2 Banking conduct and culture

A key competitive advantage in the long-term strategy

On 30 July, the G30 released a report entitled *Banking Conduct and Culture. A Call for Sustained and Comprehensive Reform.* It states that entities have to lead by example in the recovery of trustworthiness and credibility in the financial sector. The G30 emphasises that there are still important gaps, and issues its recommendations. It highlights that ethics and reputation are the variables that make the difference in the long term, as they enable the achievement of higher rates of return.

Restoring trustworthiness and credibility: banks must lead with example

The banking business relies on trust, and trust is hard to earn but easy to lose. A huge risk for the industry would be not to learn from past mistakes. Therefore, trust and ethics have to be the *most wanted* milestone of the financial industry.

Banks have to assume their leadership by self-regulation in order to restore confidence and credibility. The board and the management are the first people responsible for ethical behaviour. They have to undertake their duties ethically and lead by example. An ethical conduct and banking culture that reflect empathy with all of the stakeholders are a competitive advantage of the utmost importance in the new environment. The new context has three main features: i) an *intelligent corporate governance* where managers have to anticipate *nasty surprises* and to manage risks wisely and carefully; ii) more transparent relationships with clients, and iii) the digital transformation that bolsters transparency, quality information and competition.

Regulation and supervision are useful complementary tools and they can make a secondary contribution. It is not the task of supervisors and regulators to determine the banking conduct of the entities. Supervision can help ex-ante through prevention and early intervention. It can monitor and assess entities to prevent non-desired events as a consequence of inadequate behaviour. Regulation can provide ex-post support via requirements and sanctions.

Our assessment

We share the reflections of the G30 Report. Prudence, integrity and transparency are three essential principles for establishing a trustworthy and durable relationship with each of the stakeholders. Ethical behaviour, jointly with personal and professional integrity, must be inherent to the way of understanding and conducting all the activities.

A code of conduct must show clearly and concisely the path for the whole organisation. The social impact caused by the activities must always be considered. Entities have to be committed to the reliance which shareholders and clients have entrusted to them.

Customers must be at the centre of entities' activities. They are the lever that propels the entire value chain for banks, with the objective of establishing long-lasting relationships. Relationships have to be based on mutual confidence. It is firms' responsibility to contribute, through their activities, to the progress and sustainable development of the societies in which we work, committing themselves to their citizens and institutions.

Business models should be based on a prudent and anticipatory management approach that always seeks principle-adjusted returns, with a customer-centric focus and leveraging of technology.

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