Setting standards: professional bodies and the financial services sector

Keyur Patel

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This report is the result of many interviews and conversations I have had over the past few months with professional associations, their members, financial institutions and regulators. Comments on the BSRC proposals were in response to the final report released in May. As well as a number of people who contributed on the condition of anonymity, the following permitted quotations to be attributed to them:

- Alastair Graham, Managing Director, Global Association of Risk Professionals
- Andrew Hall, Head of Professional Standards and Integrity, Chartered Institute of Securities and Investment
- Antony Townsend, Financial Services Complaints Commissioner
- Atholl Duncan, Executive Director, Institute of Chartered Accountants, Scotland
- Colin Tyler, chief executive, Association of Corporate Treasurers
- David Thomson, Director of Policy and Public Affairs, Chartered Institute of Insurance
- Gavin Shreeve, Principal, ifs University College
- George Littlejohn, Senior Adviser, Chartered Institute for Securities & Investment
- John Grout, Chief Executive, Association of Corporate Treasurers
- Lady (Susan) Rice, Head of Chartered Banker: Professional Standards Board
- Margaret Soden, Head of Public Affairs, Chartered Banker Institute
- Sarah Hathaway, Head of ACCA UK
- Vernon Soare, Executive Director: Professional Standards, Institute of Chartered Accountants in England and Wales
- Will Goodhart, chief executive, CFA-UK

My thanks to everybody who contributed.
Keyur Patel

Chartered Institute for Securities & Investment

We welcome this timely *tour d'horizon* of the UK financial services professions. As one big bank chief executive put it bluntly recently: "We aren't trusted enough by people who rely on us to help them manage their personal and business lives…and on whom, in turn, we rely for our business success. And in banking trust is not a 'nice-to-have' – it is a commercial essential."

At the CISI, we regard trust and integrity as one of the three pillars of professionalism, alongside helping students and members to attain and maintain their competences. In November 2014, the Bank of England launched a wide-ranging review of London's markets in an effort to restore trust in the wake of a series of scandals. To help maintain London's position as the leading global financial centre, it will set about repairing sentiment in the markets to ensure that they are "fair, effective and trusted by all". Launching this consultation, the Chancellor, George Osborne, said he wants to ensure that the work is done "in a way that preserves the UK's position as the global financial centre for many … markets".

"The integrity of the City matters to Britain. Markets here set the interest rate for people's mortgages, the exchange rates for our exports and holidays, and the commodity prices for the goods we buy," he added.

Sir Richard Lambert in his Banking Standards Review earlier in the year stressed the importance of promoting high standards of behaviour and competence across the UK banking industry. "Success will help restore public trust in this vitally important sector of the economy," he said.

The CISI, in common with the other professional bodies surveyed in this report, stands ready, willing and able to assist in this vital task.

Simon Culhane
Chief Executive
CISI

Preface

The financial services sector and banking in particular have been battered ever since well before the 2007-08 crisis with accusations of unethical behaviour, sharp practises and (all too often) downright fraud. Since the crisis, public outrage has escalated, amid calls that bankers must be “brought to book” – whatever that means.

We are not bank (or banker) bashers; indeed, the CSFI is supported by many of the largest banks in the world – and by the financial services industry more generally. Moreover, we are greatly concerned that, in their desire to take bankers down a peg or two, regulators, politicians, journalists and others may end up making it impossible for banks to do what society expects of them – to provide somewhere safe for the general public to store its wealth, to provide a mechanism for timely and easy payments, and to provide the credit on which future growth and prosperity are built. At the same time, however, we must concede that something has gone wrong somewhere – and that we need to rethink the idea of finance as a *profession*.

As this report by Keyur Patel shows, the financial services industry in the UK is not short of professional bodies – each offering a range of qualifications and/or promoting a set of standards to ensure that members behave in an ethical and efficacious manner to advance their clients’ interests, if necessary ahead of their own. Now, we have a new umbrella body – the Banking Standards Review Council – which will, we all hope, galvanize the industry to put its own house in order.

The purpose of this report is twofold. At one level, it is simply a directory of the professional associations in the UK financial services space – indicating what they cover, what they offer and how they see themselves developing. In that sense, it is a companion piece to the report on trade associations that we published, by the same author, in June last year. At another level, it is also a serious contribution to the continuing debate on whether banking (or whatever other branch of the financial services tree is relevant) is a ‘profession’ (like medicine or the law) or a ‘trade’ (like plumbing or journalism) – or whether, because it covers such an enormous field, it has to be treated *sui generis*. Whatever view one takes of this, what is clear is that the UK financial services sector is now too important to ignore, and that raising standards throughout the industry is in everyone’s interest.

I am, therefore, very grateful to Keyur Patel for his work on the report – as well as to our friends at the CISI for their support. I need hardly add that the CISI’s support came with no strings attached; the conclusions in the report are entirely those of the author (with a nudge from the CSFI).

Andrew Hilton
Director
CSFI

CSFI

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Keyur Patel

Foreword

Membership of a professional body brings important benefits, both to the individuals concerned and to the public interest. Faced with an ethical dilemma, members are expected to place the values of their profession above any contrary pressure from their employer. Their training is intended to give them more than just technical competence: it should also give them an understanding of the broader purpose of their activities.

And their clients can draw comfort from the fact that their membership means they are properly qualified and are continuing to undertake training, and that they are also subject to the disciplines of their profession.

In this excellent paper, Keyur Patel sets out to explore the role of professional bodies in the banking sector today, and what they will need to do in order to play a bigger part in its future. Along the way, he makes useful suggestions about how the Banking Standards Review Council (BSRC), which I have helped to set up over the past year, can encourage progress in the right direction.

As of today, roughly three quarters of the 500,000 or so people active in the UK banking industry have no professional qualifications. This is evidence of the fact that membership of a professional body is no longer a necessary step to promotion in the banking business in the way that it once was.

Two things have to happen for professional bodies to become a more powerful force in the banking sector. First, they have to demonstrate that membership brings real value, both to individuals and to their employers. And second, employers need to recognize the benefits delivered by these institutions, and to encourage and support their employees to sign up.

Patel suggests five indicators of efficacy in a professional body. These are *relevance,* which is especially important when professional bodies do not have a statutory role; *authority,* which means they are respected by employers and decision makers; *independence,* making them a credible champion of the public interest; *rigour,* as opposed to just a box ticking exercise; and *teeth,* by which he means the ability to police a code of conduct and other conditions of membership.

These are not easy qualities to achieve, especially given the fact that membership of these bodies is voluntary. But the professional bodies active in the banking industry know that they have work to do in all these areas if they are to achieve the status to which they aspire. The BSRC is determined to do whatever it can to help them on their way.

Key players in this respect are the employers – the banks themselves. They could, if they wanted, insist that the professional bodies raised their game, in return for supporting the membership of their employees. They could demand simpler and more rigorous qualifications, and they could make such qualifications a necessary step along the path to promotion.

Why doesn't this seem to happen? A recurring criticism, and one which Patel highlights, is that the way banks structure their budgets often discourages investment in anything other than short-term training – giving people the technical capacity to do today's job, but not to get a sense of the bigger picture for tomorrow. Patel says that responsibility for education and training is often devolved to line managers, and falls under the category of discretionary spending, meaning these are among the first costs to be cut when budgets come under pressure.

The banking industry won't get the professional standards it so obviously needs so long as this attitude prevails. Here again, the BSRC will be endeavouring to encourage banks along a different path.

Patel's paper sets out why such action is necessary, and in so doing makes an important contribution to the debate.

Sir Richard Lambert
Interim Chairman (to October 2014)
Banking Standards Review Council

1 Professionalism and finance

A. Introduction

Following the Parliamentary inquest into the misconduct scandals that saddled financial institutions with multi-billion pound fines, the UK's biggest banks and building societies asked Sir Richard Lambert to design an independent body to "encourage high standards of behaviour and competence across the UK banking sector".

In May 2014, Sir Richard released his report, laying out a framework for a new Banking Standards Review Council (BSRC). In October, Dame Colette Bowe, formerly the head of Ofcom and a financial regulator, was appointed to chair the Council, which is expected to begin its work in 2015.

That is fine. There are, however, several bodies – the biggest with annual revenues of tens of millions of pounds – whose *raison d'être* is already to champion professionalism in banking and other parts of the financial services industry by offering qualifications and monitoring behaviour. Some of these have a royal charter and can trace their roots back more than a century.

The BSRC has begun to sketch out its functions and the way it will work with these existing institutions. The purpose of this paper is to take a step back and explore the current landscape in more detail. Who are these bodies? How have they evolved? And what makes them effective? What role do they have to play in the future of the financial services industry? And where will the BSRC fit into the wider picture?

The What... and the Why...

The scope of this report
The institutions listed in this report's directory are included on the basis that they offer qualifications and annual membership status to *individuals,* a significant number of whom work in the UK financial services industry[1].

The spotlight at the moment – and where much of the analysis in this paper is focused – is on a perceived deficiency of professionalism in *banking*. The BSRC says it needs to cover the whole banking sector to be credible, which includes every activity from deposit-taking and lending to risk management, M&A advisory and foreign exchange trading. 'Banking' also overlaps with investment management, insurance and accountancy, though these are sectors in their own right. The professional bodies reflect this. Though they have their specialist turfs, unlike in many other industries they overlap and compete for both members and students.

1. This is of course subjective: there are more than 300 professional bodies in the UK, many of which have some members at financial institutions. The list does not claim to be definitive.

B. An overview of the professional institutions

All professional bodies have voluntary membership

In banking and finance in the UK – with the exception of the accountancy and actuarial sectors – no professional body has statutory regulatory powers, and membership is voluntary[2].

Retail and commercial banking have historically been covered by two bodies, which are now called the Institute of Financial Services (the professional body of *ifs University College*) and the *Chartered Banker Institute*. The former is the only educational professional body in the UK with the power to award its own taught degrees; the latter awards the 'Chartered Banker' designation.

The 'Chartered' designation

Chartered status is typically the 'gold-standard' designation offered to individuals (and sometimes firms) by bodies which have a royal charter – which means they are obligated to operate in the public interest. Chartered titles in finance include 'Chartered Banker' (awarded by the CIOBS), 'Chartered Wealth Manager' (CISI), and 'Chartered Insurer' (CII). It is considered a kitemark of professional competence in many industries, from surveying to security.

Some international bodies also use the designation without royal approval. For example the *CFA Institute* was refused trademark status in the UK because it has the word 'chartered' in its name (though its Chartered Financial Analyst qualification is seen as one of the most challenging in finance).

Investment banking is a focus of the *Chartered Institute for Securities and Investment,* which spans the wealth management and capital markets sectors. Also in the investment industry is the *CFA Society of the UK,* an arm of the US-headquartered CFA (Chartered Financial Analyst) Institute. The *Chartered Insurance Institute,* by far the UK's largest financial institute outside accountancy, has about 70 per cent of its members working in general and life insurance, and a quarter in financial advice (under its *Personal Finance Society* brand).

Then there are bodies with a significant financial services membership, but which also span a wider range of industries. The US-headquartered *Global Association of Risk Professionals,* which has a regional office in London, offers qualifications in two sectors: finance and energy. Members of the *Chartered Institute of Personnel and Development* work in human resources in every sector of the economy. A third of the members of the *Association of Corporate Treasurers* work in finance. For compliance, there is the *International Compliance Association;* for tax, the *Chartered*

2. There are certain regulated activities under the Financial Conduct Authority which have minimum education requirements, but they do not require membership of a professional body. The Retail Distribution Review has gone the furthest in that direction, requiring financial advisors to attain a Statement of Professional Standing from one of eight 'accredited bodies'

Institute of Taxation and the *Association of Taxation Technicians;* for pensions, the *Pensions Management Institute*. There are various others listed in this paper's directory, with their own specialist areas of focus.

A reasonably clear line in finance is between these professional bodies and the institutes that fall under the Financial Reporting Council (FRC), the independent regulator that sets the framework within which auditors, actuaries and accountants operate in the UK. Six professional accountancy bodies – the largest being the *Institute of Chartered Accountants in England and Wales* and the *Association of Chartered Certified Accountants* – and the *Institute and Faculty of Actuaries* have quasi-regulatory powers under the FRC. That means that membership of an approved institute is required for restricted work, such as performing the audit of a limited company or certain insolvency activities.

There are also educational bodies and business schools that offer degrees (including MBAs) in finance, which are often seen as an alternative to professional qualifications. Some of these courses are accredited by the institutes; a few are awarded jointly, offering both a degree and qualification on completion. These bodies are not included in this report.[3]

C. How do other industries do it?

Individual membership bodies play a central role in many service-based industries[4] in the UK, though different professions approach them in distinct ways. For example:

- All medical doctors are required by law to be registered by the General Medical Council, which investigates misconduct, has the power to strike off doctors and regulates medical and professional education. They can also choose to join the British Medical Association, the sector's trade union and professional body, and the Royal Colleges, professional bodies for each discipline.

- Solicitors in England and Wales must be registered by the Law Society, a professional body which offers training and advice and lobbies decision-makers. In 2007, it split its representative and regulatory functions by creating an independent arm called the Solicitors Regulation Authority.

3. The *ifs University College* is, however, referenced frequently because it was formerly the *Chartered Institute of Bankers* and retains a professional body, the *Institute of Financial Services*.

4. Though many professional titles are not restricted by law. For example anybody can call him or herself an accountant, an engineer or a surveyor. Chartered status, however, is reserved for members of designated bodies.

- The title of ‘Chartered Surveyor’ is reserved for qualified members of the Royal Institution of Chartered Surveyors (RICS). Any firms in which more than half of the principals are chartered are required to register to be regulated by RICS.

- Several professional engineering titles require registration with the Engineering Council. To use one of these, practitioners have to join one of 36 professional bodies licenced by the Council which cover different parts of the industry and which assess candidates.

D. The challenge

Banking is different...

Their structure and statutory role may vary considerably, but in effect membership bodies govern the criteria by which individuals can enter and practice disciplines as wide-ranging as medicine, dentistry, law, accountancy, engineering and surveying. By contrast <u>a large majority – probably more than three-quarters – of the half million who work in UK banking do not have a professional qualification</u>.

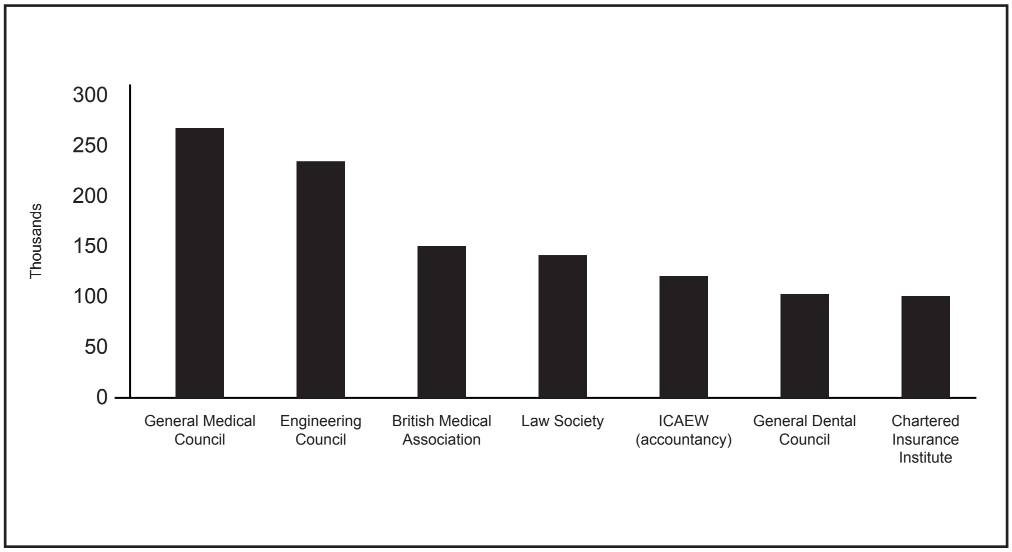
Most of the “Great Reregulation” since the crisis has been aimed at institutions, but there are also major reforms, such as the new regime for senior managers and certified persons, targeted at individual practitioners. Regulation, however, can only achieve so much – and many would argue that it has already become overbearing. Restoring trust, perhaps the financial industry’s greatest challenge, is one it must meet from within.

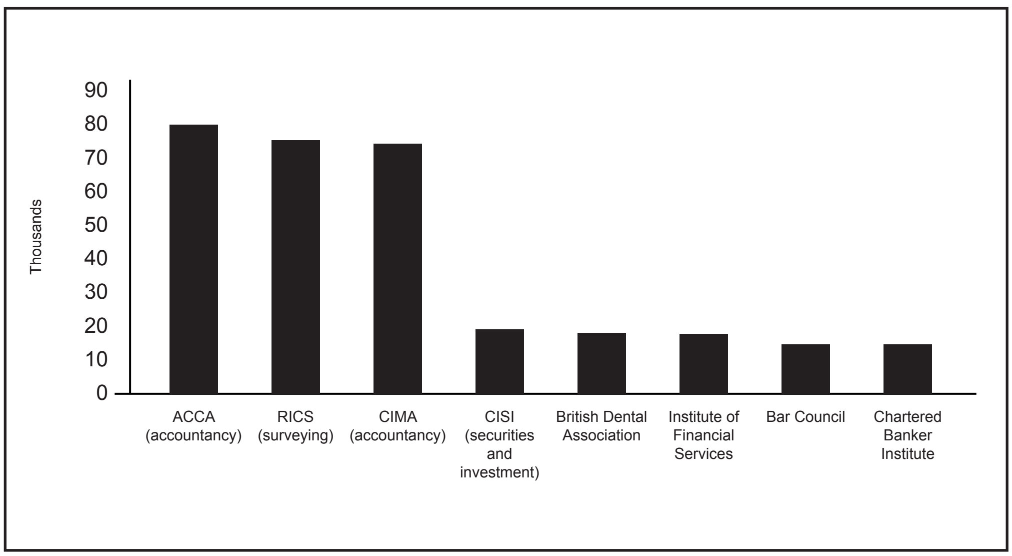
...but not necessarily for the better

There has been much debate about how to resolve a perceived deficiency of professional standards in banking. The BSRC – ostensibly a voluntary initiative of the big banks, though under the stern eye of Parliament – is part of the industry’s proposed solution. But, by its powers and funding, it is intended to tactfully ‘nudge’ rather than to bludgeon the banks. It will also not – at least initially and maybe never – seek individual membership.

Is a part of the answer, then, that there needs to be a greater role in banking for professional bodies – as is the norm across many professions? And, if it is, <u>can the institutes meet that challenge</u>?

Selection of individual membership bodies: UK membership/registration numbers





E. The three pillars of professionalism

What do we mean by 'professional standards'? By Lord Benson's still authoritative 1992 criteria, a profession must be controlled by a governing body, acting in the public interest, which (among other things):

- Sets adequate standards as a condition of entry;
- Ensures that training and education continue throughout a member's professional life;
- Sets ethical rules and standards designed for the public benefit, higher than those established by the general law; and
- takes disciplinary action against transgressors.

All the professional bodies in this paper aspire to do these four things. They offer qualifications. They set conditions for maintaining competence, called 'continuing professional development' (CPD). And they maintain and enforce codes of conduct.

Is banking really a 'profession'?

That said, the question of whether banking is a profession is much debated. Many think it cannot be: the breadth of its activities means it lacks a large common core of learning, as in medicine, law or accountancy. The Parliamentary Commission on Banking Standards also concluded: that "It's a long way from being an industry where professional duties to customers, and to the integrity of the profession as a whole, trump an individual's own behavioural incentives". Yet two clear points of consensus arose from my interviews. First, that banking was once much closer to a profession that it is now. And second, that it should aspire to move back in that direction.

2 The case for professional bodies

Of course, nobody seriously argues that finance practitioners should be anything but competent and ethical. The question is whether they need professional bodies for this. After all, many entrants into banking have an undergraduate or graduate degree, with options for further academic study and specialisation. Employers also provide training to build competence in a particular job. And it is the regulators' responsibility to punish those who break the rules, while most large institutions have their own codes as a condition of employment.

Three powerful arguments in favour...

However, there are several telling arguments in favour of professional bodies.

Individual accountability to an independent body acting in the public interest

In the aftermath of the crisis, there have been many efforts to strengthen governance and to align financial institutions' codes of conduct[5]. But many argue that, however well-designed these codes are, they are still vulnerable to conflicts of interest in a competitive market. For example, in a recent global survey[6] of almost 400 financial services executives, two-thirds said their firm had raised awareness of the importance of ethical conduct over the last three years – yet 53 per cent still admitted that strictly adhering to ethical standards inhibits career progression.

...accountability

> "When you're a professional, you need to be in the mind-set that in terms of integrity and ethical dilemmas, **your first and foremost responsibility is to the profession and the standards laid down by your qualification.** That comes before anything your employer, colleagues or client are pushing you to do."
>
> **Atholl Duncan, Executive Director, Institute of Chartered Accountants Scotland**

Individual membership of a professional body creates a dual – many argue superseding – level of accountability for practitioners. Facing an ethical dilemma, members are supposed to consider the expectations of their profession above any pressure from their employer.

For this to be credible, professional bodies must be seen as acting in the public interest and they need teeth – and a willingness to use them. Statutory powers help but are not essential; contractual powers are often enough. Teeth can come in a number of forms. In the most extreme cases, there is the threat of expulsion from

5. That said, institutions have widely varying cultures, which is to be welcomed in a free market that encourages innovation.

6. November 2013, A crisis of culture: Valuing ethics and knowledge in financial services, An Economist Intelligence Unit Report, Sponsored by CFA Institute.

the institute, which can have a devastating impact on one's ability to practice in a field. At a lower level, disciplinary action might result in a fine or reduced membership status. It can also be the knowledge that unethical behaviour could result in the withdrawal of a designation that took a great amount of time to attain that constrains behaviour.

> "It's one thing to have codes; quite another for them to be seen as having a high profile. If you talk to doctors or lawyers, they would readily identify their codes as being absolutely core to what they do - **there's an element of professional ownership and the sense that breaching the code brings shame."**
>
> **Antony Townsend, FCA's Complaints Commissioner**

Another argument for having individual accountability to an institute is that it creates 'professional pride' outside the competitive environment of individual employers. Other than in industries where there a very obvious public service role, such as healthcare, that might seem an antiquated notion. But I also heard it often from chartered accountants, for example: a sense of professional responsibility that comes with the rite of passage of several years spent qualifying.

...CPD

Continuing Professional Development
Financial institutions' in-house or externally-delivered training programmes are generally narrowly focussed and vary widely in quality[7]. University degrees may be both well-rounded and rigorous, but once acquired – typically prior to or early in one's career – they last for life. By contrast, having a professional qualification depends on meeting ongoing conditions.

> "The distinct difference between training and qualifications is **proof of learning;** training infers it through participation, qualifications certify it through structure and independent, rigorous testing."
>
> **ifs University College**

Among the most important of these is continuing professional development (or CPD) – a commitment by members to spend (and record, for external verification) a minimum number of hours per year refreshing and updating their knowledge. CPD is a staple of many professions. The Law Society, for instance, requires solicitors to complete 16 hours per year; the RICS requires 20 hours. The Engineering Council and some accountancy bodies do not set specific time requirements, but they oblige members to record progress made towards a personal development plan that is approved at the start of the year.

The FCA currently requires only financial advisers to complete CPD – at least 35 hours per year (verified by a professional body), a minimum of 21 hours of which is structured[8].

7. This is the overwhelming impression from 150 public consultation responses to the BSRC.

8. Structured CPD is any activity designed to meet a specific, relevant learning outcome that can be independently verified: for example, participating in seminars, attending conferences or lectures, or taking approved online tests. Unstructured CPD is generally private study outside day-to-day activities.

Many of the financial institutes – including the *CIOBS, ifs, CISI* and *CII* – extend this requirement to all their members. They also provide numerous ways to fulfil the obligation – from online assessed courses to seminars and conferences.

The requirement to adhere to an institute's code of conduct, meanwhile, is increasingly applied not just to working hours but beyond: a criminal conviction unrelated to professional conduct can lead to sanction or expulsion.

"It's typical in banking generally to come across people who have just their individual qualification from university and nothing since. But **there are few MScs or MBAs which are sufficiently practical:** they are absolutely academically dominated, not practitioner dominated. And there isn't an ongoing requirement to stay up to date and relevant, or to make sure they're adopting the right behaviour - **those are the kind of things that come with being a member of a professional body that's got an ethical code and a CPD requirement.**"

John Grout, Policy & Technical Director, Association of Corporate Treasurers

The most rigorous professional qualifications have an extensive work experience requirement. To become a chartered accountant via the ICAEW, for instance, students need to complete 450 days of relevant work experience. Candidates for membership of the *CFA Institute* need at least four years of work experience in investment.

Instilling competency and good behaviour are sometimes seen as two distinct functions for a professional body: the first through exams and CPD, the second through codes of conduct. An increasing trend, however, is for the institutes to bring them together by weaving ethical content or entire ethical modules into their exams.

...and hope for better self-regulation

Reaching beyond regulation

A growing view in the financial industry is that the "Great Re-regulation" has already gone too far[9]: that it is overly costly, misdirected and has created rules that are susceptible to box-ticking and arbitrage. Nevertheless, as the *CFA-UK* warned in its response to the BSRC proposals: "in the absence of industry-wide action, additional regulation to attempt to tackle conduct and cultures is possible. This would certainly be costly and would probably be ineffective. Regulation sets minimally acceptable practices. It has limited capacity to encourage or incentivise improved behaviour."

"Part of the problem with the de-skilling within banking is that people were only trained to provide them with the knowledge they needed for their specific job, and nothing more. We have to get back to a culture where everyone working in a bank understands the purpose and function of a bank, the economic and business environment, banking products and services and their suitability for different types of customers, the regulatory and legal requirements relevant to their role, the principles of credit and lending and, importantly, professional ethics."

Margaret Soden, Head of Public Affairs, Chartered Banker Institute

9. For example, regulation was rated the number one risk in the CSFI's latest Banana Skins surveys in both the banking and insurance industries.

Many argue that greater support for professional bodies should be part of this industry-wide action. While unethical behaviour, rather than a lack of competence, is often cited as a cause of the financial crisis, there is a strong argument that the ignorance of individuals – for example, not understanding the complicated products they signed off on, or being aware of the activities of other departments – was a crucial contributor. Attaining a well-rounded qualification with a CPD requirement should help address these knowledge gaps and help alleviate the problems of working in silos.

If the industry shows it can effectively self-regulate, regulators may feel able to give it more breathing space.

Some think the 're-professionalisation' of banking needs mandatory professional body membership. Others think a voluntary approach driven by strong encouragement by institutions can be equally effective and will help the industry restore trust. A case can be made for either approach.

Many point to a global demand for leadership in instilling professional standards, particularly from emerging banking centres that are wary of introducing the same mistakes that led to the crisis into their own systems. Events over the last seven years have certainly taken the gloss off previously revered banking business models in the developed world. It would be a mistake, the argument goes, if UK firms saw committing to professionalisation as a cost; rather it is a great opportunity to reaffirm the City as the world's leading financial centre.

Fair Criticism?

Much of this report compares how the banking industry approaches professional bodies and qualifications compared to other sectors such as accountancy. In doing so, it tries to be alert to the danger of the politician's syllogism ("something must be done, this is something, therefore this must be done"). Many valid criticisms have been made of institutes with more formal powers, including overreaching and mission creep, disproportionate use of power and aggressive lobbying. Looking at how sectors aim to do things is one thing; their execution is another.

Reasons to be cautious

However...

These are some of the main arguments in favour of professional bodies, in principle. Whether the institutes live up to them – for example, whether they have credible teeth – is another question.

There are also a number of reasons why financial institutions might be cautious about putting too many eggs into the professional body basket and encouraging a sharp increase in the uptake of qualifications. In particular, many point to what they perceive as a lack of relevant qualifications and question whether the existing institutes have the capacity to take on many more members. Some firms also feel that their own training courses and ethical codes are sufficient; others want to develop a distinct culture apart from traditional banking organisations. There are also concerns about creating barriers to entry for employees and hindering the City's international competitiveness, at a time when the industry is already going through a regulatory and structural overhaul.

Employers must drive change

Ultimately, there is no doubt that, if banking is to emulate other industries and have much wider professional body membership, the impetus needs to come from employers: they need to recognise the institutes' value.

What, then, makes professional bodies effective? The short answer, as in any industry, is credibility – but the landscape in financial services raises particular challenges. I would suggest the following five indicators of efficacy (in no particular order):

Five rules for effectiveness...

- Relevance: which is critical in any sector but especially where professional bodies do not have a statutory role. Having a royal charter is not alone a reason to exist.

- Authority: being recognised and respected by employers (and decision-makers), and being seen as experts in their field with an influential voice in industry debates.

- Independence: which above all means being seen to challenge the sector on behalf of the public interest. The institutes are not lobbyists for their members' employers.

- Rigour: the perception that they actively challenge their members to improve competence and to uphold ethical behaviour. The institutes' exams need to be seen as demanding, not as any easy option.

- Teeth: the ability (in some sense) to police a code of conduct and other conditions of membership.

There are a couple of other qualities that are more contentious. Value for money is important, but if professional bodies compete over price by sacrificing quality their credibility will suffer. While public visibility might be perceived as a way to restore trust, the danger is that it risks being seen as lobbying. There is little reason for the institutes themselves to be known to the general public; it is enough that their qualifications are widely respected.[10]

10. It is also worth noting, as the philosopher Onora O'Neill warns, that there is such a thing as too much trust (though this is unlikely to be a problem for the banking industry any time soon).

3 The story so far

A. A brief history

Many of the professional bodies in the UK today trace their roots back to the 19th century, born as forums for sharing knowledge and good practice and to provide practitioners with a more specialised education than universities could offer. The *Law Society,* for instance, was founded in 1825; the *British Medical Association* in 1832. The world's oldest accountancy body, the *Institute of Chartered Accountants of Scotland,* was formed in 1854, followed by three more in the next 50 years. Several regional insurance institutes sprang up in the last quarter of the century, before coming together to become the *Chartered Insurance Institute* in 1912.

The world's oldest banking associations, dating back to the 1880s, were also born in the UK: in England and Wales, the *Institute of Bankers* (the predecessor to *ifs University College*), and North of the border, the *Institute of Bankers in Scotland* (which became the *Chartered Banker Institute*).

Up until around 25 years ago, the tradition was that to pursue a career in retail or commercial banking, you joined one of these bodies and progressed through its exams. This was never a legal requirement; however, it was expected by employers as a condition for career advancement. By 1980, the *Institute of Bankers* (which gained its royal charter in 1987) had swelled to more than 110,000 members – not just 'traditional bankers' but also people working at every department of a bank, from accounts to human resources, who had worked their way up through the firm as generalists.

B. The aftermath of Big Bang

'Big Bang' changed everything...

Following the deregulation and expansion of capital markets in the late 1980s, the explosive growth of London's investment banking sector was not accompanied by any widespread expectation of professional body membership. For financial analysts, there was the *Society of Investment Analysts (SIA),* founded in 1955 – but by the start of the 1990s it still had fewer than 3,000 members. (In 2000, via a name change and a merger, the UK Society of Investment Professionals merged with the British arm of the US-based *CFA Institute* to form the *CFA Society of the UK.*) The *Chartered Institute for Securities and Investment* – today the largest body in the capital markets and wealth management sectors – was not created until 1992 by members of the London Stock Exchange and the Bank of England.

...'stewardship' to sales

Moreover, as banks embraced riskier activities and overhauled their structures, the *Chartered Institute of Bankers* began to lose large numbers of members. The expectation that retail staff would take professional exams disappeared, and employers stopped paying for them – for a combination of reasons[11]. I heard much criticism of the banks for allowing their culture to be transformed from one of "stewardship to sales", obsessively focussed on meeting short-term shareholder targets. Others, too, took a share of the blame: notably, the Institute for not doing enough to reengage with banks in the rapidly-changing climate, and regulators for enabling a 'tick-box' approach to regulation and focussing only at an institutional level.

> "Good customer service is predicated on one key thing: appropriately well-educated people. The problem is that long term investment in people has gone, replaced by what I call 'just-in-time training'. Chasing bonuses and shareholder value, banks thought they were supermarkets and walked away from traditional professional education. With some notable exceptions, those cultures haven't changed."
>
> **Gavin Shreeve, Principal, ifs University College**

There were also major changes in the way banks recruited, bringing in many more graduates and people from other industries. This was accompanied by a shift away from banking as a structured, lifelong career – disrupting established entry and progression paths. All this meant that employers became increasingly reliant on specialised and short-term in-house training programmes.

C. The financial crisis and the landscape today

In the inquest into the causes of the financial crisis and the numerous misconduct scandals that have plagued the industry, there has been much criticism of senior executives at banks (and of others whose pay packages came under scrutiny) for not having any 'banking qualifications'. In some ways this is a red herring.

The scale and complexity of banking in the UK today is vastly different to 25 years ago. The generalists are mostly gone, and have been replaced by specialists. One professional body is no longer dominant. The *ifs* (which adopted its new brand in 1997) now has around 22,000 members; the *CIOBS* (which began to spread outside Scotland in the late 1990s) has 15,000. The *CISI* has about 20,000 members, some who are employed at banks, others at investment management firms. The same goes for *CFA UK's* 11,000 members. Then there are the bodies for insurance, accountancy, risk, compliance, treasury, human resources, and other functions, a proportion of whose members work in banking.

11. The Chartered Banker Institute's consultation response (p3) contains a list of ten which is especially worth reading

Big numbers – but a declining proportion of the industry...

So, while there is a smaller proportion of people with a qualification specifically related to banking than there was in the 1980s, that is not a very useful comparison. More pertinent is the *Chartered Banker Institute's* estimate that over 100,000 people working in banking have some kind of qualification from and/or are a member of a relevant professional body. In absolute numbers, that is not such a big drop – but relative to the expansion of the industry, the decline is still very significant.

The next section will look in more depth at recent efforts to re-establish professionalism in the industry. Individual institutions have taken distinct approaches. For example:

- The *ifs* in 2010 became the only professional body able to grant its own taught degrees, and last year was granted University College status by the government. It now offers five BSc degrees, alongside its professional qualifications.

- The *CIOBS* in 2011 teamed up with eight UK banks to create the Chartered Banker: Professional Standards Board, which draws up common frameworks of competency and behavioural requirements for individuals. Member banks must implement these standards at their own institutions. So far, 70,000 staff have achieved the 'Foundation standard'.

- The *CISI* in 2013 compelled existing members to pass an online test in ethics, under the threat of having their status downgraded, and made it obligatory for new members. It has also developed a series entitled 'Integrity Matters', including publishing four books of ethical dilemmas and staging interactive workshops for firms.

- In the insurance industry, in 2010, the *CII* launched the Aldermanbury Declaration, under which participating firms committed to a proportion of their staff having a qualification from the institute by the end of 2013.

RDR and BSRC...

The Retail Distribution Review

The retail distribution review (RDR), which took effect at the end of 2012, for the first time recognised eight 'accredited bodies' under the FCA[12]. Retail financial advisers must now obtain a Statement of Professional Standing (SPS) from one of these institutes. While there are other activities regulated by the FCA that also require a minimum qualification to practice– such as giving mortgage or securities advice – this is the first time the regulator has insisted that any individual completes a CPD requirement (at least 35 hours per year) and adheres to the code of conduct of his or her chosen institute. While the FCA does not stipulate it, most of the accredited bodies also require membership as a condition of their issuing an SPS because, as a director at one put it, "we don't think you can enforce a code of ethics unless you are a member – it's like saying you sign up to the rules but don't have a referee".

The Banking Standards Review Council

In 2013, the Parliamentary Commission on Banking Standards (which was set up in response to the LIBOR scandal) recommended that the banking industry should

12. In alphabetical order they are: CFA Society of the UK, Chartered Banker Institute, Chartered Institute for Securities and Investment, Chartered Insurance Institute, Institute of Chartered Accountants in England and Wales, Institute of Financial Planning, Institute of Financial Services and the Pensions Management Institute.

develop and fund a new, independent "unified professional body" to raise standards of competence and behaviour in all forms of banking. In response, the chairmen of seven of the UK's biggest banks and building societies[13] asked Sir Richard Lambert to explore what it should look like. The result, the BSRC, is expected to start work in 2015.

A point emphasised in Sir Richard's recommendations was that the composition of the BSRC's governance team is critical to its credibility. A selection panel made up of very senior figures outside the commercial banking sector – headed by Mark Carney, Governor of the Bank of England – in October chose Dame Colette Bowe to chair the BSRC. Bowe will appoint the chief executive and lead a governing Council of around 12 people – a majority of whom will be non-bankers.

A brief summary of the BSRC:

- Functions: The BSRC aims to improve behaviour in the banking industry by requiring participating institutions to commit to a programme of continuous improvement in three areas: culture, competence and customer outcomes. It will set standards of good practice (for example, around whistleblowing protocols), work with the industry to develop a single principles-based code of practice, and help banks meet the obligations placed on them by new legislation. It will also work with existing professional bodies to "increase the value placed on professional qualifications".

- Powers: The BSRC has no statutory powers. It will not discipline individuals or firms. It plans to dovetail its work with the FCA – which is increasingly focusing on conduct – but notes that establishing any formal agreement will be difficult because it is a voluntary body. Its power over institutions is effectively its visibility in the public arena – highlighting the good work of those banks that make progress and 'naming and shaming' those who do not. One of the main ways it will do this is by identifying a series of metrics and benchmarking institutions against them. It will also have an annual meeting with non-executive directors of its member firms to discuss their progress.

- Funding: The body will be funded by participating banks and building societies. It hopes to have widespread industry support across both retail and wholesale banking in the UK – including foreign banks that operate in the City – though participation is entirely voluntary. It forecasts it will cost £7m-10m to run it in its first year. The idea of bringing in individual members was suggested in the initial consultation but, at least initially, has been rejected.

The BSRC is therefore not a professional body in the same way as the other institutes in this paper. It will not offer its own qualifications (focussing more on behaviour than competence) or take individual members. But it will work very closely with the institutes – as a "canopy" – and undertake some of the same activities. Before looking at how it will do so, this paper explores some of the main activities of, and debates around, professional bodies over the last few years.

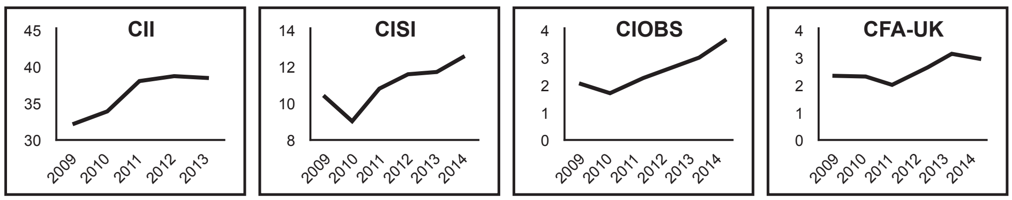
13. Barclays, HSBC, Lloyds Banking Group, Nationwide Building Society, Royal Bank of Scotland, Santander UK, and Standard Chartered.

Professional Body	Sector	Individual Members	Founded	UK Office
Royal Charter (RC)				
Association of Chartered Certified Accountants ACCA www.accaglobal.com info@accaglobal.com	Accountancy	166,000 (UK and ROI: 80,000)	1904 1974 (RC)	ACCA UK 29 Lincoln's Inn Fields London, WC2A 3EE +44 (0)20 7059 5000
Association of Corporate Treasurers ACT www.treasurers.org enquiries@treasurers.org	Treasury	4,300	1979 2013 (RC)	51 Moorgate London, EC2R 6BH +44 (0)20 7847 2540
Chartered Banker Institute CIOBS [which stands for Chartered Institute of Bankers in Scotland] www.charteredbanker.com info@charteredbanker.com	Banking	15,000	1875 1976 (RC)	38b Drumsheugh Gardens Edinburgh, EH3 7SW +44 (0)131 473 7777
Chartered Institute for Securities and Investment CISI www.cisi.org customersupport@cisi.org	Wealth management, Capital markets	20,000	1992 2009 (RC)	8 Eastcheap London, EC3M 1AE +44 (0)20 7645 0600
Chartered Institute of Internal Auditors CIIA www.cila.co.uk info@cila.co.uk	Internal Auditing	8,000 (UK and Ireland)	1948 2010 (RC)	51-55 Gresham Street London, EC2V 7HQ +44 (0)20 7498 0101
Chartered Institute of Management Accountants CIMA www.cimaglobal.com cima.contact@cimaglobal.com	Management Accountants	96,000 (UK and ROI: 75,000)	1919 1975 (RC)	26 Chapter Street London, SW1P 4NP +44 (0) 20 8849 2251
Chartered Institute of Personnel and Development CIPD www.cipd.co.uk	Human resources	130,000	1913 2000 (RC)	151 The Broadway London, SW19 1JQ +44 (0)20 8612 6200
Chartered Institute of Public Finance and Accountancy CIPFA www.cipfa.org customerliaison@cipfa.org	Public finance accountancy	13,500 (UK and ROI: 13,000)	1885 1958 (RC)	3 Robert Street London, WC2N 6RL +44 (0)20 7543 5600
Chartered Institute of Taxation CIT www.tax.org.uk	Tax	17,000 (UK)	1930 1994 (RC)	11-19 Artillery Row London, SW1P 1RT +44 (0)20 7340 0550
Chartered Insurance Institute CII www.cii.co.uk customer.serv@cii.co.uk	Insurance, financial services	117,000 (UK: 100,000)	1873 1912 (RC)	42-48 High Road London, E18 2JP +44 (0)20 8989 8464
Institute of Financial Services (part of ifs University College) www.ifslearning.ac.uk customerservices@ ifslearning.ac.uk	Banking, financial services	22,000 (UK: 18,000)	1879 1987 (RC)	ifs House 4-9 Burgate Lane Kent, CT1 2XJ
Institute and Faculty of Actuaries IFoA www.actuaries.org.uk	Actuary	25,000	1848 1998 (RC)	326-330 High Holborn London, WC1V 7PP +44 (0)20 7632 2111
Institute of Chartered Accountants England and Wales ICAEW www.icaew.com generalenquiries@icaew.com	Accountancy	142,000 (UK and ROI: 121,000)	1880 1880 (RC)	Chartered Accountants' Hall Moorgate Place London, EC2R 6EA +44 (0)20 7920 8100
Institute of Chartered Accountants Scotland ICAS www.icas.org.uk	Accountancy	20,000 (UK and ROI: 17,000)	1854 1854 (RC)	CA House 21 Haymarket Yards Edinburgh, EH12 5BH +44 (0) 131 347 0100

Professional Body	Sector	Individual Members	Founded	UK Office
Without Royal Charter				
Association of Accounting Technicians AAT www.aat.org.uk aat@aat.org.uk	Accounting technicians	120,000	1980	140 Aldersgate Street London, EC1A 4HY +44 (0) 20 7397 3000
Association of International Accountants AIA www.aiaworldwide.com aia@aiaworldwide.com	Accountancy	8,500 (UK and ROI: 1,700)	1928	Staithes 3, The Watermark Newcastle upon Tyne NE11 9SN +44 (0)191 493 0277
Association of Taxation Technicians ATT www.att.org.uk info@att.org.uk	Taxation technicians	7,400	1989	11-19 Artillery Row London, SW1P 1RT +44 (0) 20 7340 0551
CFA Society of the UK (part of CFA Institute) CFA-UK www.cfauk.org info@cfauk.org	Investment	11,000 (CFA Institute has 107,000 members globally)	1955	4th Floor, MinsterHouse 42 Mincing Lane London, EC3R 7AE +44 (0)20 7648 6200
Global Association of Risk Professionals GARP www.garp.org	Risk	150,000 (UK: >1,000)	1996	2nd Floor, Bengal Wing 9a Devonshire Square London, EC2M 4YN +44 (0) 20 7397 9630
Insolvency Practitioners Association IPA www.insolvency-practitioners.org.uk	Insolvency	2,000	1961	Valiant House 4-10 Heneage Lane London, EC3A 5DQ +44 (0) 20 7623 5108
Institute of Credit Management ICM www.icm.org.uk info@icm.org.uk	Credit management	8,700	1939	The Water Mill, Station Road South Luffenham Leicestershire, LE15 8NB +44 (0) 178 072 2900
Institute of Financial Accountants IFA www.ifa.org.uk mail@ifa.org.uk	Accountancy for SMEs	10,000	1916	Burford House 44 London Road Kent, TN13 1AS +44 (0)1732 458080
Institute of Financial Planning IFP www.financialplanning.org.uk enquiries@financialplanning.org.uk	Financial planning	2,050 (UK)	1986	One Redcliff Street Bristol, BS1 6NP +44 (0)117 945 2470
Institute of Professional Financial Managers IPFM www.ipfm.org	Professional financial managers	10,000	1992	
Institute of Risk Management IRM www.theirm.org enquiries@theirm.org	Risk	4,000	1986	143-149 Fenchurch Street London, EC3M 6BN +44 (0)20 7709 9808
International Compliance Association ICA www.int-comp.org ict@int-comp.com	Compliance	20,000	2001	52-54 Victoria Road West Midlands B72 1SX
Investor Relations Society IR Society www.irs.org.uk enquiries@irs.org.uk	Investor Relations	650	1980	30 Coleman Street London, EC2R 5AL +44 (0) 20 7379 1763
Pensions Management Institute PMI www.pensions-pmi.org.uk	Pensions	6,000	1976	4/10 Artillery Lane London, E1 7LS +44 (0) 20 7247 1452
Retail Banking Academy www.retailbanking-academy.org	Retail banking	3,000	2011	+44 (0)20 3008 5283

4 Staying relevant: the trends

While income is not a definitive measure of a professional body's activity, the trends over the past half-decade suggest that the importance of the institutes has risen. The graphs below show incoming resources for some of the main professional bodies in banking and finance, in £m:



For some, this reflects a rise in membership. The *CII's* membership number, for instance, has risen from 95,000 in 2009 to 117,000 today; *CFA UK's* has more than doubled over the last decade to above 11,000. The *CISI's* membership income is up by more than 30 per cent since 2009.

The *CIOB's* membership income has been constant, but it has doubled its income from education programmes (mainly enrolment fees) over the past four years.

A. Institutional engagement

Accreditation of in-house training programmes

As part of their efforts to rebuild their battered reputations, a growing trend has been for financial institutions to team up with professional bodies to help strengthen the credibility of their education and training of staff. The CB:PSB is one notable example in the banking industry. The BSRC also aims to facilitate this.

Individual membership is not the only way to benefit from a professional body's offering. Firms are increasingly asking the institutes to accredit their in-house training schemes to provide an independent stamp of quality. To be effective, this has to be a rigorous exercise. "We crawl all over them and make major changes", said one institute. Another said: "Organisations have walked away from [our accreditation] because they had thought it was going to be an easy hit".

Though not compelled to do so by the regulator, some firms are now requiring staff in certain roles to pass a particular exam by an institute. For example Halifax, the subsidiary of Lloyds Banking Group, this year said it had become the first UK bank to require all its frontline banking consultants to receive a certificate in Retail Banking Conduct from the *ifs* before they can work with customers. The *ifs* reports that more than 15,000 staff across the industry have attained either the certificate or a diploma at a higher level.

Other bodies such as the *International Compliance Association* and the *Association of Corporate Treasurers* have a category for corporate membership, which is open to firms that commit to abide by their codes and that have individual members among their staff (though the minimum threshold is typically quite low). The *Institute of Financial Planning* goes further, offering accredited status to employers who have a majority of staff that have attained an *IFP* certification.

But much more is still to be done...
One of the main themes in this report is that <u>the key to increasing the reach of professional qualifications lies with employers</u>.

A budgetary bias in favour of short-term raining?

A recurring criticism I heard is that the way banks structure their budgets often discourages anything other than investment in short-term training. Where once the head of human resources would have the final say on what education and training employees would be required to undertake, these decisions are now commonly devolved to line managers and fall under the category of 'discretionary spending' – meaning that they are among the first costs to be cut when budgets come under pressure. There was particular concern about the decision by some banks to outsource procurement of education and training to third parties – with, one sceptical banker said, "a pretty clear understanding that cost is what matters above everything else".

The Chartered Banker: Professional Standards Board

A voluntary initiative of eight banks and the *Chartered Banker Institute,* the aim is for all the member banks' customer-facing staff to achieve at least the 'Foundation' level of professional and technical competence. To do so, they must show, for example, that they understand the purpose of a bank and the principles of credit and lending, and know how to report conflicts of interest. Individual institutions decide the best way to implement this.

The hope is that this could be a game-changer, especially as it has potentially greater reach than anything the industry has ever attempted before. More than 70,000 bankers have already achieved 'Foundation' requirements, with a further 130,000 expected to do so. One advantage is that firms should be able to easily benchmark their progress against others. The oversight of the *Chartered Banker Institute* – which will audit banks' self-reporting – should add credibility. Existing qualifications from many professional bodies can be given as evidence of meeting a standard, reducing duplication. There are further plans to introduce a higher 'Intermediate' standard for specialist roles, and a 'Leadership' standard for experienced bankers.

But, while this might put bankers on the road towards acquiring an individual professional qualification, it is not supposed to be a substitute. One fear is that banks might see it as such, an inexpensive way to show they are changing their culture across large swathes of their organisation without making a more substantive investment in education. One banker warned: "It's a step in the right direction, but you have to be very careful about the numbers. Saying that a hundred thousand people or more – multiple times the Chartered Banker Institute's membership – will suddenly act like professionals because their bank has decided they've met some basic standards is much too simplistic".

Insurance: chartered firms

The insurance industry is chiefly served by a single professional body, the *CII*. More people working in general insurance are part of the institute than is the norm in banking. There is considerably less penetration, however, in the retail side of insurance, where firms compete more on price.

A key focus of the *CII* has been to encourage firms, as well as individuals, to attain 'chartered' status as a badge of professionalism. To do so, they must meet a number of conditions: at least one member of the board must hold an individual chartered title, and at least 90 per cent of customer-facing staff must be qualified members. As of September, 27 insurance firms, 226 brokers and 787 financial planners use the title.

In response to the public scrutiny that banks were under after the crisis, many firms in the insurance industry came together with the *CII* in 2010 to sign what was called the Aldermanbury Declaration. More than 200 insurance companies, brokers and others signed up to committing a proportion of their staff to qualifications by the end of 2013 – three-quarters of whom met the target.

Professional bodies must not be lobby groups

The importance of independence

One point that has been repeatedly stressed is that, though professional bodies should step up their engagement with firms, <u>they must be very careful never to be perceived to lobby on their behalf</u>.

In some sectors, professional bodies double up as trade unions or are openly involved in advocacy for their members. However, the finance industry already has about 50 trade associations to represent its interests and to respond to public consultations (these are the subject of the CSFI's 2013 report, *Batting for the City: Do the Trade Associations get it right?*).

This is particularly important in the current climate, because lobbying would conflict with the professional bodies' aim of restoring trust in the finance industry. The argument that members are accountable to the standards of their profession as well as their employer is only credible if the institutes are seen as independent. They need to challenge the industry they operate in on behalf of the public interest[14], and sometimes do things which might be unpopular with their members.

This also means that <u>when they do raise the alarm they are taken seriously by decision-makers</u>. One example that was mentioned was the medical industry's response to the UK government's healthcare reforms: it was only when the Royal Colleges – rather than the British Medical Association, which is a trade union as well as professional body – started to publicly criticise the proposals that the government really took notice. The power of a professional body that is seen to act in the public interest is that it can have a credible voice at times when trade associations do not.

14. Which is also a requirement for those that have a Royal Charter.

B. Teaching ethics

With the crisis putting the spotlight on their public interest obligations like never before, one clearly growing focus for many of the institutes has been to put ethics explicitly at the centre of what they do. This is being done not only through raising the visibility of their codes of conduct – the traditional way to encourage good behaviour – but also increasingly by engraining ethical content (or entire modules in ethics) into their exams. A few examples:

- Last year, the *CISI* changed its rules to require all of its existing members to pass an assessment in integrity, or else have their membership status downgraded. This also applies to new students before they are allowed to take exams.

- The only mandatory one of the five modules required to attain the *CIOBS's* Chartered Banker Diploma is in 'Professionalism, Ethics & Regulation'.

- The *CFA Institute* recommends that students spend 10-15 per cent of the 900 hours it takes to prepare for the three stages of the CFA qualification on ethics, reflecting its prominence in the exam.

- The *ICAEW* examines ethics within each of its 15 ACA exams, and last year introduced a new mandatory online learning programme focussed on ethics. To qualify as a chartered ACCA accountant, students are now required to complete a module in 'Professional Ethics'.

Teaching ethics can work...

The sceptic's reaction is that this is largely a gimmick: that any unethical person can pass an exam and behave how he or she likes thereafter. One obvious riposte to this argument is that, in a field as complex as financial services, much apparently unethical behaviour is the result of uncertainty rather than intentional malfeasance. The educational material that has received most praise in this area (the *CISI's* 'Integrity at Work' series of books is one example) takes the form of practical, engaging ethical dilemmas with several plausible responses, each linked back to how it compares with the principles in an institute's code of conduct.

"Of course people can pass ethics exams and still behave unethically, but I think it's much less likely. The challenging areas are the grey areas. **It's easier to behave unethically if you can claim ignorance. When you've studied ethics for 120 hours, it's easier for you to see the black and the white within the grey.**"

Will Goodhart, Chief executive, CFA UK

There is a considerable volume of academic research on whether teaching ethics is effective in changing behaviour in the workplace, which I will not attempt to examine here. However, the strong impression I got from my conversations was that, if it is done in the right way, it can be very valuable.

Mentoring: Another way to encourage ethical behaviour?

"We facilitate a lot of mentoring within the profession between people in different firms or even different sectors – the point being that it emphasises how your first duty is to the principles of accounting rather than the norms of whichever business you're in. You can get the perspective of a wise owl who isn't caught up in the group-think of a company or industry. It's also very useful if you have an ethical problem you'd feel uncomfortable talking to your boss about. A lot of people like having this option and take us up on it".

Atholl Duncan, Executive Director, Institute of Chartered Accountants Scotland

C. But... are qualifications rigorous enough?

"Education is a vital part of changing culture. But, instead, a focus seems to be on codes of conduct. Another is on modules in ethics. The industry is awash with codes. Everyone working at Lehman Brothers would have signed up to its own code. If the pressure from the top is to achieve certain growth targets, the code flies out of the door. **If you're really serious about changing culture, you need to involve experts and academics in behavioural psychology, not just tick boxes for codes and modules in ethics.** You can get 100 per cent for such a module and still behave improperly or illegally.

"People make all sorts of claims around frameworks and standards, but they're not asking the hard questions. **The crucial point is that institutions need to be serious about raising quality, not just for political reasons, or to do it at the lowest cost.** It should be about much more than buying another product or a piece of software. Different people need different education and different kinds of skill sets.

"Banks need to demand that professional bodies come up with relevant and seriously challenging qualifications – and to say: 'Yes, we're prepared to pay for them' and to commit to such spend for longer than the budget year. **And the institutes need to step up to the challenge and get their qualifications properly and externally benchmarked.** Until that happens, efforts to raise standards will invariably sink to the lowest common denominator."

Gavin Shreeve, Principal, ifs University College

The argument that Gavin Shreeve – who has run the *ifs* for three decades – is making is that the current focus on ethical training and codes of conduct obscures a more important point: driven by short-term profits, financial institutions have not been willing to invest in the long-term education of their employees. He believes that the best way to improve competence and behaviour, though more difficult, is for banks to demand more rigorous qualifications – and that the professional bodies need to step up and deliver them.

I do not want to comment here on individual qualifications. HSBC, in its consultation response to the BSRC, said: "the quality of training and qualifications available from existing professional bodies varies significantly" – which is also what my conversations with bankers suggested.

It is a long-term commitment

One repeated complaint, however, is that some qualifications are less rigorous than the standards against which they purport to be benchmarked – particularly at the higher levels, where they claim to be equivalent to a bachelor's or master's degree. Adding to the confusion, there are two educational frameworks in England and Wales (the FHEQ and the QCA) and even more in Scotland and Northern Ireland. How they compare to each other is a contentious question.

...and must be tough

The danger is that, in a competitive market for qualifications, it is possible to game this lack of transparency by creating a programme that meets only the minimum educational standards (perhaps throwing in a module on ethics to give it superficial credibility) and marketing it for less – both in terms of price and the time commitment required of candidates – than a competitor's more rigorous course, which might be benchmarked to the same level of difficulty.

One key function of the BSRC could be to create transparency around the standard of qualifications, to give firms confidence that they are relevant and rigorous enough to recommend to their staff.

D. International expansion

The historical dominance of London and New York in the financial world is reflected by the size and reach of the UK and US professional bodies. In recent years, emerging economies have been eager to tap in to their expertise to underpin the credibility of their own financial markets. In many cases, this means that their central banks and regulatory authorities have actually gone further than in the developed world to require qualifications and professional body membership.

Emerging markets, therefore, represent the fastest-growing markets for many of the UK's institutes – from offering their existing qualifications to international students to blending their own exams with those of international bodies to create globally portable qualifications. To take just a few recent examples:

- The *CISI* signed an MOU with the Capital Markets Authority of Kenya to introduce international certification standards in the sector.

- Together with the *ICAEW,* the *CISI* also launched a Diploma in Corporate Finance in Cyprus.

International standards are a business opportunity...

- The *CIOBS* signed an MOU with the training division of The People's Bank of China to develop a 'Professional Standards and Certification Board' and 'Qualifications Framework' based on the UK model.

- The *International Compliance Association* launched a new qualification in Singapore and signed a partnership agreement with the UAE's Securities and Commodities Authority to deliver a certificated programme in compliance.

> "In a number of African and Asian countries, central banks are pushing for bankers to be qualified – if not necessarily mandatory, it is at least highly encouraged. That does not only apply to junior staff; senior people are being put through the exams as well. Overseas, in some respect, they're ahead of the game; I think in the UK we have some catching-up to do."
>
> **Alastair Graham, Managing Director, Global Association of Risk Professionals**

A priority for the institutes is to step up these activities. The message coming through is that emerging financial centres see instilling international professional standards as a crucial competitive advantage, especially after the financial crisis. If the UK's institutes are the ones to help them develop these standards, it could reaffirm the City's international standing. However, to be a global leader in professionalism, the UK needs to lead by example and to ensure that its own firms show the same level of commitment.

Technology: "making geography history"[15]?
One crucial factor that has made international expansion increasingly feasible is technological development. Much of the engagement that members have with their professional bodies today – for example, undertaking and logging CPD – is done through online portals. The institutes offer everything from 'webinars' and online ethics training to mobile apps which alert members to events. Technology offers new ways to structure learning, and greatly reduces the need for physical infrastructure in new markets.

> "We've seen strong growth eastwards in recent years: in Europe; in the Arab world and particularly in the Gulf (where regulators have quickly seen the value of mandating qualifications for new entrants to help ramp up the quality of markets) in India (following the investment administration outsourcing business across the country) and in South East Asia.
>
> "A key success factor for professional bodies seeking global growth in the future will be how they harness technology-enhanced professional learning to straddle borders. Change, 'non-routine', is the new norm. **The world's fast-growth frontier markets want a Model T Ford, not a faster horse.**"
>
> **George Littlejohn, Senior Adviser, Chartered Institute for Securities & Investment**

Though this was overwhelmingly viewed as a good thing, a few people I spoke with did express concerns about the prospect of technology becoming overly dominant. One long-time member of an institute said: "The trend in industry is do more and more things remotely, so it's very useful to have a professional body that brings people together face-to-face in a non-competitive environment. I'd be worried if we started to lose that because everything was cheaper and easier to do online".

15. A quote attributed to the CISI's Indian National Advisory Council President, P.H. Ravikumar.

5 Can voluntary institutes have teeth?

A. Should qualifications be mandatory?

One argument that has gained much traction since the crisis is that encouraging professional qualifications on a voluntary basis is not enough. If losses incurred by the banking industry are socialised, the argument goes, why should it have fewer formal entry and practice requirements than in disciplines such as medicine, law or accountancy?

Last year, Scotland's government said it would: "consider with the [Chartered Banker] Institute and the banks what the options might be for making membership of a professional body mandatory for bankers in order to bring banking closer into line with other professions"[16].

As we've seen, a number of the UK's professional bodies have worked with the authorities and with central banks abroad to make qualifications in certain sectors effectively mandatory. Last year, the *GARP* argued that the UK's Banking Reform Bill should, as part of procedures for licencing practitioners, include an educational competency requirement – saying it would "demonstrate strong UK leadership in banking education, sending a positive and powerful message to UK consumers and the global banking industry".[17] The *CISI* points out that, while the RDR means that there are non-formalised professional standards in parts of the retail sector, there is still nothing similar on the wholesale side.

Can we make qualifications mandatory?

<u>Is insisting on qualifications possible in practice</u>? It would, as the Scottish government says, be a "fundamental and significant change to banking" – and (depending on the number of people who would be required to be qualified) could take years or even decades to implement. But many think it can be done. One professional body executive said: "If it's something the government really wants to do, it is absolutely feasible to require everyone working in a customer or client-facing position at banks to have an appropriate qualification. That doesn't mean it should all be at the highest level; the requirements should be linked to seniority."

16. Sustainable, Responsible Banking: A strategy for Scotland, May 2013. http://www.scotland.gov.uk/Publications/2013/05/3325/6.

17. The bill was passed into law last year requiring approval by the regulator and registration for people in certain roles, but without stipulating an education requirement – see box on p26.

One model that could be quickly implemented might look like something from the RDR, with practitioners choosing from a number of bodies accredited by the FCA to verify they are appropriately qualified, undertake CPD and adhere to a code of behaviour. There have been calls, for example, to extend the RDR's CPD requirements to mortgage advisers.

The arguments against

The practitioners I spoke to were on the whole (unsurprisingly) wary of compulsory qualifications or professional body membership. There are strong arguments to be cautious, not least that the industry is already contending with a disruptive regulatory upheaval. This year's *CSFI Banking Banana Skins* survey, for example, found regulation and political interference to be the top two risks facing banks. Some of the main objections include:

> "Mandatory qualifications aren't the answer. What financial institutions need to do is make sure their people know that investing in their education and professional development is essential for career advancement. That's what the industry isn't doing well enough."
>
> **Investment banker**

Reasons for caution...

- A shortage of relevant qualifications. Many practitioners are sceptical that the institutes have the capacity to step up their currently limited coverage and to offer useful qualifications on a much wider scale. A repeated point I heard was that making professional qualifications compulsory would be "putting the cart before the horse".

- Mandatory qualifications could disrupt the City's international competitiveness, particularly in the wholesale banking/capital markets sectors where banks are global and the international movement of staff is commonplace.

- It could create barriers to employment, especially at the entry level. For example, Metro Bank, which was granted a UK banking licence in 2010, said in its consultation response to the BSRC: "We do not believe it is essential for bankers to undergo independent competency exams. Indeed, in an industry where starting salaries for High Street bank workers regularly begin at £16,000, we are concerned that compulsory exams could provide a barrier to entry".

Below are two views which both favour more professional body influence in banking, but with different takes on the question of mandatory qualification. The first is from Vernon Soare, who is in charge of professional standards at the UK's biggest accounting body. The second is from Susan Rice, head of the *CB:PSB* and the former chairman and chief executive of Lloyds TSB Scotland.

"Should everybody have to take out a membership with some kind of professional association? Logically, there's a good case to say they should. It may be that not everybody goes through the same kind of training or qualification through a particular institute. But **there has to be somewhere independent of the institutions themselves that sets professional standards that individuals can be held to account by**. I cannot see how setting standards can be effective if you don't bring it down to the individual, personal level – we are all moral agents in whatever job we're doing.

"There may sometimes be a public perception that the professions are just about looking after their own, but I don't see it working like that. **Professionals are very conscious of their obligations, on the grounds that if their peers persist in doing things unethically, ultimately – and this is what has happened in the banking industry – it undermines the whole concept of trust in that industry.** There's a sense of the greater professional good to be preserved, which is far more important than preserving the career of a colleague who is clearly doing wrong."

Vernon Soare, executive director, professional standards at the ICAEW

"It's one thing to be a member of an institute, whereby you pay a fee every year; it's another to benefit from the standards of learning that it prompts and delivers. **The institute doesn't necessarily have to deliver the course; it can also have a hugely important role creating the course with banks and validating its quality. It would be a tax on banks to compel them to make their staff be part of an institute.** People should be part of an institute because they value what it offers and engage with it – they should want to do it.

"Having mandated qualifications is a good, rigorous, approach to the industry. But what matters isn't just the fact of having an exam and a qualification; what matters is the nature of it – is it suitable to the people who are doing it? **What sometimes worries me is that we get on to a bandwagon and then make an industry of it.**"

Lady (Susan) Rice, head of the Chartered Banker: Professional Standards Board

B. Enforcing rules

Beyond the question of whether qualifications should be compulsory, is the issue of whether voluntary professional bodies without statutory regulatory powers can ever have credible teeth.

Can a voluntary organisation have "teeth"?

The impression I got is that, while it is difficult, they can – though there are a number of caveats. First, the institute must have widespread employer recognition, so that any decision to take action is seen as meaningful in the industry. Second, it must establish a formal framework for dealing with complaints against its members and have a fair and credible adjudication process. Third, it should be willing to use its powers independently of the statuary authorities.

A reluctance to punish...

In principle, all the professional bodies for bankers can punish members who break their rules, from reprimand all the way up to the harshest penalty of expulsion. These powers are contractual, a condition of membership. Action against low-level offenses – such as not meeting CPD requirements or non-payment of fees – is common. But, historically, the institutes have been reluctant to use their most potent weapons because they have no quasi-regulatory function.

When probed by Parliament last year about the continued membership status of Fred Goodwin, the former head of RBS, the *Chartered Banker Institute's* chief executive Simon Thompson argued that an individual would have to be censured or sanctioned by the regulator before the institute could remove him. "I think professional bodies in banking need to be much more than a club, and we need either to be able to rely on the work of independent regulators to look at this or to have some form of independent powers to compel evidence", he said.

In less high-profile cases than Goodwin's, publicly throwing someone out of a respected institute without the intervention of a regulator could damage their employment prospects within the industry. An unwillingness to do this without an extensive investigation and without legal protection seems reasonable. But the result is that, over the last decade, barely a few dozen people working in banking have even been asked to appear before a professional body's disciplinary panel.

The contrast with accountancy, an industry in which six professional bodies do have statutory disciplinary powers, is stark. The FRC (the independent regulator) deals with cases that "appear to raise important issues affecting the public interest". But all other incidents of potential misconduct are handled by the institutes themselves. The *ICAEW,* for example, has taken disciplinary action against 175 individual members in the last 12 months; the *ACCA* against 130 since the beginning of last year.

Do the institutes need investigative powers?

The increased firepower of the FCA and PRA (see box) should mean that more individuals in the banking industry are held to account by the regulators for misconduct – up to and including potential criminal action.

> "You need to hang some people every now and again. You need to do it fairly, but you need to let people know what you allow and what you do not".
>
> **Executive, statutory professional body**

The problem for the banking institutes is that if they only punish misconduct following action taken by regulators, their own rules and codes of behaviour risk being seen as irrelevant. It also means that there is no mechanism for catching individuals who commit misdemeanours outside the regulators' radar. Several people I spoke to argued that, for this reason, if professional institutes are to have a major role in the future of the industry, they need formal investigative powers independent of the regulator.

However, a number of other respondents stressed that, even with their current powers, professional bodies could play a greater role in policing the banking industry. For instance, David Thomson, Director of Policy and Public Affairs at the *CII,* says: “Our argument is that that over 15-20 years we’ve built a robust disciplinary process – with independent oversight – that rivals professional bodies in other professions with regulatory powers. So when people say: ‘we need a regulatory underpinning to discipline our members’, it seems that fundamentally undermines the point of a professional body – which is a self-regulating organisation able to censure, fine or ultimately expel miscreants. If you can’t police yourself, what’s your purpose?”

The new regulatory regime for bankers in the UK

Created under the Banking Reform Act, it supersedes the approved persons regime and includes:

- **Senior managers regime:** The most senior managers at retail and investment banks will require regulatory approval before appointment. Thereafter, there is more scope for disciplinary action against these designated individuals – including making reckless conduct leading to the insolvency of a bank a criminal offence.

- **Certified persons:** Banks will be responsible for issuing annual certificates to employees who are not among the most senior managers but who can cause significant harm to the firm or its customers if they fail to do their job properly. The certificates verify that they are fit and proper persons to do the job.

Andrew Hall, Head of Professional Standards and Integrity at the *CISI,* says: “We used to issue fines, but stopped because we felt it was inappropriate and created confusion about their purpose. I think reducing membership standings, temporary suspension or a reprimand are equally effective because the decisions are all published on the *CISI* website and in the Securities & Investment Review, the institute’s journal – they can’t be swept under the carpet”.

Special pleading?

Most people agree that banking is not a profession in the same sense as medicine or law, because it lacks a large core of common learning. One argument from the industry is that it is therefore especially difficult to enforce an industry-wide set of standards because it would have to cover such a broad range of disparate activities. I found there was much less sympathy for this view, however, talking to people with a background outside financial services.

For example, Antony Townsend, the FCA’s Complaints Commissioner, who has been chief executive of both the Solicitors Regulation Authority and the General Dental Council, said: “The banking industry may be huge but the difficulties in identifying who is a banker – and therefore who should be regulated – are far from unique. Even in a field that apparently seems easy to define, such as healthcare, the boundaries between professional groups, and between professional and non-professional activity, are in fact very blurred. So the fact that banking is disparate is not an excuse for an absence of rigorous, enforceable professional standards. Though it's more difficult, professional bodies can have teeth without a statutory role – the crucial point is employer recognition."

"the crucial point is employer recognition"

The importance of employer recognition

In the accountancy profession, membership of a recognised body is required for restricted work, such as performing the audit of a limited company or certain insolvency activities. A majority of people who attain a qualification, however, do not work in these areas. They go into areas such as tax and corporate finance, or into non-practicing jobs in every sector of the economy. They do retain the option to do restricted work in the future, which may be an incentive for keeping their qualification updated. But for many the reason is that a broad range of employers value their qualification – which is why the seven accountancy bodies under the FRC have a combined 328,000 members, a figure that has risen 11 per cent in the last five years. Similarly, most surveyors choose to become chartered by joining RICS – which is not required by law – because it is a widely recognised badge of credibility.

"When we talk to students coming into the qualification, **their motivation is to have employer recognition** – and the badge of credibility that ACCA delivers goes with that. But once they become a member, you find there's also credibility around their technical knowledge as well as their professional competence that goes beyond having letters after their name. **Members take real pride in the fact that getting the qualification is hard work:** part of the sense of achievement as they develop their careers is to have gone through that rite of passage."

Sarah Hathaway, Head of ACCA UK

Whether professional bodies need a more formal role or independent powers within the banking industry is a debate that will continue. One of the key premises of the BSRC, however, is that through voluntary measures alone the institutes could substantially expand their reach and influence.

6 The BSRC and beyond

As we've seen, the BSRC will not be a professional body in itself, but will work closely with the institutes, as a "canopy" – and help "increase the value placed on professional qualifications". This section is chiefly about what this relationship could look like. It does not examine the other main functions of the Council (such as how it could develop a template for a single code of conduct for banks).

A. Encouraging competition

In its initial consultation paper, the BSRC suggested that one of its functions should be to encourage competition between the existing professional bodies in banking. Some responses raised the objection that competition creates confusion for employers, practitioners, regulators and the general public. To increase the uptake of qualifications, they suggested, it would be easier to rally around a single, broad body, as is the case in many other industries.

Can you have competition in professional standards?

The trend is that competition between professional bodies is growing – both in the UK market and by their expansion abroad. One obvious area of competition at home is between the eight bodies authorised by the FCA to issue SPSs to financial advisers. But there are many other examples of overlap: the ifs and *CIOBS* in retail banking, the *CISI* and *CFA-UK* in the investment space, the *ICA* and *CISI* in compliance, the *CII* and *IFP* in financial planning, and so on.

The *Retail Banking Academy,* a professional body founded in 2011 in London, aims to shake up the retail banking space, saying in its consultation response to the BSRC: "The long-established banking institutes of the world have demonstrated a tendency to lose touch with the industry over time, as the example of retail banking illustrates." It now has over 3,000 members in 60 countries, and recently had one if its qualifications accredited by the *CIOBS*. At the same time, the *CII* plans to step up its presence in the banking sector, and in May launched a new award in retail banking. The *Asset and Liability Management Association,* a trade association, is also developing a professional qualification in 'Bank and Building Society A&LM', with the help of the *Association of Corporate Treasures.*

My view is that <u>the arguments in favour of encouraging a competitive market in professional standards are compelling</u>. The BSRC's aim to raise the value of professional qualifications is an important one. Achieving this simply by instructing banks to increase their employees' uptake, however, would be doing things the wrong way round[18].

18. Sir Richard Lambert has emphasised this point in speeches after the release of the BSRC report. One example was his speech to CISI: www.bankingstandardsreview.org.uk/assets/docs/cisi.pdf.

The most effective way to raise the value of qualifications is to ensure that employers see them as relevant and rigorous, by encouraging the provision of a wide choice that reflects the breadth and complexity of activities in the banking industry. As *ifs University College* said in its consultation response: “For the UK financial services industry to retain its global leadership, the education of its professionals needs to change and to adapt to new skills and indeed specialities. It should not be constrained by a rigid set of standards that fail to recognise the diversity of the sector and are unable to adapt quickly enough to change and growth in the sector”.

...but is better collaboration needed?

"The professional bodies working in finance are respectful of one another, but we don’t collaborate very effectively – not because we don’t want to, but because we’re very busy. We’ve an enormous amount to do addressing a series of immediate challenges felt by our immediate stakeholders, rather than coherently expressing the message of the utility finance gives to society – and how those challenges may be addressed broadly, both by professional and trade bodies.

“I think that is a challenge, because we’re not going to get less busy – but we’ve probably only got five years in which people are going to really want to listen to that message. We need to change the way people think about finance. The question to address isn’t: ‘is finance trusted?’; it’s: ‘what is finance?’. And the answer is that it’s not some kind of nebulous activity; it’s an integral part of all economic activity. The challenge is getting this across at all levels of society."

Will Goodhart, chief executive, CFA UK

B. A market for professional qualifications

One of the BSRC’s key roles will, therefore, be as an authoritative body to increase transparency in the market for professional qualifications.

There is a need for better data

A helpful start might be to produce a detailed snapshot of the market. The BSRC could work closely with banks and building societies, the institutes and other educational bodies to map out all the qualifications currently relevant to people working at banks across a wide range of roles, how they compare to each other and to international qualifications (as objectively as possible, perhaps using a series of metrics that the institutes would self-report on), and how many people are taking each one. Firms could be surveyed on which parts of the industry are underserved, encouraging the relevant professional bodies to compete in these areas. An authoritative and comprehensive map of the landscape, indicating the portability of different qualifications, could give employers and employees the assurance they need to encourage take up.

An initial suggestion that the BSRC should accredit banks' in-house training courses and individual professional body qualifications was rejected in Sir Richard's final report because the consensus was that this would require a much bigger organisation with specialist knowledge. A more plausible (and widely supported) option is for the Council to give a stamp of approval to the bodies that come under its canopy – in return for the ability to, as it says, "nudge them in the direction of the qualities that will add value to their work". The nudge might include encouraging good practice and consistency around how the institutes benchmark their qualifications and discipline their members.

> "The BSRC could be the outside validation for the quality of the institutes and what they do. It shouldn't be developing individual standards of exams and courses to deliver. But we could use an independent body coming in to see what we're doing and telling us if it's good enough. It could validate and vet – it could audit in essence – the quality of what an institute does. That would give banks the confidence to rely on the institutes."
>
> **Lady (Susan) Rice, head of the Chartered Banker: Professional Standards Board.**

What about coordination?

Some favour a more hands-on approach. Barclays, for example, in its consultation response, said: "There is certainly a role for the body in coordinating and reforming the multiple organisations currently providing industry-recognised qualifications". HSBC added that "we see a role for the new body in raising the bar... through establishing the key components to be covered by [education and training] providers". Others suggested it should help establish a framework to create a parity of qualifications for specific job roles[19]. The *CII* said: "The new body needs to consider creating a common core of knowledge and skills that could apply across the wide spectrum of roles and then to develop specialist routes to constitute a 'banking framework' at several levels – this is a common model".

> **A key challenge: avoiding duplication and mission creep.**
>
> Most – though by no means all – of the people I spoke to were in favour of the BSRC's creation and its broad aims. However, one big concern is "a significant danger... of duplication, obfuscation and needless gold plating", as *ifs University College* put in its consultation response. A fear that was repeated many times to me is that, driven by political pressure to prove its worth, the BSRC will create a large bureaucracy – perhaps well beyond its original funding estimate of £7-10m per year – even if its functions are or can be more effectively provided by existing organisations.
>
> The final BSRC report stressed the importance of not "reinventing the wheel", backed up by its rejection of individual membership (at least initially) and by a focus on behaviour more than competence. Some of its main activities, however – such as "encouraging good practice in learning, development and leadership, with a particular focus on behaviour and ethics", and helping banks meet the obligations of new legislation such

19. Perhaps by building on the large body of work produced for the finance sector by the FLSP known as National Occupational Standards: nos.ukces.org.uk.

as the Certified Persons regime – do appear to overlap significantly with existing professional bodies. For example, several of the institutes are already developing strong protocols around whistleblowing, one area where the BSRC has proposed it could set standards. There is also the work of the Financial and Legal Skills Partnership (FLSP) to consider; it is already licenced by the government to set frameworks for skills in the financial sector.

While there is much support for the BSRC to validate the work of professional bodies, a concern is that it may overreach itself by 'picking favourites' among the institutes and giving them an unfair competitive advantage. A senior manager at one professional body pointed out: "We're already accredited – by the market. It's our customers who accredit us, the people who take our exams and the organisations they work for. If we don't do a good job – if we don't make our exams robust and monitor them properly – as soon as something goes wrong, we would lose all credibility".

A few other crucial challenges were also stressed. Though they do not relate directly to the BSRC's proposed relationship with professional bodies, they will determine its ultimate viability and are worth mentioning here:

- **<u>How hard will it bite the hand that feeds it</u>?** Raising public awareness of good practices by banks will be an important part of the BSRC's role. But since it is funded by the industry, it needs to clearly demonstrate independence to show it is more than just a cheerleader for the sector. Not every bank can be seen to have succeeded – some members will have to be criticised publicly. How it manages this and retains support from the industry is key to its continued relevance.

- **<u>Benchmarking performance without creating league tables</u>:** The recommendation is that the BSRC should not publish league tables of the performance of banks and building societies, because they are overly simplistic and lend themselves to gaming. It does, however, seeks wide industry coverage across both the retail and wholesale sides of the industry. The British Bankers Association and Building Societies Association have a combined core membership of more than 200 institutions. It is difficult to see how the new body will engage with and comment usefully on a large proportion of these, other than by some kind of league table.

- **<u>Is a voluntary approach enough</u>?** Many argue that voluntary action can be effective – but for that the BSRC needs widespread industry support, which many fear it will struggle to attain, particularly from foreign banks in London. One concern, as the ICA puts it, is that a lack of statutory powers "could mean that it struggles to take its agenda forward without the help and influence of government. The worst outcome would be delay reported as a result of recalcitrance, in-fighting and playing for position within the sector". Another is that the power of disclosure to implement standards might be potent in the current climate, but will diminish as the spotlight on the industry fades over time.

- **<u>Expecting to achieve too much, too soon</u>.** In the words of Vernon Soare, Executive Director: Professional Standards at the ICAEW: "A major risk to the BSRC is not properly managing expectations: it's a job that will take a generation. If people are expecting change very quickly, the BSRC could be deemed to fail before it has even had a chance to succeed."

The banks have to drive reform...

Urging banks to engage

Ultimately, the onus is on the banks themselves to recognise the value of professional education beyond narrow, short-term training, and to encourage and incentivise their staff to pursue relevant qualifications. The feeling is that one reason many are falling short in this area is because the way their budgets are structured discourages investment in long-term education.

The BSRC could be useful here through its power of disclosure. One metric that has been suggested as a benchmark for banks is the number of staff who have (or who are pursuing) a professional qualification. A broader metric with a similar aim might be a measure of institutions' spend on education per employee.

Qualifications are not the only professional service that can be usefully benchmarked. The BSRC could, for example, measure the proportion of banks' in-house training courses that are accredited by an approved independent body. More qualitatively, its standards of good practice could include developing protocols on how banks could incentivise long term commitments to education and how they could encourage staff to commit to voluntary CPD. Some have suggested that the BSRC should be the central body through which banks voluntarily commit to a proportion of their staff being qualified by a relevant institute by a target date, in the vein of the Aldermanbury Declaration in the insurance sector.

The incentive is not only the 'stick' of public pressure if firms fail to up their game. Indeed, it might more usefully be the reassurance that comes from collective action that the money and time (theirs and their employees') that banks invest in qualifications will not erode their short-term competitive position against their peers. Firms will also be aware that if voluntary measures fail, the regulator might feel the need to impose costly new rules.

The crucial challenge here is that the banks can't only engage because they feel they have a gun to their heads – they need to see the value in it. David Thomson, Director of Policy and Public Affairs at the *CII,* says:

> "What we're interested in is banks identifying professional bodies as **partners in changing culture rather than just as procurement partners**. There's little point if they're only doing it to tick a box. The question is whether the BSRC will stand up and differentiate between those banks who go through the motions and those who do genuinely try and change culture. That is, after all, what the public interest requires.
>
> "In insurance, the trend has been for a lot more engagement between the CII and firms, some of which pay for membership across their whole organisation. The problem in banking was that the opposite seemed to happen – banks disengaged until they had no relationship left with professional bodies. A better banking culture requires both individual engagement and corporate buy-in to succeed".

C. Individual members?

A large number – probably a majority – of the BSRC's 150 public consultation responses took the view that over the longer term the body should aspire to have individual members[20]. The final recommendation was that it should engage with banks and building societies, but added "whether this should be changed over time is not something that needs to be decided now".

Most of the reasons given in favour of individual membership were along the lines discussed earlier: in particular that in an industry as important to society as banking, a much greater number of practitioners should be held individually accountable to the standards of an independent body acting in the public interest.

There is certainly an argument that the institutes have not done enough to remain relevant in banking over the last couple of decades. For example, the *ICAEW* said in its consultation response:

> "[If] long-established professional bodies focused on banking and financial services... [had] taken on a wider and stronger role in raising standards and monitoring the activities of their members, built their memberships so that they collectively represented the majority of bankers and banks themselves committed to adhering to the professional standards being set, it would not be necessary to set up a new independent organisation".

But for the BSRC to be an individual membership body covering the whole of banking, it would need to become a radically different – and much bigger – organisation than has been envisaged. It would also need

Other "canopy" models

One model that has inspired the BSRC is that of the UK's *Engineering Council*. Though anybody can call him or herself an engineer, to legally use a professional title – including the 'Chartered Engineer' designation – practitioners must be registered with the Council. To do so, they need to be a member of one of 36 professional bodies it licences, covering different parts of the industry, which set standards and exams. The Council therefore provides a single point of reference for employers, while retaining the diversity of the bodies under its umbrella. There are more than 235,000 people in the UK on its register. One suggestion for the BSRC is that instead of pursuing individual membership, it could have a similar registration model (perhaps made public) for members of institutions under its canopy. Another is that it could maintain a central directory of members of the bodies under its canopy who have been publicly sanctioned.

Another model worth close inspection is the *Financial Reporting Council*. Though an important distinction is that it (and the bodies underneath it) have statutory regulatory powers, it is an example of how related but distinct professions – accountancy, audit and actuary – can come together under a single umbrella.

20. This was also the intention laid out by the Parliamentary Commission on Banking Standards.

to give individuals a compelling reason to join, or else have some kind of regulatory role. It would probably not be able to retain a 'canopy' function over the existing institutes because of a clear conflict of interest.

My strong impression is that the benefits of individual membership are much better realised through professional bodies. It makes much sense for practitioners to be members of organisations that set standards for both behaviour and competence, and that have specialist knowledge in their sectors. And it would avoid a great deal of bureaucracy, duplication and time spent on organisational restructuring if, instead of aspiring to duplicate their role, the BSRC was a catalyst for the growth of institutes which already have annual incomes of millions or tens of millions of pounds and decades of expertise and infrastructure development behind them.

"The BSRC is aligning the magnets for the banks – everyone should know what true north looks like. There hasn't been enough of that in the past. The success of its first five years will probably be based on the credibility of the individuals on it; the next five years will be down to the product. **If, through the passage of time, the credibility of the body increases, its observations are meaningful and its access is significant, it could bring about real change. If any of those are not true, it'll be a waste of time and money.** We wish them great success."

Colin Tyler, chief executive, Association of Corporate Treasurers

D. The future

Looking ahead...

One of the consultation responses to the BSRC said: "While it is true that doctors and lawyers achieve a high degree of specialisation, the evolution of their knowledge base is constrained by the fact that both human bodies and the body of the law evolve relatively slowly – unlike banking, which evolves constantly and rapidly in the face of competition[21]."

That comment seems to get to the heart of why, even if banking is not a profession like medicine or law, the importance of self-regulation and a commitment by individuals to professional development is just as great.

To younger generations (this author included) and in industries where pursuing a professional qualification is not the norm, the notion of being a member of a professional body can initially seem antiquated. In the many hours I spent on this report, my impression is now that the institutes offer something valuable and distinct. At their best, they offer the independence that comes from challenging on behalf of the public interest in a way that firms cannot, while they are nimble (and aspirational) in a way that regulators are not.

21. Malcolm Crow, http://www.bankingstandardsreview.org.uk/assets/docs/responses/malcolm-crow.pdf.

<u>The BSRC has a very difficult job ahead</u>, not least to win over a sceptical public (and a number of key institutions in the wholesale banking area). The appointment of Dame Colette Bowe as chairman, a very experienced regulator with credibility beyond the financial sector, has been widely acknowledged as a good start. But the body does not – as it recognises – have the power or the credibility to 'reinvent the wheel'. If it is duplicative and bureaucratic, and if it tries to do too much too soon, the danger is that it will fade into obscurity and that the underlying conduct and culture problems in the banking industry that led to its creation will be left unaddressed. If voluntary action is perceived to fail, decision-makers may decide the answer is further regulation – which many warn would be costly and largely ineffective.

However, if through its power to name and shame, it is a springboard for professional bodies – if it raises the value of professional qualifications in the industry, and if it increases transparency in the marketplace for professional qualifications – it could play a powerful role in the 're-professionalisation' of banking. A repeated point I heard was that the BSRC's power of disclosure will only be potent while the spotlight is still on the banks. As the impact of the crisis begins to fade, the 'hard graft' will be down to the institutes, whose *raison d'être* is to hold their members accountable to high professional standards.

The crucial point, as other industries have shown, is employer recognition. The onus is on financial institutions to recognise the value of long-term investment in the education of their staff. It is also on the professional bodies to step up to this challenge. There are questions they need to address around the rigour and consistency of their qualifications. As they grow, how they discipline members and enforce their codes of conduct will be an increasingly vital issue.

Perhaps the greatest incentive of all is that, if it aspires to remain a leader in professional standards and a model to emulate (particularly for the emerging world), the City could reaffirm its position as the world's foremost financial centre.

Keyur Patel is an independent consultant and journalist in economics and financial services. For the CSFI, he is also the author of the 2013 report, *Batting for the City: do the Trade Associations get it right?*, and co-author of the *Banking Banana Skins, 2014* and *Insurance Banana Skins, 2013* surveys.

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