable ethical behaviours. Therefore, the statement “*taking always the perspective of the customer*” might usefully be amended to consider an overall perspective, balancing the needs of all stakeholders, including shareholders, regulators and government.

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?

The IFoA appreciates that the role of this Review is under the auspices of the chairs of the major banks, but as our response to question two states, there may be merit to considering the inclusion of providers of banking-like services. Such organisations could include trustee organisations, credit unions, and non-deposit takers (e.g. payday lenders). This may provide confidence for retail users of banking-type services that the organisation providing the service is looking to maintain minimum standards.

However, banks may also carry out a range of more complex activities targeted at sophisticated commercial customers, including investment banking and proprietary trading, and non-banking organisations may carry out some of the same activities as banks. We note that pragmatism may suggest a reasonable restriction of scope, but the movement of employees between banks and non-banks, or within banks covering retail and investment banking activities, may create a challenge to providing satisfactory coverage across the desired areas.

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

The notion of “*moral influence*” reflects the idea that voluntary participation is more likely to lead to positive and constructive engagement than regulatory compunction. As noted, the choice to participate would depend on the credibility of the new organisation, which may take time to establish.

The three pillars as articulated are a good starting point. However, we would encourage the Review to undertake a comprehensive consideration of all potential stakeholders (banks, customers, shareholders, taxpayers, regulators, market participants, consumer bodies, existing professional bodies etc.) and to consider the specific risks to each group if standards are not agreed and met. For example, if a Royal Charter (accepting the limitations recognised in the consultation) or a clear public interest role was a stated goal, the structure and composition of the board may become clearer, as would terms of reference. Such an approach may also clarify the questions of accountability (to whom) and reporting (by which method).

The IFoA would welcome the composition of a body that draws on a number of non-banking professionals, both to demonstrate independence and also to learn from other industries. If the Review can draw on the lessons learned by a range of other professions (including the Chartered Banker); it could accelerate the development of its own credibility within the sector.

It would not be unreasonable to levy banks for the associated costs: they already allocate expenditure to advertising, to promote their brand and their trustworthiness, and to training programs to raise competence levels. The direct costs will only fall on customers to the extent shareholders can pass on these costs, but the customers would be one of the primary beneficiaries of improved standards.

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?

The IFoA has an individual membership, which is similar to other professional bodies that have a direct interest in banking. Our experience is that this approach is an appropriate way to structure a professional body, since it provides transparency of engagement with members and other stakeholders, independent of commercial influence.

However, we would recognise that the suitability of individual membership depends ultimately on the issues articulated in our answer to question 5 around the purposes the Review is trying to fulfil, meeting the defined needs of stakeholders and how it would co-exist with other professional bodies.

Building individual membership could be difficult to achieve without credibility, which may only be achieved by having a significant proportion of those bank employees who have significant responsibility as members.

The Review may wish to consider whether there should be collaboration with other professional bodies rather than a new profession. Working with the existing professions may direct the Review towards individuals rather than firms, which could be more achievable.

Should the Banking Standards Review pursue a new professional body, it could be funded by individual subscriptions from those working in the industry. This would direct the accountability of the new body towards its membership rather than towards employers, encouraging independence. The wide range of different activities undertaken by banks' employees should not be a barrier, but rather an opportunity to fully encompass all those employed in all areas of the industry. If individual membership were seen as a valuable long-term objective, the operational challenges of selecting it as the structure from outset may be less significant.

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?

Previous failures, not only in banking, indicate a more pro-active approach may be appropriate. This could be undertaken by a second line risk function challenging on ethics of new products or initiatives,

as lapses in ethical standards have produced reputational and/or financial damage. The second line function should be sufficiently independent that it can ethically challenge all material decisions.

The report highlights that “*top-down diktats*” will not necessarily lead to the necessary changes throughout organisations. The Review could consider a shift to a greater focus on wider stakeholder interests rather than mainly concentrating attention on high-level governance of bank committees. This could also provide support to individuals to apply an ethical and responsible approach in their daily work. Examples of such an approach could be:

- Regular training on ethical issues (the regular series of case studies and hypothetical scenarios in the Chartered Banker magazine is a good example of embedding ethical issues in the consciousness of members).
- Provide a guide on ‘when to whistle blow’ including examples or case studies, or to set out a professional requirement to whistle-blow.
- Provide a confidential help line, or contact person, that bank employees could use as first point of contact if they wished to discuss, on a confidential basis, a professional or ethical issue in the workplace.

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

The quote from the Parliamentary Commission;

“Poor standards in banking are not the consequence of absent or deficient company value statements...They are, at least in part, a reflection of the flagrant disregard for the numerous sensible codes that already existed.”

could act as a prompt to understand the individual motivations which led to the disregarding of these codes. Such an investigation could be used as an impetus to alter the motivation of individuals working in banks.

There may be a case for a modular approach, with core technical competencies supplemented by specialist exams for bank employees in different areas. The IFoA provides a rigorous examination system for future actuaries and would welcome the opportunity to discuss the structure of the examinations in more detail.

The IFoA would encourage that the principal role should not solely be to improve customer service. Rather, it could improve overall conduct in the broadest sense, one outcome of which should be an improvement in customer service.

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

As other organisations are better placed to answer this question, the IFoA does not wish to offer a response.

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

The IFoA welcomes the Review’s aspirations regarding training and competence, but would appreciate further detail surrounding the implementation. In-house courses, as outlined in this section, can help prepare for exams, but ultimately competence should be independently verified through examination by a standalone body. As an independent examining professional body we offer the following suggestions from our experience:

- Any training should be based on both textbook/exam learning and experience;
- It should cover an appropriate mix of technical and professional/ethical topics;
- The "big picture" and the moral dimension could be addressed by core exams, with supplementary exams for specialist areas; and
- There should also be a continuing emphasis on mandatory continuing professional development (CPD).

If a new banking professional qualification were to be established, we would welcome a route that allows employees with other qualifications, including actuaries, to obtain appropriate exemptions from elements of the syllabus.

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

As highlighted in our response to question 6, the IFoA would encourage co-operation with other professional bodies in order to complement rather than compete with the new body. It is proper that existing qualifications provide coverage of different aspects of banking, but co-operation can map out the overall landscape, ensuring that gaps between different qualifications are recognised, and then supplemented through the evolution of the various qualifications.

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?

To attain credibility, any certification would preferably be achieved through an independent, external system of examinations. This would ensure consistent standards throughout the industry

As previously mentioned the IFoA's qualification and continuing professional development (CPD) requirements seek to balance the technical aspects with ethics and professionalism. Again, this would be an area where we would be willing to discuss more detail with the Review.

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

We understand that banks already spend considerable time surveying staff views. However, broader benefits for all stakeholders of surveying can only be identified by means of a common survey between organisations.

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

It is possible that the suggested metrics assessing the treatment of customers can be lagging indicators that do not reflect immediately changes in behaviours. Employee surveys are beneficial but should reflect the limitations placed on employee behaviours, particularly more junior staff. There could be regular thematic reviews based on potential sources of customer detriment.

Any set of metrics should be broad based, but the experience of other professions could again be a useful source of information.

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

We refer to our answer to question 13.

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

We recognise the merit of conducting a standard set of surveys, but if the survey were to be conducted independently of organisations and on a confidential basis, the results could be viewed as carrying greater significance.

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?

The IFoA would welcome the new organisation having access to independent directors at banks, to have full discussions about progress within the bank. Focussing on individuals can be illustrated by the potential issue of how you would impose an individual duty to whistleblow if ethical standards were applied to a corporate entity.

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?

Those who run banks should ideally be subject to professional standards and carry out their duties with strong ethical values. The role of individual responsibility would become paramount, which is the underlying basis of our response. However, we would welcome any new body clearly identifying its purpose and how it would be distinct from other professional bodies with individual membership.

However, the definition of "banker" also needs some consideration. Not everyone working in a bank would think of themselves as a professional (or a banker), especially those in more junior or non-specialist roles. However, that should not discourage employees from performing their duties in a professional manner. The new body could aim to be fully inclusive and responsive to the needs of everyone working in the industry, without an undue focus on more senior roles.

The IFoA encourages individual members to volunteer their own time and effort to further the aims of the IFoA as a whole. Any model which encourages this type of voluntary activity can be encouraged.

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?

The area of thought leadership is significant in the development of any industry and we would welcome any progress in furthering thought leadership. The IFoA has developed such an approach through member-led working parties that further actuarial science.

The IFoA's recent introduction of the Certified Actuarial Analyst qualification has provided a professional technical qualification for those who work alongside actuaries. This will increase public confidence by bringing those in support roles into a regulatory framework.

If you want to discuss any of the points raised please contact Philip Doggart, IFoA Policy Manager (Philip.doggart@actuaries.org.uk/ 0131 240 1 319) in the first instance.

Yours faithfully

David Hare
President, Institute and Faculty of Actuaries