

The demise of ethics in global financial services

By John R Wright

A GREAT deal has been written in recent months against the background of 'Le Crunch' on the subject of risk in banking and financial services and certainly if one can refer to the recent CSFI survey on risk and the perceptions of risk by leading bankers then liquidity is right up at the top of the current table of concerns, closely followed by credit risk.

Respondents to the survey cited amongst other things the 'collapse of trust', the psychological effects on banks and customers, the tendency for fears to become self fulfilling and so on.



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with liquidity shocks.

This is a damning dimension, evident for the first time in my career of almost 50 years, where ordinary people worry about the safety of their deposits and banks view one another with suspicion.

A major contributor was also said to be poor risk management, the bigger the bank the worse their controls; shocking really. When one considers the massive investment made by banks in enterprise risk management models to meet Basil II requirements and the levels of risk committees up to board level and the formality of this process and the FSA regulations and oversight, one can only be astonished at the extent of the failure.

With the benefit of 20:20 hindsight we have failed almost totally to ensure that the 'culture or behaviour' in our business becomes aligned to our processes, simply 'box ticking' has failed totally to achieve the right outcome.

I believe that it is true that in any risk assessment, there are always external factors, mainly economic and political over which bankers have little or no control, all they can do is structure their businesses in such a way that they are relatively shock proof if these risks develop. That approach should deal

The vast majority of banking risks are internal and certainly the situation in which we find ourselves today where liquidity has shot to the top of the tree was brought about by a whole series of actions by bankers over the last number of years which resulted in what can only be described as 'fraud' on a massive level. How on earth did this happen?

I'm not going to attempt here to analyse the development of the mortgage-backed security scandal or the CDO's that emanated therefrom etc; that is all well documented.

What actually brought all this about? In my opinion a major factor was 'greed', to some extent driven by the expectations of shareholders but contributed massively to by the aggressiveness of many individuals in the industry who saw a way to make a fast buck for themselves.

Remuneration structures in banks were simply not aligned to the interests of all the stakeholders.

How could it be that this phenomenon became so pervasive so as to rock the international banking system as we know it, to its very core?

Essentially we're talking about poor leadership behaviour. This from the very top of many of the major financial institutions, encouraged and indeed quite obviously accepted and condoned the activities which have had such a massive and almost disastrous impact.

I do believe that this has been brought about through a gradual erosion of decent ethical behaviour and standards in our industry over quite a number of years. It is this that I believe poses the greatest risk to our industry now and in the future. The damage that's been done this time round may indeed be eventually repaired but it's very hard indeed to see how it can be avoided again in the future, unless we mend our ways.

Indeed Simon Culhane of the Securities and Investment Institute the Chief Executive drew attention to the burgeoning risk in the 'credit crunch era' going forward, he cautioned "in the current situation there has to be increasing temptation to take unethical decisions"!

I had occasion to address an accountants conference in Florida two years ago where my designated topic was 'A banker's view of accountancy ethics'. When I was assigned this, I was full of glee and thought it was representing a tremendous opportunity to poke fun at a profession that has done so much to torment me over so many years.

However the more I prepared for my talk and the more research I did the more I came to my final conclusion and that was people in glass houses shouldn't throw stones.

We have some fundamental flaws in our society in this respect. Ethical behaviour is no longer a major factor in the home mainly as religion has taken a back seat. It certainly isn't very visible or prevalent in our educational system, so it does seem to me that we now have generations of youngsters going into University and then into first employment, who have no notion of decent ethical behaviour.

Throughout the industry there are certainly no longer enough 'mentors' to go round; they're all playing golf in retirement! Therefore how can we begin to address this deficiency? The only option as I see it is to absolutely focus on the training environment, I wonder how many banks or financial service enterprises are conducting any training at all on this vital topic and area of huge risk?

Professor Charles Munn, the recently retired chief executive of the Scottish Institute of Bankers produced an excellent book on the subject of ethics intended to be the basis for a training programme, I am unaware as to where if indeed anywhere, this has been taken up.

In a recent debate held under the auspices of the Scottish Institute, it was stressed that while many bankers behave in an ethical manner because they see as the right thing to do, qualifications were seen as vital; it was noted that the Institute of British Innkeepers has compulsory qualifications around ethics for nightclub doormen! Why should the banking industry not also sign up?

At the very basic level we have a product pushing/sales culture across many of our businesses which lends itself to unethical behaviour, resulting in inappropriate selling completely, to meet sales targets; unscrupulously pushing product on to customers for whom the products are inappropriate. I think that anyone in the Citizens Advice Bureau would be able to refer us to umpteen cases where bank customers have been completely mis-sold products.

What banks have failed to realise that it is possible to create a 'sales culture' in banking and still maintain an ethical basis for this, provided that the training is right and the leadership robust.

It's only by inculcating decent ethical behaviour at the bottom that we're about to change the habits of those that lead the businesses; of course, so many come in from the outside who have no concept of proper ethical behaviour in banking, it's extremely hard to ensure any consistency of quality.

Does this mean that we should give up? Definitely not. But there needs to be an industry-wide focus on the most significant of all banking risks.

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