



# **ETHICS IN BANKING AND FINANCE REPORT**

2009

Key findings from a scoping exercise of the  
Australian Banking and Finance industry.

Undertaken by Clare Payne.

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### 1. Purpose and Scope

In April 2009 Clare Payne was appointed to the position of Consulting Fellow for Ethics in Finance by St James Ethics Centre (the Centre). This position is currently sponsored for one day per week by Macquarie Group.

The mandate of the role is to engage the banking and finance industry on ethical issues and to propose that organisations within the industry work together to develop and drive initiatives that address ethical issues specific to banking and finance in the Australian context.

As a starting point, Clare has met with a range of key industry leaders at the CEO, Chairman and Board level. The response has been very supportive.

With confidence and trust in the banking industry severely eroded, public calls for increased regulation and wide-spread debate about executive remuneration there seems to be a general agreement that it is the right time for the industry to demonstrate leadership that addresses the ethical obligations that are unique to banking and finance and to consider renewing the foundation on which the industry is based.

The thoughts and opinions of a range of people from the banking and finance industry in Australia have been sought. These include representatives from retail banks, investment banks, regulators and industry associations.

The thoughts of people associated with the following organisations have influenced this report:

- Australian Bankers Association
  - ABACUS
  - AMP Capital
  - ASX
  - BNP Paribas
  - Caliburn Partnership
  - CFA Institute
  - Commonwealth Bank
  - Citibank Australia
  - Investec
  - JP Morgan
  - Macquarie Group
  - Morgan Stanley
  - Perpetual
  - Rabobank
  - Rothschild Australia
  - Suncorp Metway
  - UBS
  - Westpac
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Guidance was also sought from contacts at PricewaterhouseCoopers, Society for Knowledge Economics and capitalC Consult.

The initiative remains open to the input from people and organisations that have not been part of the original scoping. This report will be sent to representatives from key organisations not included in the above list. Additionally, you are encouraged to forward the report to your colleagues and peers.

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## 2. Suggested Initiatives

A range of industry led initiatives have been suggested. A summary of the proposed initiatives is included below and a preliminary scoping of each follows.

Summary of proposed initiatives:

- **Industry Values Statement**  
Development of a banking and finance industry values statement with guiding principles.
- **Benchmarking**  
A benchmarking exercise of best practice in terms of ethical practices and behaviour in the industry.
- **Ethics Index**  
Development of an index that assesses the 'ethical' reality of organisations and places them on a public index.
- **Industry Ethics Panel**  
The development of an industry ethics panel comprising key representatives from the banking and finance industry. The panel would assist with the development and establishment of initiatives.
- **Media Sessions**  
A series of facilitated media sessions with key representatives from the media including reporters, media management and banking and finance industry representatives.
- **Regular Column**  
A regular column, in *The Australian Financial Review* for example, that poses an ethical issue from within the industry and seeks responses and opinions on the topic. A published response covering the spheres of thinking on the issue would follow with an ethical determination by the Centre.
- **Newsletter**  
A regular newsletter focussed on ethics in banking and finance, sponsored by the industry and distributed throughout the industry.
- **Training**  
Development of training tools that address ethical issues specific to banking and finance and that serve to understand and successfully embed and promote sound values and good decision-making.
- **Influence in the Education Sector**  
Increased engagement by the industry with educational institutions and students both at the secondary and tertiary level.

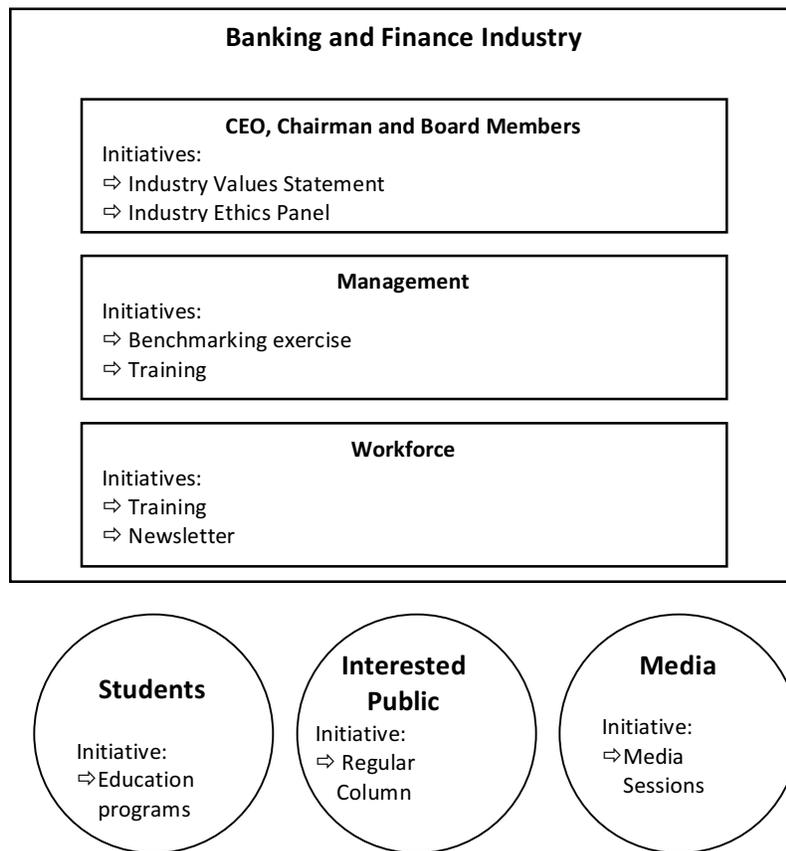
All listed initiatives were raised during discussions and all received the support of more than one person. With adequate support and resources all initiatives are possible and many are in fact complementary.

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The proposed actions serve to strengthen the ethical foundation on which the industry is based. The following diagram indicates the target sphere of influence for the various initiatives.



The challenges and risks of each initiative have been acknowledged and detailed through the preliminary scoping that follows, however you are encouraged to consider the strengths in equal measure.

Further discussion and strategies are certainly required in order to strengthen the motivators to act upon the proposed initiatives.

In this initial phase the industry has been interpreted broadly to include all of banking and finance. It is understood that due to divisions within the industry, for example between retail and investment banking, it may be that certain actions are adopted by and applied to industry sectors.

It should also be acknowledged that these initiatives seek long-term behavioural change. It is widely acknowledged that no action alone can provide a 'fix' to the issues faced by the banking and finance industry. In light of this, the Centre and Clare Payne through her consulting fellow position will continue to engage in dialogue with industry regulators and legislators whose policies and approach play a significant part in influencing behaviours and practices.

Finally, ongoing dialogue on this initiative is of course welcomed and encouraged.

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## 2.1 Preliminary Scoping

### 1. Industry Values Statement

Development of a banking and finance industry values statement with guiding principles.

#### Action Required:

- Collect and read the values statements of various banking and finance industry organisations so that the consistencies and shared responsibilities can be identified.
- Drafting of an industry values statement with general guiding principles.
- Consideration of the most appropriate place for the statement to be 'housed' or sponsored.
- Circulation of values statement and consultation process.
- Industry values statement is launched as an industry initiative.
- Industry values statement remains open to signatories.
- Organisations are asked to reaffirm their support of the industry values statement on an annual basis.

#### Strengths:

- Powerful show of leadership from the industry.
- Recognises shared responsibilities.
- Sets a high global standard.

#### Challenges:

- Values statements can be considered symbolic and not reflective of real action or practices.
- Adherence or compliance with the statement and principles may need to be monitored otherwise it could be considered as having no 'teeth'.
- Initiative could be perceived cynically by the media and broader society.
- Breaches of statement could receive adverse media and public scrutiny.

#### Possible impact/effectiveness:

- High symbolic impact.
- Low practical impact.

#### Anticipated resource requirements:

- One project leader on a part-time basis for a duration of 3 months.
- Proposed timeline: Draft (2 weeks), circulation (6 weeks), amendments and further consultation (2 weeks), launch and publicity (2 weeks) and annual review (1 week).

#### Initial level of support:

- Medium.
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### 2. Benchmarking

A benchmarking exercise of best practice in terms of ethical practices and behaviour in the industry resulting in the production of a report that details where organisations are placed comparative to their peers (only the participating organisation would be identified in their own report).

Areas of focus would include: workplace policies and practices (including identification of practices that are above legal and regulatory minimums), leadership, integrity, participation in external indices and evidence of recognition of extended stakeholders.

#### Action Required:

- Development of standard questionnaire by St James Ethics Centre or appropriate party.
- Questionnaire launched in conjunction with explanatory workshops.
- Support provided to organisations so that they can effectively collect and detail relevant information.
- Preparation of submissions by organisations.
- Validation, verification and assessment of submissions.
- Drafting and circulation of benchmarking report.

#### Strengths:

- Provides a good starting point and allows the industry to understand its ethical 'health'.
- Has the potential to increase industry standards.
- Is an exercise in trust as the more participants the more effective the exercise would become.
- Can be used as a business tool to provide a clear summary of ethical strengths and weaknesses within an organisation.

#### Challenges:

- Negative views of surveys/questionnaires within organisations.
- Company resources are required to collect and consolidate responses (can be time consuming).
- Costs associated with external verification and validation.
- Proliferation of surveys and indices in the market.

#### Possible impact/effectiveness:

- Low symbolic impact.
- High practical impact.

#### Anticipated resource requirements:

- Fulltime project manager for a period of 7 months.
- Proposed timeline: Development of questionnaire (4 weeks), workshops (2 weeks), questionnaire open to participants (6 weeks), validation of submissions (8 weeks), drafting of bench-marking report (4 weeks), publishing and delivery of benchmarking report (4 weeks).

#### Initial level of support:

- High.
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### 3. Ethics Index

Development of an index that assesses the 'ethical' reality of organisations and places them on a public index. This could be an eventual extension of the benchmarking initiative.

Organisations, particularly investor relations departments, would be aware of the increased focus of investors and the public on corporate responsibility and citizenship. Europe has seen an increase in the voluntary participation of organisations in external indices that serve to measure environmental, social and governance factors. An ethics index could therefore pre-empt what could be considered a predictable demand and trend.

Areas of focus would mirror the focus of the benchmarking exercise as follows: workplace policies and practices (including identification of practices that are above legal and regulatory minimums), leadership, integrity, participation in external indices and evidence of recognition of extended stakeholders.

#### Action Required:

- Agreement on assessment criteria.
- Participant buy-in.
- Development of assessment tool and ranking formula.
- Verification, validation and assessment of responses submitted and information collected.
- Launch and publicity.

#### Strengths:

- Increases transparency of the industry.
- Assists the public and clients in making informed decisions about which organisations they wish to be involved with.
- Could create competitiveness that serves to increase ethical standards.
- Prepares industry for what may be an eventual reality in the long term anyway.
- Could be used as a business tool in the due diligence phase of business transactions and relations.

#### Challenges:

- Difficulties in agreeing to criteria and ranking methods.
- Competing tools and indices such as CRI, UN Global Compact, Covalence, and FTSE4Good
- Determination of appropriate place to 'house' the index so that it receives adequate publicity and 'traffic'.
- Reluctance of organisations to participate.
- Costs associated with validation and verification component.

#### Possible impact/effectiveness:

- High symbolic impact.
- Medium to high practical impact.

#### Anticipated resource requirements:

- Required resources would be high for this initiative however the costs could be reduced if this initiative followed the benchmarking exercise.

#### Initial level of support:

- Low at this stage (high aspirational factor).
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### 4. Industry Ethics Panel

The appointment of an industry ethics panel comprising key representatives from the banking and finance industry. The panel would assist with the development and implementation of initiatives. Additionally, individual members would provide a link to the relevant contact in their own organisation. The panel would be coordinated by a neutral party such as The Centre or an appropriate industry association.

#### Action Required:

- Agreement on scope, composition and terms of panel.
- Selection and appointment of members.
- Setting and distribution of an agenda.
- Facilitation and conducting of periodic meetings.
- Follow-up as required.

#### Strengths:

- Would assist to guide and drive other initiatives.
- Would facilitate the reaching of an industry position on ethical issues.
- Higher chance of other initiatives being effective and implemented.
- Provides a link into the relevant organisations.

#### Challenges:

- Time of senior people.
- Difficulty in coordinating diaries so that all participants are available.
- Identification of issues as 'ethical'.

#### Possible impact/effectiveness:

- Medium symbolic impact.
- Medium practical impact.

#### Anticipated resource requirements:

- The cost and resources required for this initiative are considered low.
- Facilitator (2-3 hours quarterly).
- Preparation and distribution of Agenda (2 days/quarter).
- Associated follow-up (as required).

#### Initial level of support:

- Medium.
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### 5. Media Sessions

A series of facilitated sessions with key representatives from the media including reporters, media management and banking and finance industry representatives (for example the Industry Ethics Panel).

Such sessions would provide a forum for the voicing of an industry or sector position on ethical issues faced by the industry. The sessions would be facilitated by a neutral party such as Dr Simon Longstaff or an appropriate person as determined by the interested participants.

Throughout conversations, relations with the media was repeatedly raised as an issue of concern. The media were identified as a contributing factor in the reputational issues of the industry. The media were also seen as playing a role in exacerbating a general lack of understanding by the public of the industry. This suggested initiative is an attempt to go some way towards addressing these challenges.

#### Action Required:

- Identification of key discussion points.
- Framing and drafting of agenda.
- Determination of proposed attendees.
- Organisation of events.

#### Strengths:

- Show of leadership.
- Increases transparency and openness by the industry.
- May go some way towards improving relations between the media and the industry.

#### Challenges:

- Could be perceived cynically by the media as a 'manipulative' exercise.
- Could open the industry to 'attack'.
- Could result in the industry being held to an unwanted or aspirational standard.

#### Possible impact/effectiveness:

- High potential symbolic impact.
- Possible high practical implications (both positive and negative).

#### Anticipated resource requirements:

- Low resource and financial cost.

#### Initial level of support:

- Low (although it was acknowledged that something needs to be done to address this issue).
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### 6. Newspaper Column

A regular column, in *The Australian Financial Review* for example, that poses an ethical issue from within the industry and seeks responses and opinions on the topic. A response would then be published later in the week that covers the spheres of thinking on the issue and an 'ethical determination' by the Centre. The column could be sponsored by an organisation or a combination of organisations and individuals.

#### Action Required:

- Discussion with the *Australian Financial Review* to determine interest in initiative.
- Consideration of other relevant publications such as *Australian Banking and Finance*.
- Drafting of example column by a writer/journalist.
- Appointment and agreed commitment of voluntary review panel for responses.

#### Strengths:

- Is a public initiative and therefore could reach a wider audience.
- Is an acknowledgement of the complexities of the industry.
- Is a move towards increased transparency around reasoning and practices.
- Has potential to create a 'thinking' public.

#### Challenges:

- Discussion of 'live' issues could pose legal risks.
- Anticipated reluctance of industry representatives to participate.
- Industry could inadvertently be held to a higher standard than required or desired.

#### Possible impact/effectiveness:

- Medium symbolic impact.
- Low practical impact.

#### Anticipated resource requirements:

- Writer/journalist: ½ day per week.
- Panel to review contributions: 6 people for 3 hours/week (voluntary basis).
- Preparation of the Centre's response: 3 hours per week.

#### Initial level of support:

- Medium (strong individual support).
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### 7. Newsletter

A regular newsletter focussed on ethics in banking and finance that is sponsored by the industry and distributed throughout the industry (hardcopy and electronic versions). Topics could include discussions of ethical dilemmas, developments in responsible investment, global trends in ethics and corporate responsibility and profiles of people and organisations from within the industry.

#### Action Required:

- Agree on scope, format and contributors.
- Preparation of draft.
- Distribution list determined.

#### Strengths:

- Could serve to increase discussion of ethical issues.
- Is a show of leadership.

#### Challenges:

- There are already many publications and materials for interested people to read and therefore it has the potential to be 'lost' on the desk of busy individuals.
- Could be perceived cynically or as a token effort.
- Costs associated with publishing and distribution.

#### Possible impact/effectiveness:

- Low symbolic impact.
- Low practical impact.

#### Anticipated resource requirements:

- One interested person with a combination of communication, writing and publishing skills.
- Costs associated with printing, electronic formatting, hosting and distribution.

#### Initial level of support:

- Low (strong individual support).
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### 8. Training

Development of training tools that address ethical issues that are specific to banking and finance and that serve to understand and successfully embed and promote sound values and good decision-making.

Please note that Macquarie Group has already developed an introductory program in collaboration with St James Ethics Centre. Both parties are willing to make this training available to other organisations within the industry (with a basic cost recovery model that recognises the development and intellectual property input by the Centre).

#### Action Required:

- Demonstration of introductory ethics program to interested parties.
- Briefing on implementation and required support.
- Development of Stage 2 materials.

#### Strengths:

- Show of leadership and acknowledgment of shared responsibilities by the industry.
- Introductory program has already been developed.
- Future financial savings as training budgets can be pooled rather than individual organisations producing training programs that cover the same material.
- Has potential to develop ethically aware individuals.
- Training could be made available to a wider audience such as students.

#### Challenges:

- Many organisations already feel they have training programs that adequately cover ethical issues.
- Organisations consider themselves unique and therefore would be unwilling to collaborate or use something generic.
- Effective training initiatives need to be supported by senior management.

#### Possible impact/effectiveness:

- Medium practical impact.
- Medium symbolic impact.

#### Anticipated resource requirements:

- Low resource requirement if adopted by internal training teams.
- Low financial cost as Macquarie Group and the Centre have already developed an introductory program.
- Development of future programs would require financial contribution however this would be reduced if parties were willing to pool resources.

#### Initial level of support:

- High.
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## **9. Influence in the Education Sector**

Increased engagement by the industry with educational institutions both at the secondary and tertiary level. This could be by way of presentations, guest lectures or the release of industry training modules to students.

### **Action Required:**

- Publicise request for interested professionals to be involved in the initiative.
- Training on delivery of materials.
- Coordination with interested schools and educational institutions.
- Development of additional materials.

### **Strengths:**

- Show of leadership.
- Contribution to the development of ethically aware individuals prior to engagement with the industry.
- Potential to contribute to a 'thinking' society.
- Opportunity for participants to give something back to society or the educational institutions from which they graduated.
- Could utilise strong links that senior individuals from within the industry have with tertiary institutions.
- Complimentary to industry training initiative.

### **Challenges:**

- Time poor professionals may be unable to commit to programs.
- Could be seen as an attempt by the industry to influence or at worse 'brainwash' students.
- Could be perceived as a recruitment drive by the industry.

### **Possible impact/effectiveness:**

- High practical impact over the long term.
- High symbolic impact in the short and long term.

### **Anticipated resource requirements:**

- Start-up costs are minimal as Clare Payne has prepared introductory material.
- Interested participants could undergo training by the Centre on an opt-in basis in order to ensure effective delivery of materials.
- Development of future material would require some resources, however material could be adapted from industry training if initiative 8 was adopted.

### **Initial level of support:**

- High.
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### 3. Action requested

Name: \_\_\_\_\_

Organisation: \_\_\_\_\_

1. Please indicate the top three initiatives you would like to see happen.

- Industry Values Statement
- Bench-marking
- Ethics Index
- Industry Ethics Panel
- Media Sessions
- Regular Column
- Newsletter
- Training
- Influence in the Education Sector

**2. Please indicate whether you would be willing to provide support to initiatives.**

#### 1. Industry Values Statement

Would your organisation be interested in participating in this initiative? Yes  No

Would you like to be associated with this initiative as an individual champion? Yes  No

#### 2. Benchmarking

Would your organisation be interested in participating in a benchmarking exercise? Yes  No

Would you like to be involved in developing the benchmarking questionnaire? Yes  No

Please indicate who we should contact in your organisation about this initiative.

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#### 3. Ethics Index

Would your organisation be interested in participating in an ethics index? Yes  No

Would you like to be involved in developing the ethics index? Yes  No

Please indicate who we should contact in your organisation about this initiative.

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#### 4. Industry Ethics Panel

Are you interested in your organisation holding a position on an Industry Ethics Panel? Yes  No

#### 5. Media Sessions

Are you interested in participating in a series of facilitated media sessions? Yes  No

Are you interested in being involved in the development of the agenda for such sessions? Yes  No

Do you have suggestions for attendees?

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### 6. Regular Column

Would you be willing to sponsor a regular column on ethical issues? Yes  No

Are you willing to be contacted to give your opinion on industry issues? Yes  No

### 7. Newsletter

Would you be willing to sponsor an industry newsletter? Yes  No

Are you willing to be contacted to give your opinion on industry issues? Yes  No

Would you be willing to contribute to an industry newsletter? Yes  No

### 8. Training

Would you like a demonstration of the Introductory Ethics in Banking and Finance training program for use in your organisation? Yes  No

Please indicate who we should contact in your organisation to arrange this.

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### 9. Influence in the Education Sector

Would you like professionals from your organisation to be involved in education initiatives in schools and universities? Yes  No

Do you have an association with an educational institution that would benefit from such an initiative? Yes  No

If Yes, please detail:

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Would you be interested in being involved with this program as a mentor? Yes  No

**3. Do you have a better idea? If so, please let us know.**

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**4. Is there someone you think should receive this report? If so, please let us know.**

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**5. Are you the right contact for your organisation? If not, please let us know the appropriate person to contact.**

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**Thank you for your time and support of this important industry initiative.**

Please return this page to:

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To discuss this report or request a soft copy version, please email Clare Payne at: [Clare.Payne@macquarie.com](mailto:Clare.Payne@macquarie.com)

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