



From BSRC to BSB - Progress at the 'industry-standard' setter: The Banking Standards Board

Sophie Thurner | April 2015

It has been said that time heals all wounds. However, in some cases, scars are crucial in order to remind us of the severity of our actions and thus represent a necessary evil. The financial landscape has dramatically changed since the most recent financial crisis. Such structural changes are, for example, reflected by legislative amendments and legal reforms ranging from announcing personal responsibilities of individual employees in the banking sector for reckless behaviour to introducing a ring-fence between retail and investment banking divisions of a universal bank. These actions aim to strengthen and embed a more moral and ethical culture in the sector and provide an option to make the financial system more resilient against future disruptions.

Nevertheless, one might suggest that despite all efforts cultural change has not gone far enough in the industry. This can be demonstrated by the most recent scandals in the banking sector. These wrongdoings range from the rigging of the foreign exchange rate market to the HSBC Swiss tax scandal. Such examples highlight bad habits and contribute towards the negative image of the banking sector in general. The fines which followed such activity eroded not just the reputational capital of the banks in question but also contributed to the buildup of conduct costs the banks are facing.

Recent changes and developments at the new standards-setting body

The industry's new "professional" standards body, which launched in May 2014, has only progressed slowly over the past year. The initial establishment of the Banking Standards Review Council (BSRC) was an organisation aimed at anchoring and restoring moral standards and ensuring their deeply embedded nature as part of a new banking culture in the UK. Industry wide feedback provided to the initial call for evidence by Sir Richard Lambert, it's former chairman, confirmed the support for setting up such an institution. Despite this support, operative progress has been fairly slow. If values such as confidence and trust are expected to return to the banking sector quickly then change in relation to banking "standards" needs to pick up speed as well. To restore these values and eliminate the extent of conduct costs the BSRC must rise to its full potential. The industry has clearly made a move in the right direction by enhancing the set-up of this body, yet the slow speed at which it has been moving raises the question as to what extent there is a continuing desire and commitment by the industry to really change its culture and behaviour.

Nevertheless, it is important to note that in the past month the institution has undergone significant change including the "re-branding" of its name to Banking Standards Board (BSB). Furthermore, it has appointed a diverse panel including a bishop, a trade unionist and a human rights campaigner to guide moral behavior in the UK's scandal-hit banking industry (Monaghan,

2015).

Moreover, BSB has introduced Dame Colette Bowe as its new chairman. She recently stated, in relation to the appointment to her new role, that the BSB has the potential to play an important part in facilitating change in the banking industry, such as through rebuilding trust and confidence (Banking Standards Board, 2015). Banks clearly must raise their game to regain the public's trust. The industry welcomed the new board of the Council. Mark Carney said that the board will make significant progress in restoring trust in the banking sector (Trotman, 2015). At the end of this year the BSB has planned on publishing its first annual report detailing the achievements made by the sector and banks. This is much anticipated.

On the one hand, these changes represent the start of a new era for the institution and an important stepping stone towards real change. On the other hand, one needs to acknowledge that there is still a long way to go. To put it in the words of Andrew Tyrie, the leader of the Parliamentary Commission on Banking Standards, when he addressed Sir Richard Lambert, the previous leader of the BSRC; "You are too old. You will be dead by the time anything changes. You are like Moses - you will never get to the Promised Land" (Jenkins and Goff, 2014). In this respect, he was perhaps right and the Promised Land, meaning a significant overhaul of cultural standards in the industry, is further away than thought by Lambert at the time.

Only time will tell of the success of this institution. It is expected to give its verdict on the progress of banks in improving standards and put the spotlight on remaining concerns by the end of the year (Monaghan, 2015). However, waiting for further action might be wasting valuable time and opportunities. Therefore a more proactive approach by the BSB is desirable and necessary.

About the author

Sophie Thurner, graduated with a masters degree in Finance and Financial Regulation from Newcastle University and currently working in investment banking compliance. Her research interests focus on banking culture and ethics, especially in the UK banking sector.

Sources:

- Monaghan, A. (2015) Bishop and baroness join Banking Standards Board. *The Guardian*. (Online). 02 April 2015. Available at: <http://www.theguardian.com/business/2015/apr/02/bishop-and-baroness-join-banking-standards-board>
- Banking Standards Review Council. (2015). *Banking Standards Review Council appoints Alison Cottrell as Chief Executive*. Published 13 January 2015. Available at: <http://www.bankingstandardsreview.org.uk/assets/docs/2015/pr.pdf>
- Trotman, A. (2015) banks must raise their game to win back public trust. *The Telegraph*. (Online). 02 April 2015. Available at: <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11509720/Banks-must-raise-their-game-to-win-back-public-trust.htm>
- Jenkins, P. and Goff, S. (2014). Lambert faces tough test to ensure bank standards upheld. *The Financial Times*. (Online). 12 February 2014. Available at: <http://www.ft.com/cms/s/0/a65e00f4-9342-11e3-8ea700144feab7de.html?siteedition=uk#axzz34QawZsGs>