February 2018

Banking Standards Board: Doing Well While Also Doing Good

In the wake of the 2008 financial crisis, the UK financial services industry shifted its focus to restoring trust and shaping a more resilient and consumer-oriented industry. Considered the worst economic disaster since the Great Depression, the crisis suggested that banks had failed to appropriately serve customers, as well as the public good. Although the UK banking sector holds great importance to the overall economy and society, regaining trust in the industry is an ongoing struggle that requires sustained improvements to leadership and culture.

In a recent banking conduct and culture keynote address in London, former Chairman of Barclays, Sir David Walker, discussed the heightened focus on trust and its connection to culture in banks. “Trust in an entity reflects confidence earned on the basis of observed conduct and values which, together, constitute the culture of the organisation.”

To regain trust, a string of EU and UK regulations designed to reduce excessive payouts and halt the reward of poor sales practices have emerged. The formation of the **Banking Standards Board** (BSB), established in April 2015, is one of many steps being taken towards achieving this post-crisis goal. The group is comprised of non-statutory, voluntary membership, and is open to all banks and building societies operating in the UK, with the aim of helping to raise the standards of behaviour and competence across the sector. The Banking Standards Board’s 2016 / 2017 Annual Review, released in March 2017, was the first report of its kind, combining views of more than 28,000 industry professionals across banks in the UK, focus group feedback, as well as the opinions of several executive and non-executive board members who volunteered their time for the cause. The initiative aims to provoke a longer-term change agenda for improving the societal impact of banks and, by extension, securing their financial success. With a baseline established, 2018 could be a key year for the industry, as firms begin to formulate their action plans in response to the 2017 review.

Get to Know the Banking Standards Board

The Banking Standards Board was created following a report by the UK Parliamentary Commission on Banking Standards as a result of the financial crisis. The organisation opened its doors to membership in January of 2016, after Dame Colette Bow was appointed Chairman in 2014 and the Board was officially announced in 2015. The group’s main focus revolves around the customer and encouraging improved societal outcomes. How can firms do well financially, while also doing good by positively impacting society? Unlike other post-crisis regulatory efforts, this unique, voluntary commitment uses strategic partners and planning to refocus firms’ efforts on serving others, not only for the common good it engenders, but also with the view that this will provide a financial advantage in the long-term – and indeed, even contribute to the survival of the bank.

Empower Results®

Furthermore, the BSB focuses on thinking creatively, effectively, and efficiently to avoid duplication of similar efforts in the field, while also stepping in to inform and challenge its members on how the industry is shifting in response to its activities.

Main Objectives

The Banking Standards Board embodies a clear **commitment to action for long-term change** and banking reform. What is the most effective approach to achieving this goal? Culture, or "the way that things get done within an organisation," is considered key. The Board provides a strong foundation for initiating the framework needed to dive deeply into each firm's core set of values. These non-financial fundamentals have become pivotal components of achieving sustainability, and support the overall health of the business. Therefore, there is an increased demand from investors for details regarding the creation of appealing value propositions driven by culture, what information to communicate to employees, and when.

The group also encourages **the establishment of collaborative solutions that aim to re-build trust among stakeholders**, enabling firms to grow and prosper with society rather than at its expense. In the Banking Standards Board Annual Review 2016 / 2017, the organisation reveals its approach of cultivating a culture of responsibility and accountability rather than blame:

"*The BSB does not exist to encourage trust in the banking sector, but to help to raise the trustworthiness of the sector; a very different proposition. The onus is not on customers, members or clients to trust the firm, but on banks and building societies themselves to demonstrate through their actions that they are worthy of being trusted. These actions need to encompass the broad spectrum of competence, behaviour and culture*."

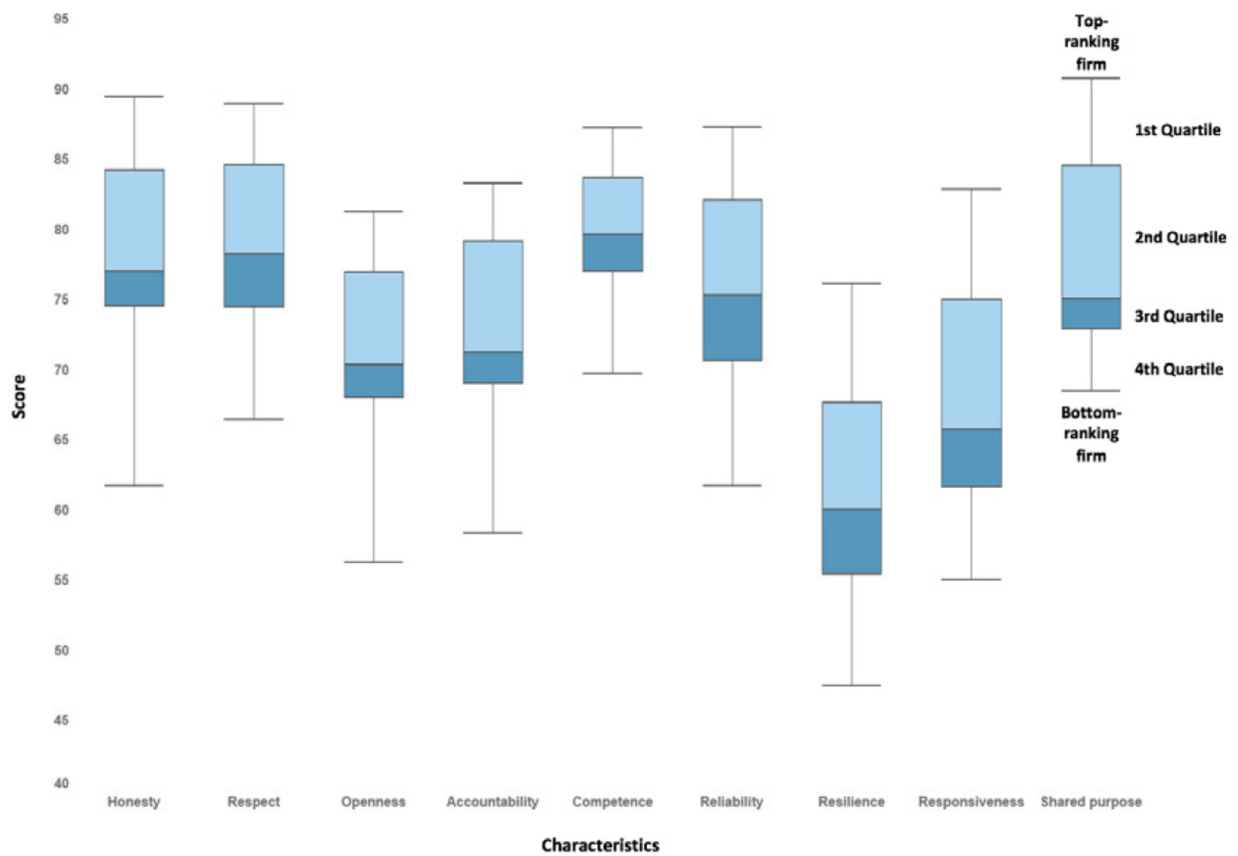
Other dialogues, forums, and industry endeavours have complemented this initiative in the present and recent past, with the common agenda of reinforcing the need to regain confidence across the UK banking sector. For example, according to BankingFutures, a project created by Leaders' Quest and Meteos with comparable objectives to the Banking Standards Board, time alone won't heal trust. A pioneering effort is required of the industry beginning with its senior leadership. Run in conjunction with the Investor Forum, the BankingFutures project encompassed a structured dialogue between leaders in financial services concerning banking reform. It comprised two interlinked reports, offering a roadmap for change that supports the foundation of, as Meteos put it, "a healthy, resilient, and inclusive banking sector in the UK." The BSB continues this trajectory of internal and external industry reflection in 2018, while firmly placing the onus on firms to utilise Assessment results to recover social trust and leverage it to the advantage of their stakeholders and the business.

The Assessment

To complete the Banking Standards Board's Annual Review, the group carried out its first-ever "Assessment" in 2016/17. Its unique method was developed with research support from the London Business School and the London School of Economics. Through the use of an employee survey, as well as focus groups and interviews, the BSB's Assessment encompasses both a quantitative and qualitative dimension, enabling the group to support its members with empirical evidence and insight into potential challenges.

This analysis concentrates on how each firm participating in the Assessment demonstrates a specific set of nine characteristics. These are **honesty, respect, openness, accountability, competence, reliability, responsiveness, personal and organisational resilience, and shared purpose**. The Board considers these to be fundamental elements of a well-operated financial firm. They are core expectations that should go hand-in-hand with creating an environment in which clients feel comfortable entrusting their money. Hence, the Assessment evaluates the degree to which firms exhibit these essential characteristics, providing an evidence-based picture of the ethical and professional aspects of behaviour associated with a positive banking culture. This provides empirical results, which benchmark firms individually and in aggregate against the nine characteristics.

Distribution of firm level scores by characteristic



Source: Banking Standards Board, Annual Review 2016/2017, p.14

The graph above, taken from the Banking Standards Board Annual Review 2016/17 report, provides a snapshot of the quality of insights delivered through the Assessment. Immediately, one can see that the poorest scoring characteristics, **Resilience** (the capacity to recover quickly from difficulties and shocks) and **Responsiveness** (the ability to adapt and innovate), are also the characteristics with the greatest range of scores between the top and bottom-ranking firms. By comparison, **Competence** (knowledge and skills to do the job well) has the narrowest range of difference between firms, and is also a top scoring characteristic among participating firms. Such insights offer boards and executive teams with the data points and perspectives to gauge their own progress against these characteristics, set future goals, and identify good practice. On the back of these results, what response or movement might the firm, industry, or regulator expect upon outcome publication of the 2018 Assessment?

Identifying and Addressing the Issues

The vulnerability of the UK economy after the 2008 financial crisis is a shared problem, requiring trust, engagement, and support from stakeholders across the reach of the financial services industry. After conducting the Assessment, the Banking Standards Board evaluated the strengths and weaknesses of the results, honing in on areas for improvement across firms that align with the characteristics used in the initiative. Observations encompassed a range of relevant topics including misalignment of firm values, employee wellbeing, identifying risk, customer, member, and client centricity, remuneration and reward, gender, tenure, and more. In response to areas of concern highlighted by the Assessment, the Board has focused its work in 2017 on these three key themes:

1. Understanding and addressing any discrepancies between the values of the firm and the way that employees see business being done.
2. Developing a banking sector culture that embodies one of responsibility and accountability rather than blame. While poor performance and behaviour *should* have consequences, culture must also reflect an environment where individuals can learn from mistakes, and new ideas are encouraged.
3. Promoting personal resilience and well-being among employees, as this directly reflects the quality of service provided to customers, members, and clients.

Future considerations

Members of the Banking Standards Board are dedicated to creating a positive feedback mechanism between business and society. This progressive group could anticipate meaningful future approaches to incorporating long-term objectives, culture, and societal value into strategy. While an impressive start in terms of participating members[1] and firms supporting the initiative, the Board still has a long way to go. Will its membership and influence continue to grow at the pace seen in 2015-2017? Given the timeliness of its research, impressive list of members / participants, and firms' ongoing interest in benchmarking their cultural qualities against the market, it seems likely that the momentum will continue in 2018. This is especially true given that the Assessment process incorporates different voices, perspectives, and experiences, allowing banks to learn from each other, isolate existing issues, and potentially address them in the most efficient way possible. Banks of all sizes in the UK have been encouraged to become members by the FCA, and join the Board's quest in 2018 and beyond to implement effective change and create optimism for the future.

Sir David Walker described the desirable relationship between conduct, regulator, and the regulated to be one of trust, in which the regulator has confidence in a bank's commitment to embed a strong culture, and the bank's board and executives have confidence in an open dialogue with the regulator. By embracing the Banking Standards Board's vision, banks in the UK could be one step closer to bringing the ideals of Sir David Walker to life.

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[1] Participating members include Aldermore, Atom, Bank of Ireland UK, Barclays, BNY Mellon, Buckinghamshire Building Society, Cambridge & Counties Bank, Charity Bank, C. Hoare & Co., Citi, CYBG, Ecology Building Society, Handelsbanken, HSBC, Ipswich Building Society, Lloyds Banking Group, Masthaven, Metro Bank, Morgan Stanley, Nationwide Building Society, OneSavings Bank, Paragon Bank, Penrith Building Society, Royal Bank of Scotland, Sainsbury's Bank, Santander, Schroders, Standard Chartered, State Bank of India, Tesco Bank, The Co-operative Bank, Unity Trust Bank.

If you would like to learn more or discuss how we can assist your firm in achieving some of the goals stated in the Banking Standards Board report, please contact our team.

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