GLOBAL riskupdate

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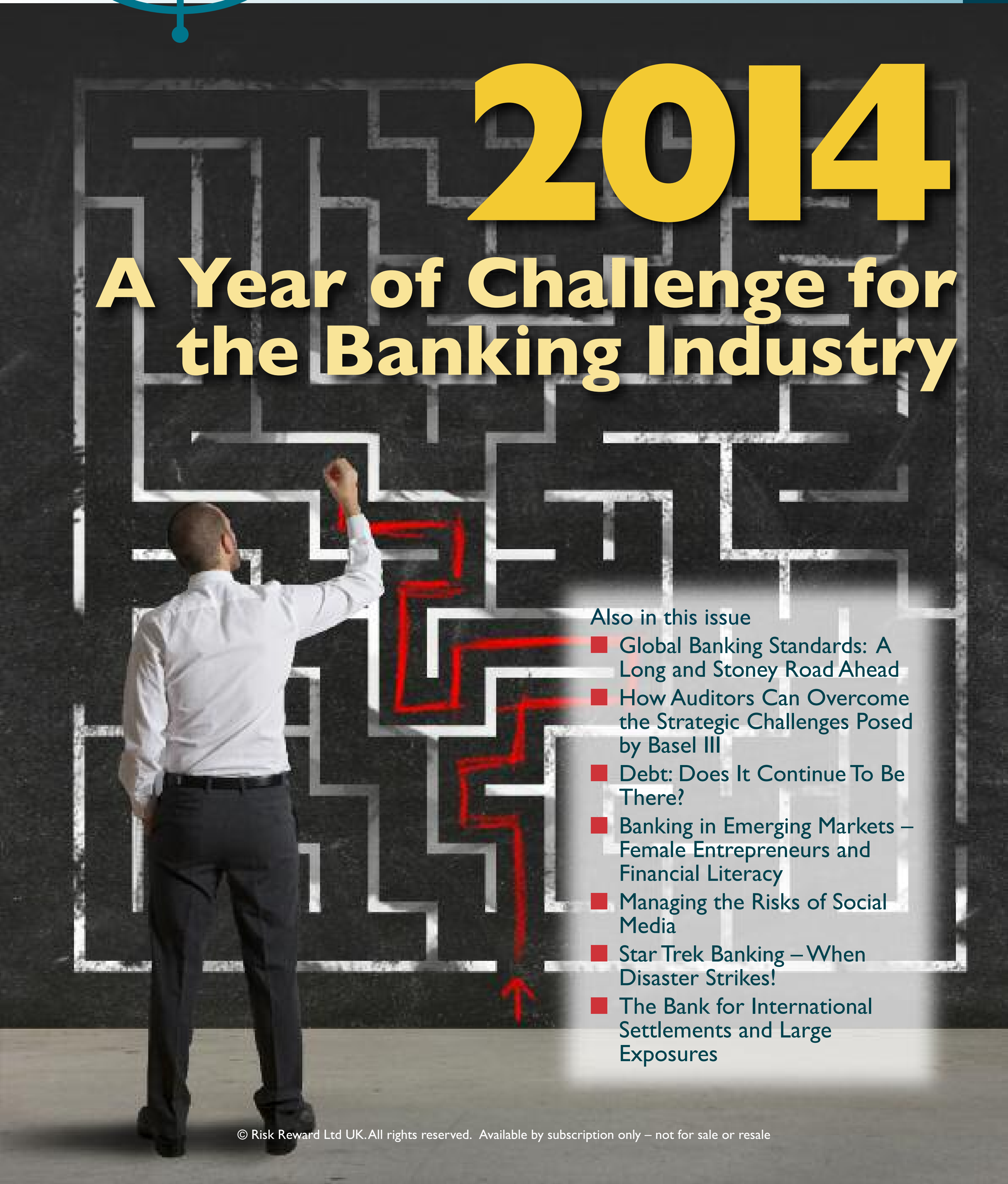
A Year of Challenge for the Banking Industry



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Global Banking Standards: A Long and Stony Road Ahead

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The Global Financial Crisis – 7 years on

Almost seven years on after the Financial Crisis first started taking hold in August 2007, Global Financial Institutions are still reeling from what would become a revolutionary change to the fabric of the markets: with regulation hitting firms hard and many still repaying governments that bailed them out in the first place, one could argue that all these regulatory initiatives have also helped increasing global banking standards and the way in which firms are conducting their business.

Furthermore, with the advent of the Financial Conduct Authority (FCA) in April last year, a regulator with a key focus on "conduct", one would expect that this has had a major impact on firm's culture and behaviours. Certainly, the regulator's "sticks" in form of considerably sized fines may somewhat represent a fear-factor and have certainly helped raising market awareness of increased regulatory scrutiny. On the other hand, as recent events at the other UK regulator, the Prudential Regulatory Authority (PRA) have shown, even the regulator's own conduct may be occasionally called into question.

Having said that, with "Conduct risk" still not been clearly defined by the regulator and leaves considerable 'headroom' for interpretation on the part of both firms and individual employees. I have previously argued that a clear definition of this term is needed in order to provide a clear measure by which firms' and their staff can be benchmarked. Unfortunately, with the recent publication of the FCA's "Risk Outlook 2014" document in March, no further clarification or definition of this term has been forthcoming. The regulator has missed another glaring opportunity to establish a definitive standard.

More work and education is required in this space as the FCA and the "Conduct risk" theme are not going away anytime soon given the role they have to play in interpreting and implementing standards.

Sir Richard Lambert's Banking Standard review in UK

At the end of last year, Sir Richard Lambert was tasked with a review of banking standards in the UK, with the ultimate objective of raising standards, competencies and behaviours of financial markets employees in the UK.

Initially, launched in September 2013 by the chairs of Britain's six largest banks and its biggest building society, the scope widened considerably to include small start-up firms, large foreign financial institutions and other stakeholders such as customers, consumer groups, and regulators.

The 26-page consultation paper raised 19 questions seeking responses on areas such as:

- Conduct, Culture & Standards in Banks
- Necessity for a collective approach to participation The anticipated role and purpose of the newly proposed banking standards body
- That standard body's scope and credibility
- Need for a more pro-active approach to managing ethical issues
- Implementation approaches for banks' code of conduct
- Proposals to operate as an umbrella body for other professional institutes
- Firms' in-house training academies and certification processes
- Proposed metrics and benchmarking exercises
- Standard body's governance, self-reporting and "kite-marking"

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The consultation period ran from December 2013 to March 2014 and, according to the Consultation website (http://www.bankingstandardsreview.org.uk/), the 150 responses received were from individuals, academics, financial institutions, professional institutes and trade associations.

Given the particular focus of the proposed standard body on behaviour, conduct, ethics and in particular training as the main means to improving conduct it is somewhat surprising and disappointing how few professional training providers have actually submitted a response. They may have missed a great opportunity to make their voices heard.

Sir Richard's findings have been published on 19th May 2014 (http://www.bankingstandardsreview.org.uk/assets/docs/may2014report.pdf) and it remains now to be seen where this will take us going forward, but it appears that a number of large financial institutions are backing this campaign.

Firm's skills gaps – and how to close them

Having recently spoken to a number of high profile leaders at a variety of global financial institutions on the subject of professional standards, a few issues quickly became obvious:

Soft skills gap
Many firms are currently suffering from soft skill gaps, particularly around presentation, communication and comprehension skills. More importantly, they are actually struggling to close these gaps.

Lack of knowledge about what's on offer
The leadership at many firms is not aware which globally accepted and accredited professional qualifications are available to them and their teams.

Maybe this is an area where a banking standards body could play its part and add value by providing independent and unbiased advice to financial institutions.

Furthermore, it's not only senior managers who are left in the dark - it's also the staff themselves. Often HR departments or Learning and Development teams are not aware either, hence staff are currently lacking an informed in-house source that could help them in planning their career development path.

Lack of qualifications and knowledge management
Many firms do not appear to have a general awareness of their employees' professional qualifications. More shockingly, many firms, including some of the largest players currently lack a learning or knowledge management tool that facilitates the ready identification of their employees professional risk qualifications such as the Associate Professional Risk Manager (APRM) or Professional Risk Manager (PRM) designation (awarded by PRMIA) or any of the professional certifications from the Chartered Institute for Securities and Investment (CISI).

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Collecting and aggregating this information into a simple database or a similar tool would be fairly easy to achieve. However, the value added from this information is multi-faceted: it would enablefirms to develop a clear picture of their staff make-up and their cumulative professional capabilities.

Furthermore, it would allow them to provide clear and transparent evidence to regulators that their staff are fit and proper to undertake their activities – the kind of hard evidence which regulators are increasingly demanding.

Last but not least, it helps both firms and staff to develop clear learning pathways for their career development and gives the firms a much clearer forward-looking view when developing succession plans ('living wills').

The Long and Stony Road Ahead

As most western economies are gradually recovering from the financial crisis and some of the bailed-out banks are releasing the taxpayers from their burden and moving back to becoming private institutions, it is important that lessons learned will not be forgotten. Continuous professional education is one of the key cornerstones in passing on the knowledge and raising professional standards globally.

With that ultimate goal in mind, a lot of works needs still doing in terms of improving professional standards and behaviours in the financial services industry, particularly in the following areas:

- **Continuous professional education or CPD.** This is particularly important as markets are moving quicker than ever and employees dealing with "other people's money" need to have the right tools at hand in order to do a good job. As such, their professional education needs to be fit for purpose and a good university qualification is not enough - much more is needed.

- **Soft Skills.** These are often overlooked, yet they are equally, if not more important, than hard, analytical or quantitative skills. The reason is simple: Banking in its widest sense is really about 'dealing with people'. That requires solid capabilities to communicate, both verbally and in writing. It also requires listening skills, understanding as well as being able to asking the right questions of the business.

  Without these skills, a risk manager for instance will not be effective in challenging the front office and unable to understanding the risks business is facing.

  As one senior executive at a large financial institution recently explained to me in no uncertain manner, he has been considering hiring a professional financial journalist into his team for some time now, as this would be a person very good and proficient at understanding complex financial contexts - and, more importantly - their ability to express thoughts clearly in both, writing and speaking.

- **Definitions of terms.** The lack of definition of "Conduct risk" by the FCA, although having the term "Conduct" in its name, is but one example. Missing Unique Trade Identifiers (UTIs) and Legal Entity Identifiers (LEIs) are another one. How does anyone know what a certain term means, if it's not being defined properly by anybody, including the regulators? More clarity is needed as well as more courageous leadership to providing such clarity.

- **Out of the box thinking.** This is not something that is currently really being encouraged for a variety of reasons: Firstly, typical job descriptions at firms do not encourage interconnected thinking or strategic, 50.000-high mile views. Staff are more than anything else pushed to meet their semi-annual or annual performance targets, and to focus on their own desks, cubicles etc. - almost as the exclusion of everything and anyone else. Yet, in an interconnected modern world it is more important than ever to understand: what is going to happen when something e.g. a document leaves someone's desk, cubicle or workplace and where could it end up (including on the front page of the Financial Times or Wall Street Journal).

  The other one is, sustainability, i.e. a more medium- and long-term view. Both require a change of culture and that can only come from the top of firms and then cascade down through the corporate fabric of a institution.

In order for the financial markets to improve, not just in the UK but globally, more clarity, transparency and continuous education is needed. It's a long and stony road ahead - but that does not mean it cannot be mastered if we are all pulling together.

In closing, let me cite one of my favourite essayists and poets, Ralph Waldo Emerson, who wrote: **"Life is a journey, not a destination."**

With that in mind, let's travel pulling together in developing better standards and a new foundation for a stabler and resilient global financial system for which another failure is not really an option.

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