

Inaugural Speech at Seminar on Responsible Banking Conduct – *a cultural transformation*

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LRC Auditorium

(Speakers),

1. Mr. Sergio Jose de Mesquita Gomes, Head of Division at the Market Conduct Supervision Department, Central Bank of Brazil.
2. Mr. Duncan Edwards, Group Head Retail Banking AML, CDD Process & Governance, Standard Chartered Bank Limited (SCBL), Singapore.
3. Mr. Shezad Arif, Global Chief Operating Officer, Distribution for SCBL Retail Banking, Singapore.
4. Syed Faraz Anwer, Partner Risk Advisory and Business Improvement Practice, PwC Pakistan.

and distinguished guests, Assalamoalikum and a very pleasant morning to all of you.

It is a pleasure to welcome all of you today to the seminar on Responsible Banking Conduct – a cultural transformation. I am glad that we all are here today to acknowledge and recognize importance of right culture to foster Responsible Banking Conduct or Fair Treatment of Consumers (FTC).

With the FTC regime we are building together, I am confident that we all stand on the same page that FTC is based on the premise that consumer is not some endangered species in need of protection rather he is the central player impacting the your profits and growth. Such interplay between you and consumer is a point of interest for us as a regulator as it directly affects the Financial Stability.

You will agree that FTC is a cultural phenomenon. Right culture is where consumers are seen to be treated fairly. Senior management can convert their good intentions into actual fair outcomes for consumers through instilling the right culture in their banks, which will ultimately result in sustainable profits for the bank.

Given the elusive nature of “Culture” let us first see what it is. It is an interesting fact that in 2014, Merriam-Webster, a dictionary maker, declared ‘culture’ their word of the year. They explained that people were desperate to know what the word “Culture” meant and looked it up more than ever before.

Ladies and gentlemen, Culture is the mindset and behavior that are typical in each bank. These tiny, everyday acts by individuals are what make up the overarching culture of the bank. But why is culture important? Firstly, it is not optional! It exists regardless of our choices!

Secondly, in an industry like banking, trust matters the most! Trust is most usefully defined as a set of beliefs about the honesty and veracity of commitments, and thus behavior of a bank reinforces the predictability and reliability of future actions. It is the good culture, which makes it more likely that a bank and its staff will be trusted.

“Culture”, is an outcome of few components, let us call them “drivers”. These are:

1. the structure and effectiveness of management and governance, covering the well-used phrase ‘the tone from the top’;
2. the incentives they create;
3. the quality and effectiveness of risk management;
4. and the willingness of people throughout the organization to enthusiastically adopt and adhere to the tone from the top. That adherence is crucial: actions really do speak louder than words and are at the heart of how we judge the intent towards FTC.

Culture in financial services is widely accepted as a key root cause of the major conduct failures that have occurred across the globe in recent times. Given its impact, bank’s right or Responsible Culture is a priority for the SBP. We expect banks to foster culture that support the spirit of regulations by conducting their business responsibly. We are also cognizant of the fact that whatever conduct regulations we issue they should maintain the right balance between allowing the industry to thrive and ensuring it retains its integrity and delivers what consumers expect from it. That is why, we are essentially building on a two pronged approach:

1. First, we set the “Bare Minimums” in the form of instructions like our recently issued Product Disclosure Requirements, Consumer Grievance Handling Mechanisms, Principles on Fairness of Service Charges, etc...

2. Second, keeping in view the diversity of “Conduct” which revolves around the complete product or service life cycle and the heterogeneity of our industry, it is not possible to issue regulations for each and every aspect that too fitting every bank’s profile. As a second tier, we are building on the concept of self regulation where all banks have been advised to develop and implement their own Fair Treatment of Consumers (FTC) Framework, duly approved by their Board of Directors. Further, with the intent to help banks demonstrate FTC, SBP has developed a unique self assessment tool named as Conduct Assessment Framework (CAF) which helps the banks to monitor their state of conduct against three pre defined zones namely “Red” the Danger zone, “Yellow” the Cautious zone and “Green” the Satisfactory Zone. We have an exclusive module under CAF on “Culture”.

The drivers of culture that I earlier mentioned are comprehensively covered in CAF under an exclusive module on culture. It assess the culture of your bank on :

- Policy and institutional arrangements you have in your bank regarding FTC.
- Voice of employee on FTC
- Voice of Customer on FTC
- Communications and investments in FTC
- Incentives and performance indicators

Let me re-emphasize that right culture is the linchpin of FTC which itself is a prerequisite for your sustainable growth. So, as leaders in your banks, you need to focus on managing the culture. Clearly, regulation is only one piece of the puzzle as the role of the regulator may be limited as over regulation may incentivize banks to follow the letter and not the spirit of the regulation, just considering it a compliance issue.

While concluding, I would reiterate that Responsible culture is considered essential to make the banks less vulnerable to misconduct and more prone to sustainable growth. The promotion of desired conduct and values involves the whole organization and requires top management to take measures in terms of accountability and governance, performance review, training & development, communication and feedback.

Let me assure you that SBP will always welcome your efforts in this direction and shall play its supportive role. We'll ensure close communication with the industry through seminar, workshops and formal meetings. Besides we expect the Pakistan Bank's Association to play an active role by sharing knowledge, expertise and good practices. I understand that the PBA subcommittee on consumer protection has been formed with this objective and I hope we in collaboration with the banking industry will achieve FTC goals set in SBP vision 2020.

Ladies and gentlemen, I hope frank, vigorous and thought provoking discussions during this Seminar would help enhance FTC regime of banking industry. I would like to express my sincere gratitude to the guest speakers for their participation and helping SBP organize this Seminar.

Thank you, very much!