

## Has the time come for bankers to take an oath?

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It has been well documented that in the lead up to the 2007 banking crisis the industry was not behaving as it should be. Not all bankers were responsible for miss-selling products or engaging in illegal activities but enough were to ensure the reputation of the profession remains tarnished. As we pass the seventh year since the crisis, the debate over how the banking profession conducts itself remains topical and unresolved.

In the UK, where finance is a huge component of economic activity, the public has become numb to news of fresh scandals involving behaviour that if conducted in their own workplace, would surely see them out of employment and perhaps behind bars.

From Libor to money laundering, fixing the foreign exchange rate to the miss-selling of Payment Protection Insurance to millions of customers, the large banks have been forced to pay billions of pounds in fines to the regulator and in compensation to those affected. Compounded with news from the United States of bankers being convicted of criminal activity and billions more in fines, the industry has a monumental challenge to repair its relationship with, and regain the trust of, the public.

It's worth stating again that not all bankers are bad. Indeed, using 'bankers' as a term is somewhat misleading. A broad brush, in the eyes of the public it can include anyone from branch manager to investment banker. However, following the worst financial crisis since the Great Depression and a mass-bail out of large banks, it's not unfair to call upon the whole profession to root out bad behaviour, review standards of conduct and asses its relationship with society.

As Mark Carney, the Governor of the Bank of England, has stated, the succession of banking scandals means it is *'simply untenable now to argue that the problem is one of a few bad apples. The issue is with the barrels in which they are stored'*. His comments followed those of Andrew Tyrie, the Member of Parliament who chaired the Parliamentary Commission on Banking Standards (2012-2013), that restoring customer confidence in the banking sector was *'years away'*.

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Last year, a PwC survey of over 2,000 people found that although almost one in two people (49%) believe regulation of the financial services sector has been strengthened in the wake of the crisis, a greater proportion (57%) do not believe the reforms that have been implemented are sufficient to ensure that history will not repeat itself. The survey also uncovered an endemic lack of trust across financial services: only 32% of customers said they trusted their retail bank; 15% investment banks; 28% financial advisers and 12% fund managers.

With General Practitioners polling 76% levels of trust, NHS nurses 79% and the police 53%, it is clear that the public holds the banking profession in disregard.

In an effort to repair reputational damage and reverse this trend, the UK has witnessed a plethora of activity but as the survey shows it has yet to make any noticeable impact. A crisis can offer fertile ground for new ideas and fresh approaches and should not be wasted.

New ideas are needed to ensure that the banking profession can rise from the ashes of 2007 and demonstrate that there will be no return to the ways of old. To do so, the culture of banking must be addressed head on, and a bankers' oath may be part of the answer.

### *The approach so far*

Any meaningful assessment of both the economy and society make it abundantly clear that our banking institutions are amongst the most valuable. They regularly perform a whole host of vital functions for us. They provide credit when we're in need; facilitate our daily financial transactions; enable us to become homeowners; help us to save for retirement; and safeguard our wages.

From the cradle to the grave we depend on financial services. Whether we like it or not they are intertwined with our lives, and whether the banks like it or not they have a social purpose to work for the prosperity of customers. We need them to work well and behave responsibly.

To tackle misconduct and restore public trust in banks, the UK Government has taken a largely regulatory and prudential approach: the Financial Services Act created a new regulatory regime and the Banking Reform Act made possible more stringent prudential and ring-fencing requirements. The Parliamentary Commission on Banking Standards (PCBS) was the only review to seriously move beyond regulatory issues and evaluate banker misconduct. Yet even this review's recommendations focused too heavily on legislative and regulatory responses, as if this alone could save the sector from repeating past mistakes.

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This approach, while essential to creating a more stable banking sector, at best provides only half of the solution. As the PCBS made clear in its Final Report in 2013, banking culture has too often been characterised by an absence of any sense of duty to the customer and an absence of any collective responsibility. Alongside current regulatory or prudential reforms, changes will also, therefore, need to be made to the underlying culture of the banks.

### *Virtue*

In 2014, ResPublica, an independent think in based in Westminster, published a report called *Virtuous Banking: Placing ethos and purpose at the heart of finance*. The report argued that the root causes of banker misconduct lies in the existence of a pervasive and inherent lack of virtue amongst our banking institutions, which we will need to restore if we are to ever truly reform the sector.

Instead of arguing for a uniform, rigid and unitary response from regulators or the Government, virtue theory recognises that the needs of customers are intrinsically different. As a result, it argues for the fulfilment of people's needs in all of their distinctiveness. When applying virtue theory to the matter of banking reform, it insists that the banking industry should, to the best of its ability, attempt to meet these diverse needs – it should not simply focus on self-enrichment or basic transactional services.

With restoring virtue to the banking sector, the presence of good character in bankers is absolutely vital. Character gives a person the strength to pursue purpose in the face of complexity and adversity. To be of good character is to have absorbed moral teaching into ones daily habits. Most ethical systems are formal in nature and, because of this, assume that merely following the rules will ensure a good outcome. But virtue theory is concerned with content and the ability to understand the spirit not the letter of the law. Advocating for more virtue in banking is not mere academic posturing: it is a call for the re-introduction of purpose into banking.

Ethos is the daily practice of inculcating this purpose. Instilling ethos and promoting virtue in the banking industry is vital if we are to get the banker sector we deserve. This is not to say that a banking sector that is better regulated and inherently more secure is not to be supported. It is just that, by ignoring its cardinal cause, we are failing to fully understand the cause of the financial crash and, as a result, are not appropriately preparing for future crises of a similar nature. What we need to do is restore virtue to its rightful place at the heart of banking.

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*How can this be achieved?*

Instilling virtue in the industry is dependent on promoting the right ethos. This can be achieved by improving internal governance structures to ensure good leadership is present in the banks and the appropriate levels of professionalism and ethics evident. This approach may be slow and somewhat tedious for politicians and the public alike, but it is the one needed to break from the past and ensure genuine change.

Leadership is, to a large extent, about having the right people with the right skills and mindset in the right jobs – a person's values will shape their leadership and their leadership will shape the culture of the bank. Embedding ethos in banks requires both 'root-level' involvement and strong leadership from the very top of the organisation. A strong chief executive can lead by example and ensure that values are filtered down through the appropriate channels to all employees.

There are, of course, some outstanding examples of ethos-driven leadership in banks. Whilst the reputation of some of our banking brands is still seen as toxic by many, there are smaller teams in branches, in call centres and on trading floors who are trusted by colleagues and customers. They are led by people who believe in a purpose greater than their own narrow financial self-interest.

But how can we ensure that this type of leadership is the norm rather than the exception?

Historically, executive development in the banking sector has focused too much on training technical competencies and on command-and-control management skills. What is needed is a significant shift in the culture of leadership to one that promotes moral purpose, character, critical thinking and decision-making. In short, this new approach must focus on instilling a strong ethos rather than just adhering to empty regulation.

Every UK bank has already had professional standards, codes of conduct and ethics training in place for years but these did not prevent the misbehaviour that has occurred over the last decade or so. It could even be argued that these contributed to misbehaviour by creating an environment in which compliance with the letter, rather than the spirit of the rules reigned.

The existing approach to professional standards, codes of conduct and ethics training has failed because it is based on a compliance and obedience philosophy. In order to avoid a return to the situation described above, values must be firmly embedded within banks such that they lead to a shift in actual behaviour and are tangibly demonstrated by the employees in their daily work. As such, imposing another set of rules like those currently in place is clearly not the answer.

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### *The 'oath approach'*

Perhaps another means of achieving this 'root-level' involvement from staff employees in the development of a responsible banking culture would be through implementing a 'Hippocratic-style' oath whereby employees publicly voice their commitment to the stated values.

An interesting discussion of the various pros and cons of an oath took place at Harvard where, following four years of work by the faculty's committee on academic integrity during which there was an investigation into the largest case of suspected examination misconduct, it was decided that new undergraduate arrivals in 2015 will be asked to 'affirm' the school 'honor code'. Though they concerned an academic rather than commercial environment, it provides food for thought.

At Harvard, the faculty concluded that in institutions with such codes, violations of academic integrity were reduced. They also argued that, by making expectations about behaviour explicit, such codes would enhance integrity, encourage conversation about conduct, and promote confidence in the academic community as a whole. It was stressed that this code is not merely a system of new rules designed to prohibit or provide a mechanism for punishment of non-compliant behaviour, which is exactly what must be avoided in reform of the financial sector.

Having an 'honor code' designed to simply provide additional means for rooting out misconduct would, as one Harvard professor said, be a *'creepy, Orwellian reason for having such a code'*. It should, instead, play a role in helping students come to a joint and common understanding and endorsement of the value of collective enterprise. Indeed, this idea of 'collective enterprise' is a powerful one. The psychology of 'group mentality' is complex but, in brief, it creates a sense of shared responsibility fostering a peer pressure environment to conform to agreed standards and not be the one that lets the rest of the group down for fear of destroying not just one's own reputation but that of the group to which you voluntarily have subscribed. There is also an element of peer monitoring whereby pledges of the oath seek to keep each other's behaviour in check.

This is recognised in the Harvard Business School MBA oath which was voluntarily created by a group of students in 2009, and from which the new undergraduate oath, in part, draws inspiration; the oath ends with: *'I will be accountable to my peers and they will be accountable to me for living by this oath.'* The Harvard MBA oath speaks of *'responsible value creation'*. It asks its pledgees to *'act with utmost integrity'*, to *'manage [their] enterprise in good faith, guarding against decisions and behaviour that advance [their] own narrow ambitions but harm the enterprise and the societies it serves'* and to *'strive to create sustainable economic, social, and environmental prosperity worldwide.'* All of these are

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values that should be welcomed in banking and, if properly observed, help to create a more ethos-driven sector.

### *How can this apply to banking?*

If those in banks that are engaged in banking activities swore such an oath, this could have considerable benefits with regards to public trust and confidence in our banking institutions. In and of itself, such an oath is meaningless. But what it represents and symbolises is perhaps a turning point in the outlook of the banking sector.

There is a certain level of professionalism that separates bankers from doctors, lawyers and architects. In the latter professions, and unlike banking, the professional motive is not only to do the best for the client but also to adhere to the well-established principles of that profession. These standards are often maintained by the industry itself and go above and beyond what is required by law. In medicine, the Hippocratic Oath provides or did provide the centre-piece for these overarching principles.

When ResPublica launched *Virtuous Banking*, the oath put forward in the report (see below) received widespread media attention in the UK and abroad. The oath takes inspiration from the debate at Harvard and calls for bankers to prioritise the needs of customers, pursue the responsible creation of value, confront misconduct and remember the consequences of their actions on society.

Most commentators dismissed the idea at the time but it's one that has already been adopted by other countries. In the Netherlands, the Dutch Banking Association is requiring all 90,000 bankers to take an oath pledging integrity. In Australia, The Banking Finance Oath, an industry-led initiative, is an effort to reassert the ethical foundations of the industry beyond regulation and compliance.

In the UK, CivilisedBank, a new business and retail challenger bank will require its staff to swear the Bankers' Oath, as laid out in ResPublica's report, when it officially launches next year. Their Chairman, Chris Jolly, not only sees the oath as an important building block to embed ethical behaviour in the DNA of bankers' activities but also as a business advantage, as customers want to engage with a bank that places them at the heart of their strategy.

An oath alone will not change an institution's culture and it certainly won't happen overnight, but it must form part of the evolution in the manner in which the banking profession conducts itself and repairs the sector wide reputational damage.

Combined with current methods, publicly sworn and perhaps retaken annually, a bankers' oath could signal the beginning of a new era of culture within the profession and ensure that an industry with such power holds a responsibility to society at the core of its activities.

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This oath I make freely, and upon my honour.

### *The Bankers' Oath*

*"I swear to fulfil, to the best of my ability and judgement, this covenant:*

*I will do my utmost to behave in a manner that prioritises the needs of customers. It my first duty to provide an exemplary quality of service to my customers and to exhibit a duty of care above and beyond what is required by law.*

*I will apply myself to ensuring that the work that I perform is in line with values that engender the responsible creation of value. It is my duty to conduct my business in an ethical manner and to ensure that my actions impact positively on the wellbeing of people both inside and outside my enterprise.*

*I will confront profligacy and impropriety wherever I encounter it, for the conduct of bankers can have dramatic consequence for society.*

*I will remember that I remain a member of society, with special obligations to the financial security and wellbeing of my customers, their families and the communities they reside in.*

*If I do not violate this oath, may I benefit from the prosperity that comes from serving customers well.*

*May I always act so as to preserve the finest traditions of my calling and may I long experience the joy that comes from supporting the needs of society.*

*This oath I make freely, and upon my honour"*

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