



In its Interim Report, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry noted that the explanation for the poor conduct identified was “too often...the pursuit of short-term profit at the expense of basic standards of honesty” (p xix). One initiative already underway to raise standards of honesty and integrity in Australia’s financial services industry is The Banking and Finance Oath (**The BFO**). This submission outlines the background and purpose of The BFO and the role it has been playing in rebuilding community trust in this crucial industry.

### **Background to the BFO**

The Vision of The BFO is “A banking and finance industry that meets the community’s needs and has its full confidence, thereby fulfilling its integral role in society.”

The BFO is an industry-led initiative whose founders shared a belief in the inherent “good” of the financial services industry in Australia. Given the global scope and range of institutions within the industry, these key industry figures felt that a credible initiative that transcended membership of any particular institution or sector of the industry was required. Thus The BFO, a set of simple but powerful tenets to underpin ethical behaviour, was born. The detailed undertakings of the Oath by an individual are outlined in Appendix A.

The BFO was launched as an online initiative in August 2012. Since then, over 2,600 signatories have taken the Oath, including Chairs and CEOs of a number of leading financial institutions. An indication of the range of signatories is provided in Appendix B. The BFO is a voluntary individual Oath and does not have any legal standing. In our view, this is its major strength. Both ASIC and APRA have identified The BFO as an effective self-regulating tool because of its voluntary nature.

The BFO is governed by a Board and supported by its Policy Council, both bodies comprised of leaders from the financial services industry (Appendix B). The Policy Board is also responsible for disciplinary mechanisms introduced to preserve the public standing of The BFO. The BFO’s sole institutional member is The Ethics Centre. Funding comes from a small and renewable contribution from signatories, and from the generosity of a few institutions and some of the directors themselves.

### **Purpose of The BFO**

The BFO seeks to re-assert the ethical foundations of the financial services industry in a way that goes beyond regulation and compliance, by highlighting the importance of ethics, integrity, honesty and trust in the behaviour of individual industry participants. Similar to the Hippocratic Oath, The BFO is a set of professional commitments freely entered into by individuals who choose to be accountable to each other for upholding the tenets of the Oath, and to call out behaviour that falls short.

Thus, the Oath, which is public, provides individuals committed to high ethical standards with a way to “stand up and be counted”.

The BFO has two clear aims:

- to encourage a strong ethical framework for individuals in our financial services industry. The values of integrity, honesty and trust must underpin the industry's dealings with the Australian community, and these values clearly need to be strengthened. The BFO is uniquely targeted at the behaviour of the individual and, building on that behaviour, can help to shape a positive culture within institutions themselves; and
- to provide a public platform on which signatories have the opportunity to demonstrate their integrity and in turn their commitment to the industry. An oath needs to be public, ideally taken publicly but also visible beyond the act. This transparency encourages peer-to-peer accountability and allows the signatory to be held to account by all stakeholders. Two mechanisms are in place to ensure this:
  - (i) The BFO website lists all signatories and allows individuals to include their organisation; and
  - (ii) The BFO provides an insignia that individuals are encouraged to include on their email sign-off (Appendix C).

A number of programs have been developed to support The BFO signatories and these provide an opportunity to further promote a strong ethical framework. These include Young Ambassador Programs at the student and industry level, an Elders program that provides a network for mentoring, and a Like-Minded Series and Leadership Circle that provide forums for signatories to explore, and encourage discussion around, ethical issues.

The BFO is also increasingly recognised as a thought leader, frequently receiving requests for comment on issues as they affect the industry. It has produced a practical guide to ethics, *Ethics in Practice for Banking and Finance*, which is available on the BFO website. The BFO is a valuable initiative demonstrating global leadership by Australian finance professionals – the Dutch Banking Oath, a compulsory oath taken by some 90,000 Dutch bankers after the global financial crisis, has been modeled on The BFO and was introduced after discussions with The BFO Board.

### **Promoting The BFO**

After a slow start, signatory numbers have been rising steadily, spurred over the past six months by the harsh spotlight cast on the industry by the Royal Commission. Broadening the signatory base has been a high priority for The BFO Board. However, some of the attitudes expressed by industry participants highlight the challenges involved, but speak to the very reason The BFO should be promoted.

Some participants have said that they do not need to take the Oath because they are already ethical. However, taking the Oath does not mean that the individual is unethical; on the contrary, it confirms a readiness to lead ethical behaviour in the industry. It is about empowerment and developing the moral courage to question choices. Accepted norms develop from unthinking practices that can slowly become “the way we do things around here”.

Some participants have expressed a fear of being held accountable after taking the Oath should they do something “wrong”. This view exemplifies a fundamental issue with industry culture identified in the Interim Report – an unwillingness to be held to account for poor conduct. And some participants have even questioned “What’s in it for me?”, looking for what they will get out of taking the Oath rather than what they can do to help rebuild community trust by taking it. Such a question creates a serious doubt about those participants’ sense of mission and their attitude to customers, and confirms the educational task the industry has ahead.

## Working with industry

The BFO Board and Secretariat have been working closely with some individual institutions and industry associations on ways in which The BFO can support and reinforce individual conduct, as well as professional standards.

Some institutions have expressed concern that The BFO will conflict with their internal code of conduct. This need not be so, as one major institution has demonstrated. This institution has rewritten its code of conduct acknowledging The BFO; the code takes each of the tenets of The BFO in turn and outlines the behaviour expected of staff if the tenets are to be met. Signing The BFO remains an individual choice, but staff of the institution have been strongly encouraged by the CEO to do so. This approach, which preserves the voluntary nature of The BFO, is one that could be more widely adopted.

The BFO also has a “100% Committed” program that allows an organisation to declare its commitment to promoting The BFO when all its employees are BFO signatories. Some smaller institutions have achieved this standing. It has provided an opportunity for one-on-one discussions about the values of the organisation and the individual, created a common language around ethics and addressed the interaction between legal and ethical behaviour and the impact on the customer.

For some time, our discussions with industry associations have focused on industry codes of practice, which have been under review in light of conduct issues in Australia and abroad. The Interim Report has drawn attention, in particular, to the Banking Code of Practice and has posed the question whether the provisions of the Code should be enforceable at law. The norms of behaviour set out in industry codes of practice apply to the *institutions* bound by the codes; The BFO is a natural complement to these codes in setting out norms of ethical behaviour expected of *individuals* in the relevant industry. Taking The BFO – engaging in ethical behaviour in honouring the Oath – would not lead to a breach of a code; as a voluntary commitment, The BFO could not be integrated into any code that has legal force. Acknowledged in any preamble to a code, however, it could serve signatories by reinforcing the principles of the code on a human and individual level. In its discussions with the Australian Banking Association (ABA), the Board has recommended that The BFO be placed in the Preamble to the Banking Code of Practice as an option for individuals to consider.

More recently, the BFO Board has prioritised discussions with industry bodies on the need for greater professionalism in the financial services industry. The Board’s view is that there must be a strong ethics component to any professional accreditation initiatives and, ideally, this should be centred on The BFO.

The two main bodies with which the Board has been involved are FINSIA and the ABA. FINSIA is embarking on a major drive to raise professional and ethical standards in the financial services industry, based on the introduction of professional certification programs to be provided through the Chartered Bankers Institute (UK) in banking and, subsequently, through the Chartered Institute for Securities & Investment (also UK). The ABA is also supportive of the promotion of higher professional standards in banking. Both bodies have indicated that they see The BFO as playing a key role in raising ethical standards, although The BFO would remain a personal and voluntary commitment.

## The way ahead

The financial services industry is vital to Australia’s economic prosperity. As the Interim Report has highlighted, however, the industry has lost the trust of the community through examples of unconscionable behaviour, an inability to hold itself to account and organisational and remuneration arrangements that have encouraged complacency and greed.

The BFO Board believes that individuals in the banking industry should be urged to commit to an ethical oath, such as The BFO, to reinforce personal behaviour and aid in ethical decision-making. Keeping conversations about ethics front and centre helps to develop an environment where ethical considerations are taken into account and individuals are more willing to be responsible for their behaviour. The BFO can help to develop the language and behaviour that supports a positive organisational culture.

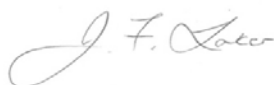
Taking The BFO will help to:

- create an environment where staff are empowered to call out potential unethical conduct;
- encourage the recognition of and early conversations about ethical issues; and
- ensure that ethical values and principles are built into the cultural norms of all financial services institutions, enhancing their capacity to serve consumer interests and to retain consumer trust and confidence.

There are some practical recommendations that The BFO Board believes will contribute to strengthening the ethical foundations of the financial services industry:

- a specific ethics module in relevant university and professional courses in banking and finance;
- acknowledgment of The BFO and its tenets in individual institutions' codes of conduct and industry codes of practice; and
- encouragement to staff to consider committing to The BFO in all staff induction programs.

It is time for the financial services industry to make amends. The BFO can make a unique and important contribution to that end.



John Laker

Chairman

The Banking and Finance Oath Ltd

## Appendix A

### The 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.

For more information on The Banking and Finance Oath:

Website – <http://www.thebfo.org>

A short film from the BFO Board – <https://vimeo.com/167061556>

## Appendix B

## Banking and Finance Oath Board

Philip Chronican

Lyn Cobley

Emilio Gonzalez

Steve Harker

John Laker (Chair)

Cris Parker

Rob Priestley

Steve Tucker

Pauline Vamos

## Banking and Finance Oath Policy Council

Jillian Broadbent

Bill Gurry

Ian Hammond

Greg Hutchinson

Peter Marriot

Simon McKeon (Chair)

Andrew Mohl

Michelle Tredenick

Paul Vercshuer

## Ethics Adviser

Dr Simon Longstaff

## Appendix C

