

In Focus: Putting Mouths Where the Money Is



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The Australian financial services industry has played a critical role in creating Australia's prosperity. In recent years, however, it has failed to meet community expectations of trustworthiness and, in some cases, financially devastated its customers.

The poor ethical standards in the industry were laid bare in the Royal Commission report on misconduct. While the industry is complex, the Royal Commission revealed that its fundamental purpose has become blurred, and instincts have become about self-interest. Sight lines to the customer have been distorted.

The regulators have been stepping in with accountability regimes, psychologists in board rooms, culture audits, rule-based product and conduct regulation as well as increased enforcement activity. The regulators are driving change because the industry has a chequered history of being able to do so successfully itself. The problem with regulator-driven change, however, is that such change may not be long lasting as other priorities take over.

Logic and observable global examples tell us that industry-agreed standards—where participants hold each other to account—work best to sustain industry wide standards, and the presence of such behaviour usually reflects a mature industry that understands the true benefits of cooperation.

The Australian Banking & Finance Oath

Trust is the foundation of my profession.

- I will serve all interests in good faith.
- I will compete with honour.
- I will pursue my ends with ethical restraint.
- I will help create a sustainable future.
- I will help create a more just society.
- I will speak out against wrongdoing and support others who do the same.
- I will accept responsibility for my actions.

In these and all other matters;

My word is my bond.

To truly create change in the Australian financial services industry, institutions must design, maintain, review and hold each other accountable in relation to ethical standards and behaviour, and they must do this in collaboration with regulators. Collaboration between the industry and its regulators is not new, but relationships have been strained in the past and, in some cases, even hostile. This has led to breakdowns in collaborative efforts.

There are examples where the industry has collaborated, agreed and then presented One Voice to the regulators. The following are just three examples of many.

- *Standard Risk Measure (SRM)*: This measure, now mandated by ASIC as a disclosure requirement, provides the basis on which a superannuation (pension) fund discloses the likelihood that returns on a particular investment portfolio will be negative in a 20-year period.
- *Life Code of Conduct*: This code provides minimum standards in relation to processing life insurance claims under superannuation. It has been signed up to by the industry on a volunteer basis. The Code provides a clear benefit for consumers and goes beyond the law to ethical conduct.
- *Gateway Governance Body (GGB)*: This body was set up by superannuation funds, clearing houses and gateway providers to ensure the transfer of employee/member data was contained in uniform standards and transfer protocols. Agreed data standards used by all providers limit delays and lost moneys. The GGB, which is funded by the industry, oversees the data standards and monitors compliance: enforcement and poor behaviour can be referred to the ATO and ASIC.
- ‘It’s too complex or too hard’—excusing the inability to make a decision at all;
- ‘We have no budget for this’—yet the huge sums already assigned to remediation of customers suggests that surely there is a strong business case for industry investment in ethical standards.

On the other hand, there are encouraging examples in financial services globally, where the importance of good culture and the professional and ethical standards that underpin it, have been acknowledged and pursued by industry and its regulators. Two in particular stand out:

- The Irish Banking Culture Board (IBCB): an industry-driven and funded initiative with the purpose of rebuilding trust through demonstrating a change in behaviour and overall culture underpinned by ethics. **IN FOCUS ▶ P. 51**
- The Monetary Authority of Singapore (MAS) Culture & Conduct Steering Group: a regulator-driven initiative with the purpose of strengthening ethical business practices, developing prudent risk-taking behaviour and supporting banks’ safety and soundness.

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Will an industry-driven approach work in relation to ethical standards?

Complexity creates challenges for industry solutions. However, siloed approaches produce siloed outcomes, and treating issues out of context is likely to prove fruitless. Once a solution is placed into its intended environment, it may quickly adapt to suit the status quo.

At the same time, competition around ethics and culture can lead to inaction, perversely, for reasons such as:

- First mover fears of losing market value—leaving the industry hostage to the slowest mover;
- ‘There are too many initiatives’—lacking intelligent enquiry as to how the industry may work together for a common good;

Other sectors are also advancing in this area. Notably, a large proportion of the Australian energy sector has come together impressively under a five-pillar foundation, modelled on fairness principles. The Energy Charter is a voluntary CEO commitment to five high-level principles, co-designed with customers, to put customers at the centre of each signatory business and the energy system. It is designed to embed customer-centric culture and conduct in energy businesses to create tangible improvements for Australians. The Energy Charter fosters authentic discussion at the CEO level across the supply chain (from retailers, to networks, and generators) on long- and short-term decision making and fairness.

Promoting behaviour based on strong ethical foundations has been the raison d'être of The Banking and Finance Oath (BFO), an industry-led initiative enabled by The Ethics Centre and launched online in August 2012. The Oath is a set of simple but powerful tenets, freely entered into by individuals who choose to be accountable to each other for upholding these tenets and to call out behaviour that falls short.

Ethics is the spine, the thread that joins together the system and any systemic change ahead. Laws, regulation, codes and compliance will tell individual players what they can and cannot do but, in a complex environment, there will be challenges when weighing up the interests of different stakeholders in the decision-making processes. It is at this point one must exercise professional judgement, and ethics can

inform that judgement. We believe The Banking & Finance Oath could provide the lens through which otherwise fierce competitors can come together to promote strong ethical standards. Such standards are an obvious complement to Financial Services Institute of Australasia's (FINSIA) drive for greater professionalism in the industry.

To achieve true change across financial services in Australia, what is needed is a burning platform, together with a positive commitment by industry as a whole to debate and develop a strong ethical foundation for its daily operations. Surely, the wholesale loss of trust in the industry is the burning platform. The opportunity for the industry to respond and demonstrate collective leadership has never been clearer.

