7 Ethics, culture & governance: *the importance of being earnest*

The essentials for restoring trust and reputation

Ethics, culture and governance are the pillars of a resilient banking industry in the current paradigm. Evolving from ethical declaration into action is essential and has to be achieved through a solid culture along with robust governance encompassing the entire organisation. This self-regulation of banks has to be backed up by external regulation and supervision, deterring agents from engaging in undue practices via enforcement actions and sanctions as required. The final goal is an efficient, open and dependable financial system acting as a catalyst for bolstering the banks' role of enhancing the welfare of society.

Banking conduct and culture is becoming increasingly important in the current challenging environment for the financial industry. It must recover its credibility, which was undermined as a consequence of both malpractices in the private sector and regulatory and supervisory failures. Re-establishing confidence in the banking sector constitutes a strategic opportunity and is going to be a significant competitive advantage in the long-term. An ethical banking model is an investment in clients' confidence that allows higher returns adjusted to principles. **Principles of integrity, transparency and prudence** combined with strict compliance turn into value-added for all the stakeholders in the medium and long term, contributing to raising the aforementioned returns adjusted to principles, a leading variable in the challenging environment the financial industry has to cope with at present.

In addition to these three principles, there are two other issues worth noting that entities must focus on if they want to attain a solid a durable banking culture: people and cooperation. Banks play an essential role in society, and as such they have the duty of acting as an example to the rest of the community. Cooperation and coordination, together with a clear communication of their commitments, help people to a better understanding of the risks they are taking and to better form their expectations.

Among the most remarkable challenges identified by the industry in implementing the cultural and behavioural changes, according to the progress report on *Measures to reduce misconduct risk* released by the Financial Stability Board on November 2015, are: i) the integration of appropriate behaviour and ethics in business decisions; ii) the achievement of consistency between messages and facts; and iii) the achievement of a homogeneous taxonomy for conduct risk for the whole industry.

The self-regulation of the banking industry has to be underpinned by financial regulation and supervision. *Belt and braces are needed*[7] because all companies make mistakes and it is difficult to provide advice from the inside. Therefore, an efficient supervision and a robust regulation, with the empowerment to enforce and to apply sanctions that are a credible deterrent[8], will contribute to make individuals and entities accountable and to avoid misconduct, also helping to restore public confidence in the banking industry.

In conclusion, being earnest is going to be what makes the difference for the banking industry in the present challenging post-crisis environment because malpractices and inappropriate behaviour are no longer tolerated. Last but not least, it must be heavily emphasised that an ethical banking model does not reduce profitability and that being profitable does not mean doing business at any price.

7 Mark Carney. *Some current issues in financial reform*. Remarks by Mr Mark Carney, Governor of the Bank of Canada and Chairman of the Financial Stability Board, to the Canadian Club of Montréal, Montréal, Quebec, 8 November 2012.
8 There are seven key elements to consider: legal certainty; co-operation and collaboration to eliminate safe havens; investigation and prosecution of misconduct; sanctions; public understanding, transparency and caution and good regulatory governance. Source: IOSCO. *Credible Deterrence in the Enforcement of Securities Regulation*; 2015.

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