

Chartered Banker Institute

Response to Consultation Paper FCA CP14/13/PRA CP14/1 *Strengthening accountability in banking: a new regulatory framework for individuals*

BACKGROUND

1. The Chartered Banker Institute welcomes the opportunity to respond to Consultation Paper **FCA CP14/13/PRA CP14/14 *Strengthening accountability in banking: a new regulatory framework for individuals***. The Institute has campaigned for many years for the re-emergence of a positive, customer-focused professional culture in banking, and we believe that the work of the Institute complements the proposals contained within the consultation document.
2. The **Chartered Banker Institute** is the only remaining professional institute for retail, commercial and private bankers in the UK, operates in all UK nations, and has a significant and growing international presence. The Institute has driven an agenda of ethical professionalism throughout its existence; promoting professional standards for bankers (those, for the most part, providing services likely to sit inside the ring-fence), providing professional and regulatory qualifications for retail, commercial and private bankers in the UK and overseas, and offering professional membership to qualified individuals. It is one of very few educational and professional bodies remaining in the UK to focus stringently on professional ethics, values and behaviours for bankers.
3. The Institute is the oldest institute of bankers in the world, founded in 1875. It received Royal Charters of incorporation in 1976 and 1991. In 2000, approval was received from the Privy Council to award the “Chartered Banker” professional designation to individuals meeting the Institute’s highest standards and qualification requirements for ethical, professional and technical competence. The Chartered Banker Institute is the only body able to award this designation.
4. A Chartered Banker is a highly-qualified, professional banker with a detailed knowledge of the modern banking industry, banking operations, and the ethical and professional requirements pertaining to banking. For an individual to become a Chartered Banker requires Masters-level study of modules in: (a) contemporary issues in banking, (b) credit & lending, and (c) risk management, plus a choice of elective modules in subjects including retail banking, corporate banking and private banking. All students must also complete a Masters-level module in Professional Ethics and Regulation. Qualifications are offered by the Institute itself, as well as by a range of university partners.

5. Post qualification, all Chartered Bankers and the great majority of the Institute's members must satisfy the Institute's Continuing Professional Development (CPD) requirements, including mandatory annual ethics refresher training, to continue to use the "Chartered Banker" designation.
6. In addition to the Chartered Banker qualification, the Institute offers a wide range of professional banking and regulatory qualifications, to support individuals at all career levels, all of which involve study of professional ethics.
7. Currently, there are more 18,000 members of the Institute, and more than 21,000 individuals holding a professional banking qualification from the Institute. In addition, over the past 3 years, approximately 25,000 individuals have participated in a training programme delivered by an employer, university, college or other training provider, accredited by the Institute against our professional and qualifications standards, and providing a pathway to achieving a professional qualification awarded by the Institute.
8. The Institute has campaigned for many years for the re-emergence of a positive, customer-focused professional culture in banking, and for a banking profession customers, colleagues and communities can be proud of. In 2000, the Institute was the first professional body to introduce formal study of professional ethics for bankers. In 2008, the Institute began work leading to the launch of the Chartered Banker Professional Standards Board (CB:PSB) in October 2011, drawing on the findings of the Future of Banking Commission and others, and recognizing the need to rebuild the banking industry's human capital before many others did.

RESPONSES TO SPECIFIC QUESTIONS

9. We have commented only on those questions which fall within the Institute's expertise and on which we are expected by our members to comment.

Q4: [PRA]: Do you agree with the PRA's proposed list of prescribed responsibilities?

Q5: [PRA]: Do you agree with the PRA's proposed approach to the allocation of responsibilities?

10. The Institute agrees with the proposed list of Prescribed Responsibilities and welcomes the inclusion within them of:
 - the induction, training and professional development of all persons performing senior management functions on behalf of the firm and all members of the firm's management; and
 - leading the development of the firm's culture and standards in relation to the carrying out of its business and the behaviours of its staff in the day-to-day management of the firm.

11. We believe that giving firms flexibility to allocate responsibilities in a way that accommodates different models and organisational structures is appropriate. Given that the two responsibilities highlighted in paragraph 10 above are not closely associated with a specific SMF, with the possible exception of the Chief Executive, and their importance to rebuilding confidence and trust in banking, banks and bankers, we believe that firms should identify publically which Senior Manager(s) they have been allocated to.

Q17: [FCA]: Do you agree with the FCA's proposed approach to rules and guidance on fitness and propriety?

12. The Institute is supportive of the FCA's overall approach to rules and guidance on fitness and propriety. We believe that it is right that firms assess the fitness and propriety of individuals for roles encompassed within the Senior Management and Certification Regimes initially and on an ongoing basis. We welcome the requirement that this assessment be undertaken at least annually.

13. The Institute believes that the rules should be enhanced to stipulate that individuals undertaking these roles should be required to hold a relevant and appropriate professional qualification, be a member of a relevant professional body (not necessarily, a banking institute, although we do believe that significant numbers of individuals employed by banks should be members, particularly those at more senior levels), comply with their Code of Conduct and complete relevant, audited Continuous Professional Development (CPD) annually.

Q18: [PRA]: Do you agree with the PRA's proposed rules and supervisory statement on standards of fitness and propriety?

14. We welcome the proposal to make general rules requiring that all persons within the PRA's Senior Manager and Certification Regimes have the personal characteristics, the necessary level of competence, knowledge and experience and appropriate qualifications and training. The Institute believes that the rules should be enhanced to stipulate that individuals undertaking these roles should be required to hold a relevant and appropriate professional qualification, be a member of a relevant professional body, comply with their Code of Conduct and complete relevant, audited Continuous Professional Development (CPD) annually.

Q21: [FCA]: Is this the best possible definition of scope that fulfils the objectives set out in paragraph 5.11? Are there alternatives that would better meet these objectives?

Q22: [FCA]: Do you believe that rules should apply to all people in the firm who are directly involved in financial services business?

Q23: [FCA]: Are there any functions that you believe should be added or removed from the list at 5.13 because they are roles that are, or are not, the same as roles performed by those working in non-financial services firms?

15. The Institute believes that the Conduct Rules should apply to all employees - from those captured within the Senior Managers Regime through to the most junior staff - and we disagree with the classification of the majority of roles within paragraph 5.13 as being 'out of scope'. Individuals in many of these roles will have contact with customers and will be considered by many as representatives of the bank. We believe that all employees should be covered by the rules but firms could be given some flexibility through application of the principle of 'comply or explain'.
16. The Institute believes it is important that all employees can a) understand and meet the ethical and professional expectations of a number of stakeholders, b) identify a career path within banking and c) are encouraged to aspire to high standards. Taking qualifications such as the Institute's Professional Banker Certificate will enable individuals to develop a core understanding of key banking functions and principles and the concept of ethical professionalism. If the decision is taken to exclude certain roles it should be strictly limited to roles such as vending-machine staff, cleaners and catering staff. The CB:PSB's professional standards will also help banks to embed the Conduct Rules throughout their organisations, with the Foundation Standard for Professional Bankers being relevant to all employees except such strictly limited roles.

Q24: [PRA & FCA]: Do you agree that these are the right Conduct Rules for both regulators to introduce, taking into account the objectives set out in paragraph 5.16?

Q25: [FCA]: Do you agree that these are the right additional FCA-specific rules?

17. The Institute agrees that these are the appropriate First and Second tier rules.
18. In order to comply with the rules, individuals must have the appropriate levels of professional and technical competence. One way in which individuals can demonstrate this is through the attainment of the Institute's, or other professional bodies' qualifications, membership and CPD. The Institute's range of professional qualifications from the Professional Banker Certificate through to the Chartered Banker Diploma have been designed to equip bankers to develop their skills and abilities and make professional judgments and informed decisions in relevant work situations as they progress through their careers.

Q26: [FCA]: Does the guidance attached at Annex 6 give helpful clarity on the behaviours the FCA expects under each of the rules?

19. Whilst we understand why Annex 6 is written this way, we believe that further guidance would be useful to support banks and their staff to understand what is expected of them and what they should aspire to. This could come from other initiatives that complement the work of the regulators, including in particular the work of the CB:PSB and a range of professional bodies in banking and elsewhere.

20. Standards of ethics and professionalism cannot be created or maintained by written rules alone: ultimately the ethical conduct of banking depends upon the integrity and behaviour of those engaged as professionals in the industry. Personal integrity is a quality which implies adherence to generally accepted principles of honesty and fair-mindedness.
21. We believe that the work of the Institute complements the work of the FCA and, through the achievement of its qualifications and adherence to its standards, individuals will be able to demonstrate that they have gained the required level of competence and apply the highest standards of professionalism and conduct.
22. The CB:PSB's Professional Standards can support banks and individuals in understanding what is expected of them and implementing the letter and spirit of the new Conduct Rules.
23. The Act places an obligation on banks to notify the regulators when they:
 - are aware that or suspect that a person has breached the conduct rules, and
 - when they have taken formal disciplinary action against a person for any reason specified by the regulator.

The existing legal framework means that in some circumstances it can be difficult for professional bodies in the banking sector to discipline members as they do not have investigatory powers, meaning there is often a lack of evidence. We would welcome the opportunity to discuss with the FCA how the proposed process of notification of disciplinary action by the banks could be expanded to include relevant professional bodies in order to enhance the credibility of the industry and those who work within it, by making it easier to investigate and sanction members who have failed to live up to the high standards expected.

Q30: [PRA & FCA]: In relation to the Conduct Rules, how much time do you think is necessary for implementation? Please explain what activities would be required to prepare for implementation, and the time required for each activity.

24. As banks implementing the Conduct Rules will need to design and implement significant training for large numbers of employees, then based upon the Institute's experience in this area, we believe that 6 months will be required for planning once the final rules are published and an additional 12 months will be necessary for implementation. During the initial phase banks will need to benchmark their own values, codes and HR policies against the Conduct Rules, develop detailed implementation plans and test new policies and procedures before commencing roll-out. In order to evidence compliance with the Conduct Rules firms will need to integrate them into their objective setting, appraisal, remuneration and development processes and programmes.

25. The Institute believes that, with regulators, industry bodies, banks, professional bodies and others all working to enhance and sustain professional standards in banking, a sustainable change in culture is achievable, and we are seeing signs of this change already. We are confident that customers are already beginning to experience, in many if not all cases, a more professional, customer-focused culture and service from their banks. It will, though, in our view, take a generation before a renewed and revitalized culture of professionalism leads to a banking industry that has regained the trust of society at large.