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Can trust be restored to high-street banking: A 20-year challenge?‡

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Abstract: This article is based on a dissertation submitted for an MSc in Marketing submitted by the first author and supervised by the second author. It is a viewpoint article that highlights the complexity of the challenge of restoring trust to high-street/retail banking, and explores some of the related issues of conduct risk, ethics and culture. It includes a brief historical analysis reflecting structural change in the mid-1980s up to today with a link to some current thoughts and research, and concludes that the banking sector's current ambitions to restore trust are likely to be flawed and unlikely to deliver in the timelines that the banks and regulators expect. The article concludes with a number of related issues/subjects that are worthy of further research and flags some particular questions in the conclusion.

Subjects: Culture & Development; Banking; Risk Management; Corporate Social Responsibility & Business Ethics

Keywords: retail banking; conduct risk; relationship marketing; culture; ethics; customer service; trust

1. Introduction

In the early 1980s, most high-street bank branches in the United Kingdom were in essence a self-contained bank. Each had a notional balance sheet, a profit and loss account, a manager, professional

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PUBLIC INTEREST STATEMENT

Most of the mis-selling scandals of the last thirty years have involved banks selling a product to customers for whom the product is not suitable. At the heart of this seems to be developing a product that is suitable for a segment of the market and then selling into a segment for which it is not appropriate—usually by a highly incentivised salesperson. This transaction-based approach focuses on maximising annual income for both the salesperson and the bank. A return to a relationship-based approach that recognises the lifetime value of a bank customer would encourage more appropriate product provision that meets the needs of the customer and ensure a steady income/profitability in perpetuity for the bank. Some banks have recognised this but now face the challenge of changing a generation of management and staff who have an engrained profit-maximising culture.

banking staff that could make decisions and a local community to serve. This structure had served banks and their communities faithfully from their early foundations when bank branches were designed as substantial buildings in good locations, sometimes in an ecclesiastical style to signify, integrity trust and confidence (Andrew, 1988a).

This system of banking had a number of self-reinforcing risk management mechanisms. Management and staff of the branches knew their customers, knew local employers and wages, knew local house prices and were highly unlikely to engage in mis-selling-type activity in a relationship-driven approach with the local community. The branch was there to serve the community. In addition, the general message for bank staff was that to progress in both the branch, and the bank in general, it was necessary to undertake and complete the bank exams (provided by the respective Institutes of Bankers in England & Wales, and Scotland). This helped ensure a consistency of customer service culture that pervaded both individual bank branches and the high-street banking industry as a whole.

It also brought control advantages for the bank's senior management in that if there was a problem in a branch, or even a region (some banks' operated regional head offices), it could be isolated and fixed. Today's centralised approach means that if there is a problem it affects the whole bank reducing its ability to isolate and deal with problems, and ultimately increasing the magnitude of a mis-selling risk incident and affecting the bank's overall resiliency.

The core relationship between the bank and its customer was based around the current account, allowing the bank to have a deep understanding of the customer and identify and develop products to meet the customer's need on a customer lifecycle approach. Marketing, tended to be relationship-oriented pull marketing around the brand—the objective being to capture the customer's current account, build a relationship and help the customer with all their financial needs—helping the customer, the bank and the local community prosper.

It is fair to say that not everything was perfect, in particular the lack of technology—searching for a customer's balance on a micro-fiche reader was a frequently frustrating experience, and there were rare instances of inappropriate collusion between bank staff and customers (usually minimised by a staff rotation policy). However, in the round, bankers were more professional, leadership was more focused on customer relationships, customer's had a better experience and the banker–customer relationship of trust and confidence engendered customer loyalty to the bank, and the bank's loyalty to the customer.

Today, there is much talk in the industry about restoring trust in banking, with many banks looking to achieve this over the next few years. Many retail banks are now focusing on a number of integrated activities, in particular, conduct risk, ethics, culture and trust programmes to deliver this. However, it is arguable that trust has been lost over a period of 25 years (going back to pensions mis-selling and endowment mortgage mis-selling of the 1980s) albeit that the recent financial crisis has raised its profile—particularly in political circles—leading to the reviews conducted by the Independent Commission on Banking (ICB, 2011) and the Parliamentary Commission on Banking Standards (PCBS, 2013). Both reports have a focus on culture.

In highlighting a number of the key issues in the 25-year decline, it seems likely that current programmes to deliver culture change will need to be managed over many years to keep retail banking moving back to a position where customers and local communities believe that their bank supports their aspirations on life's journey—a process that is likely to take much longer than currently expected (Spicer et al., 2014).

2. High-street banking vs. investment banking

In the early 1980s, high-street banking and investment banking were very distinct, with very distinct cultures. However, this was all to change as the decade progressed. The cultures in the early 1980s were reflected by the two sectors' distinct approaches set out in Table 1.

Table 1. Pre-"Big Bang" cultural artefacts

High-street bank	Investment bank
Banker—customer relationship	My word is my bond
Trust and confidence	Knowledgeable counterparties
Relationship-based	Transaction-based

In 1981, the Conservative government commissioned a review of investor protection which reported in 1984. The report, known as the Gower report (Gower, 1984) led to two major changes:

- de-regulation of the financial markets in what was known as "Big Bang"; and
- the enactment of the Financial Services Act 1986 (FSA 1986).

2.1. Big Bang

"Big Bang" occurred on the 27 October 1986 and delivered major changes to the structure of the financial services industry, in particular it allowed investment banks to own high-street banks and vice versa, creating huge financial conglomerates.

Pre-"Big Bang" much of the investment banking sector, in particular the broking and trading activities were run as unlimited liability partnerships—with many staff being paid very low salaries but big bonuses. This was not a major concern as both risk and reward were in the gift of the partners—who stood to lose everything if it all went wrong. This type of system had a built in risk management mechanism in that the partnership had a very strong interest to reward people appropriately and ensure that risk was being properly managed.

Post-"Big-Bang" when most of the traders and brokers were bought by public limited companies and the traders and brokers were using shareholder's money rather than partner's money these built in risk management mechanisms started to break down.

As high-street banks saw investment banking activity as very lucrative, some bought an investment bank, e.g. Barclays, and some a combination of build and acquisition, e.g. RBS. This appears, with hindsight, to have led to a culture shift to the dominant, more aggressive, transaction-based culture of the investment bank and away from the more vocational customer service relationship driven culture of the high-street bank.

Even today, there are still a number of high-street banks with Boards and Executive Committees that are dominated by former investment bankers and consultants—people whose formative training is unlikely to have encompassed a vocational customer service culture and more likely to have been a transaction-based profit maximising culture.

2.2. Financial services Act 1986

Professor Gower's (1984) report noted that regulation should be *no greater than is necessary to prevent reasonable people being made fools of* (Gower, 1984, para 1.16). Such an approach, if followed through, would have preserved the "caveat emptor" approach and only addressed the natural information asymmetry that exists between the high-street banker and their customer. With a strong culture of customer service, and the existence of the banker–customer relationship (a relationship of trust and confidence), a light touch "soft law" self-regulation regime would be adequate.

However, the FSA 1986, introduced a complicated product segmented system[1] of regulation, which was eventually replaced by the Financial Services and Markets Act 2000 (FSMA 2000) and the creation of the Financial Services Authority (FSA). This pre-FSMA 2000 system of product focused regulation, together with the growth of centralising technology, shifted high-street banking to a manufacturing/distribution model, moved administration and power to the centre and led to the adoption of a sales-driven approach.

Also in the early 1980s, high-street banks shifted from individual assessment and decision-making in lending to credit-scoring lending. Following on from this, in the early 1990s, the banking industry adopted new technologies and centralised much of its processing and shifted the high-street branch from being a key part of the local community to a distribution outlet. This process has disconnected the bank from its customers and led to the development of sales-driven approaches. Aligned to this shift was a changing pattern in career development—staff in the branches were expected to be salespeople and at Head Office non-high-street bankers were recruited—people from non-banking retail, investment banks, consultancies—few of whom had any vocational high-street banking experience, and arguably the wrong culture for the public's expectation of their bank.

There was also a shift in terminology from "high street banking" to "retail banking". Banks started to employ people in their branches with no banking experience, no vocational commitment to the community, but lots of retail "sales" experience, and sometimes into very senior positions. It also employed marketers and product developers with a sales-driven/transaction-focused approach—again influencing the culture of the whole organisation to a sales-driven culture. The term "retail banking" is now ubiquitous in the industry with the European Union regulation (EU 2013) on capital requirements referring to retail exposures, and the Financial Conduct Authority talking about retail banking and retail lending in their business plan (Financial Conduct Authority [FCA], 2015).

In the period under consideration the provisions made by retail banks for misconduct (much of which occurred in the decades before the provisions were made) was £38.5bn (Table 2).

Table 2. The cost of misconduct in UK retail bank operations, 2000–2014

Type of misconduct	Provision (£bn)	Years provisions were made
PPI mis-selling	27	2010–2014
Interest-rate hedging products mis-selling	4.1	2012–2014
Unfair unauthorised overdraft charges	0.5	2006–2007
Endowment mortgage mis-selling	1.8	2002–2006
Investment advice/products mis-selling	0.5	2003–2014
Pensions mis-selling	0.6	2000–2002
Consumer credit act breaches	0.7	2013–2014
Other (Mortgages, ID theft insurance, miscellaneous redress)	3.3	2000–2014
Total	£38.5bn	2000–2014

Source: Spicer et al. (2014).

3. The banker–customer relationship

The banker–customer relationship has always been characterised as a trust and confidence relationship, albeit that in its early days it was all about confidentiality and duties to collect cheques. The relationship has never been fully defined by the Courts or in legislation, and given the increased dominance of the Ombudsman service since the late 1980s high-street banking cases very seldom get to the courts anymore leaving a shortage of legal precedents on this particular topic. This may be a lacuna that the Financial Ombudsman Service (FOS) working with the FCA and the new Banking Standards Board (BSB) could fill using more of their decisions in the form of case studies to illustrate what a customer has a right to expect from their banker.

The reason that the banker–customer relationship is so important is the information asymmetry between the bank and the customer. The average customer is not financially sophisticated (unlike market counterparties in investment banking) and place reliance on their banker to look after their best interest—a fiduciary relationship that establishes a duty of care.

The other aspect of the banker–customer relationship is the nature of the products. In classifying transaction goods (or products), they can be put into classes of ordinary, search and experience goods (Nelson, 1970), however, most important for banking purposes is the introduction of a fourth classification know as credence goods (Darby & Karni, 1973). Many financial service products are credence goods (Llewellyn, 2005) in that their quality is latent and may not be discovered until some time after the purchase, for example, with insurance you pay a premium now but you don't know if the firm will be capable of meeting the claim in the future, you invest in a pension for 20 years but you will not know how good the investment performance will be—until you draw the pension.

These types of transactions are easier where the customer trusts the bank and has confidence in the bank's commitment to their best interest as opposed to an obsession with short-term performance and the bank's three-year strategy. This expectation and sense of permanence through the customer's lifecycle (as opposed to the product lifecycle) should be at the heart of the modern banker–customer relationship.

Llewellyn (1999) notes that one rationale for the existence of retail financial services regulation is the need for trust and confidence. The reduction in relationship management marketing and the culture of customer service in high-street banking has diminished the trust and confidence relationship over many years and an extension of Llewellyn's point may be that trust and confidence and regulation are on a pendulum such that as trust and confidence declines so regulatory intensity increases.

The FSA, to its credit, did recognise the decline in the banker–customer relationship that had occurred in the late 1980s and throughout the 1990s and set about trying to tackle it as early as 2001 by investigating Treating Customer's Fairly (TCF) (FSA, 2001) and establishing a TCF programme, a customer programme that dominated conduct regulation for most of the first decade of this century (FSA, 2002a, 2004, 2005, 2006, 2007a).

Aligned to TCF the FSA also investigated ethics (FSA, 2002b) and the move towards principles-based regulation (Black, Hopper, & Band, 2007; FSA, 2007b). Culturally, it is much more difficult to implement a principles-based approach into a firm that has a reward structure aligned to a transaction-based profit-maximising focus. The FSA had hoped that the successful implementation of the TCF programme, would allow for a shift towards principles based regulation, but as its former CEO noted, it is a difficult task:

> A principles-based approach does not work with individuals who have no principles.
> (Sants, 2009)

Unfortunately, in the aftermath of the financial crisis and the focus on capital and liquidity, TCF got pushed into the background and the focus on principles-based regulation appears to have fallen away (Black, 2010). However, the new FCA appears to have a focus on a principles based approach.

4. The customer lifecycle

One of the difficulties with the TCF programme was that it used the term "Product Lifecycle", a term very familiar to those in the marketing profession for new product development and the identification of innovators, early majority, late majority and laggards—categories that can be indicative of pricing. This type of pricing can be at the heart of mis-selling. Front-loading financial services products to cover development costs rather than spreading the cost over the life of the product can lead to serious detriment for customers, and encourage mis-selling, for example, churning unit trusts with a large front-end commission.

The customer lifecycle in banking can be based on the recognition of the lifetime value of a customer (Heskett, Jones, Loveman, Sasser, & Schlessinger, 1994). Customers need products from when they are very young (e.g. savings accounts, child trust funds) throughout their lives (e.g. student loans, current accounts, credit cards, car loans, mortgages, insurance, pensions and more) and beyond (e.g. wills and administration).

For a high-street bank the starting point must be the customer. The primary objectives of any high-street bank (taking treating customers fairly into account) are:

- to identify the customer segment that it wants to serve—in line with firm capability (segmentation),
- identify the needs of the customers in the segment,
- identify trust expectations in the customer segment,
- design products and servicing processes to meet the identified need—considering the pricing of the product, promotion of the product and how and where it will be sold (positioning) and
- provide the customers in the segment with products that are designed to meet their identified needs (targeting).

Writers on marketing suggest that it is much more expensive to acquire a new customer than it is to provide a product to an existing one—up to 10 times more expensive (Daly, 2002), yet banks continue to chase market share in single products. Three hundred customers with three products each is surely a better indicator of trust than 900 customers with one product each. Even from an economic perspective, other things remaining equal, 5% market share and 10% return on capital is surely better than 10% market share and 5% return on capital.

In identifying customers it would clearly make sense to start with the bank's own current account customers—the customer they know the most about (reduced money laundering and financial crime risk) and only develop products within the bank's capability[2]. The bank could fill gaps in the customer lifecycle by making use of its knowledge and buying power for the benefit of its customers to source white-label products that are not currently within the banks capability).

Putting the customer first using this well-known segmentation, targeting and positioning model, does not conflict with the Boards duty to its shareholders (agency theory of governance) but reflects the importance of the customer and the employees who serve the customers (stakeholder theory of governance) to the success of the firm.

Marketing plays a key role in strategy development and strategy implementation and in this sense selecting the wrong strategy and marketing approach can substantially increase the conduct risk profile of the firm.

While marketing itself is not viewed as a risk its effects show up in what is increasingly being called conduct risk—the relationship between a firm and its customers. The marketing orientation selected also plays an increasing role in determining the culture of the firm, customer trust and a less visible factor in determining the regulatory intensity the firm faces.

The fact that marketing is not a discipline that counts in assessing the capital adequacy of the firm is not a good reason not to make the effort to understand its implications for the firm's conduct risk profile—conduct risk being an operational risk that does attract capital adequacy considerations.

Achieving a marketing orientation with customers at the centre of everything the bank does is a major factor for success. This issue is one of customer loyalty, with both customer retention and customer profitability being key factors in stable business growth. Reichheld and Sasser (1990) estimated that a 5% increase in customer loyalty can produce profit increases from 25 to 85% and concluded that quality of market share measured in terms of customer loyalty, deserves as much attention as quantity of share. Despite this many bank's still spend vast sums of money trying to capture market share. In chasing market share, some banks have adopted strategies of "buying" customers with joining bonuses which are unlikely to generate customer loyalty, and more likely to attract customers who will be looking for the next joining bonus elsewhere.

A focus on customer loyalty should lead to a shift away from a product-centric bank to a customer-centric bank (a marketing orientation), and see the customer as a partner in a long-term relationship that can be characterised as a win–win situation for both parties.

The key to achieving this is a customer lifecycle approach to managing the business. High-street banking customers require financial products throughout their lives from savings accounts when they are children through to the administration of their estates (Table 3).

Table 3. Customer lifecycle cross-sell opportunities (not an exhaustive list)

Anchor account	Customer's financial need	Product
Current account	Savings product for children	Savings account
	Loan for a car	Loan account
	Insurance for car	Car insurance
	Revolving credit	Credit card
	Buy a house	Mortgage
	Survey of house	Surveyor service
	Insurance for house	House insurance
	Savings-general	Savings account
	Savings—cash ISA	Cash ISA account
	Savings—equity ISA	Equity ISA account
	Life protection	Life assurance
	Insurance for holiday	Travel insurance
	Pension planning	Financial advice
	Pension products	Pension products
	Pension decumulation	Income drawdown/annuities
	Financial planning	Financial advice
	Estate planning	Wills
	Estate administration	Probate

As Heskett et al. (1994) noted:

- Profit and growth are stimulated primarily by customer loyalty;
- Loyalty is driven by customer satisfaction;
- Satisfaction is largely influenced by the value of services provided to customers;
- Value is created by satisfied loyal and productive employees; and
- Employee satisfaction in turn results primarily from training and development, high-quality support services and policies that enable employees to deliver results to customers.

To achieve this high-street banks need their customers to be relationship buyers. Transaction buyers are generally focused on price and have a low loyalty level. Relationship buyers, on the other hand, are interested in a long-term business relationship based on trust and generally exhibit a high loyalty level (Hughes, 2003). However, as noted above, a key factor in this is the employees—they are the foundation building block of the long-term success of a high-street bank, and also of creating the environment that builds trust (Lewicki & Tomlinson, 2003).

Making an effort to truly understand the individual customers need and where they are in the customer lifecycle should allow banks to design and market products appropriately in recognition that the customer, on the establishment of a relationship of trust and confidence is likely to come back to the bank throughout their life (with little acquisition cost and substantially reduced marketing spend).

5. Restoring trust

Trust is a vital element in all of society's interactions (Fukuyama, 1995) and can be described as an individual's belief in, and willingness to act on the basis of words, actions and decisions of another (Lewicki, McAllister, & Bies, 1998). It can also be linked with expectations of intention or behaviour (Rousseau, Sitkin, Burt, & Camerer, 1998). Both of these approaches recognise the integrity of an individual, but for restoring trust to banking, there is a need to ensure the collective integrity of the organisation. However, in addition to integrity as a dimension of trustworthy behaviour, banks must also demonstrate ability and benevolence (Lewicki & Tomlinson, 2003).

A useful way to classify trust has been set out by Lewicki and Wiethoff (2000) and split into two types:

- Calculus-Based Trust (CBT); and
- Identification-Based Trust (IBT).

Their approach to trust looks at peoples' beliefs and willingness to engage. The strength of the belief and willingness to engage would determine whether a person falls into the CBT category or the IBT category. Linking this with the three dimensions of ability, integrity and benevolence may create a framework that will assist banks in developing an approach to restoring trust.

CBT is important in attracting new customers as it is the initial stage where the new customer is making an assessment of both the individual member of bank staff and the bank itself. In addition to the assessment of the individual and the bank, the customer will be making an effort to understand what motivates the bank to look after his/her interests—much of which the customer may judge from the individual they deal with (hence the importance of culture).

The motivation of bank staff could be a negative motivation (the risk of losing one's job), or a positive motivation in the form of a commission and/or bonus. The financial services industry seems to have accepted that the latter form of incentive had gone too far and many firms are now applying a form of balanced scorecard (Kaplan & Norton, 1996) that gives appropriate representation to customer service. In the CBT stage establishing ability (training and development) and integrity (culture) are important as they are key components of the customers' assessment of both the bank and the individual member of staff.

IBT, on the other hand, usually comes after the CBT stage and is the stage where the individual/bank and the customer have developed a deeper knowledge of each other—the bank understanding the needs of the customer and the customer understanding how the bank can help him/her along the customer lifecycle. In this sense, IBT is at the heart of restoring the banker–customer relationship (Lewicki & Wiethoff, 2000). In the IBT stage establishing benevolence is key.

Interestingly, one of the foundation underpinnings of the profit maximisation philosophy is the "Wealth of Nations" (Smith, 1776) and the role of the "invisible hand", supporting Friedman's (1962) work, however, following the 2007/8 financial crisis, Smith's earlier book "The Theory of Moral Sentiments" (Smith, 1759) has attracted renewed interest, in particular its statement on benevolence:

> How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it but the pleasure of seeing it. (Smith, 1759)

The establishment of an IBT relationship creates an incentive to resolve conflicts—in the interests of maintaining and continuing the relationship—it is also much easier than it is at the CBT stage. This relationship trust helps in maintaining a good relationship with the customer and can also help reduce switching to other banks (Saparito, Chen, & Sapienza, 2004). There is also evidence to show that increased customer contact results in increased customer satisfaction (Dietz, Pugh, & Wiley, 2004).

The banking sector is in a difficult position as in most cases they are not establishing trust but attempting to restore it—re-building trust is more difficult (Currall & Inkpen, 2006; Leaders Quest, Meteos, 2016). Some new "challenger" banks are in the CBT stage and have an advantage by not having the legacy systems and culture that contributed to the existing banks' problems.

However, even with restoring trust there is a need to recognise the banks will have to re-start with CBT and slowly move to IBT. In the same way that changing culture takes a long time (Economist Intelligence Unit [EIU], 2013; Spicer et al., 2014) the desired outcome of restoring trust will also take a long time.

Key to the change is committed and sustained leadership, in particular the role of the Chairman and the Chief Executive (Financial Reporting Council [FRC], 2011). Continuity of commitment is particularly important, and Lewicki and Tomlinson (2003) noted that:

> Trust builds along a continuum of hierarchical and sequential changes, such that as trust grows to higher levels it becomes stronger and more resilient and changes in character. (Lewicki & Tomlinson, 2003)

This continuum is reflected in Oliver's (1997) four stage loyalty model in third-stage conative loyalty (commitment and trust). The first stage, cognitive loyalty addresses perceived service quality and perceived value, however, as noted earlier, the credence nature of financial services products (Llewellyn, 2005) makes achieving cognitive loyalty in terms of understanding difficult—potentially making the transition from CBT to IBT more challenging in a banking environment.

Achieving IBT gets the trust relationship to a position where both parties understand each other's expectations and the bank has a better understanding of their customers' ambitions and financial needs (Sin, Tse, Yau, Lee, & Chow, 2002). The IBT stage is where there is a relationship commitment on both sides and at the heart of this is trust (Morgan & Hunt, 1994).

Putting customers at the heart of everything banks do would, when done well, be a parallel process of (1) achieving a deep understanding of customers' financial needs; and (2) an understanding of how meeting those needs can generate an appropriate level of profit through appropriate marketing and appropriate selling. In respect of the first, with the shift to a short-term transaction-based centralised administration approach (sales-driven) banks seem to have lost the ability to get close to their customers and understand what it is that will best serve their needs—a relationship-driven approach. In respect of the second, generating sufficient profit remains critically important as shareholders are a key stakeholder, and it is important for a bank to remain financially strong so that it can serve its customers and be there for them in the long term and fulfil the expectations that flow from selling "credence"-type products.

Something that may change this is the arrival of the digital age for banking, however, digital is one of several distribution channels, and in most cases the cheapest distribution channel, albeit that over time the impact of cybercrime may impact on this. Nevertheless, digital technology creates a great opportunity for banks to re-invent their relationship with customers, get close to them, understand their needs, provide better products with better information and help restore and build trust—both for an individual bank and the banking industry as a whole. However, if the dominant profit-maximising motive prevails, digital will be seen as another opportunity to reduce costs at the expense of customer service. Banks should also be very mindful of the fact that the failure of technology, for a generation that expects instant access, may seriously damage a bank's future prospects—therefore any under-investment in this area may prove to be very short-sighted.

Although high-street banking is reducing in branch terms, with some banks actively trying to reduce human interaction, an age and wealth analysis would most likely indicate that few customers under 25 make much use of branches and have little need of financial services beyond money transmission, many customers over 50 still like branches and are active users of financial services products, and those in between 25 and 50, probably the most profitable group, are users of all channels—branch, telephone and digital. This analysis is an assumption and each bank would need to assess this for itself, but reducing human interaction and closing branches, for cost-cutting reasons, without having researched what the customers' expectations are will do nothing to rebuild trust.

The aim of restoring trust for customers without understanding what trust means to the bank's customers, and then developing a culture in the bank to support that expectation, is likely to be seen as rhetoric aimed at placating regulators and politicians. Such an approach would confirm that cost cutting and the dominant profit-maximisation motive prevail and banks and the banking industry will continue to struggle to improve their image, and may be vulnerable to more trusted brands with better technology white labelling their products, e.g. Marks & Spencer and John Lewis.

In a speech on Restoring Trust in Global Banking, Mark Carney (2013), the present Governor of the Bank of England, noted that *virtue cannot be regulated, and that even the strongest supervision cannot guarantee good conduct* and that what is needed is a re-discovery of core values and a return to old-fashioned banking. He went on to say that this responsibility begins with boards and senior management and that they need to define clearly the purpose of their organisations and *promote a culture of ethical business throughout*. However, in asserting that the top-down approach is not enough, he noted that employees *need a sense of broader purpose, grounded in strong connections to their clients and their communities* (the banker–customer relationship) and that *bankers need to see themselves as custodians of their institutions, improving them before passing them on to their successors*. In a later speech, he also emphasised the need for a vocational approach (Carney, 2014). This, of course, makes it very difficult in a high-street bank to justify the chasm between the majority of the employee's reward packages and that of senior management.

This brings together the requirements for restoring trust to high-street banking those have been discussed throughout this article:

- The banker–customer relationship—a relationship of trust and confidence;
- Relationship marketing—along a customer lifecycle;
- Understanding the customer—along a customer lifecycle;
- Internalising regulation—aligned to a firm's values reflected in its code of ethics;
- Cultural alignment—leadership from the Board and executive; and
- Education—investment to support cultural alignment.

Two key initiatives that are intended to support this are:

(1) Ring-fenced banking (RFB) (ICB, 2011); and
(2) The Banking Standards Board (BSB, 2014).

5.1. Ring-fenced banking

The outcome of the ICB review was a recommendation to ring-fence banks (ICB, 2011), which has been accepted by the government (HM Treasury/Department for Business Innovation and Skills, 2011, 2012) and which is currently being implemented by the regulators (Prudential Regulation Authority [PRA], 2014). Banks are required to have established their ring-fences by the beginning of 2019.

While ring-fencing will create a subsidiary legal entity, and allow regulators to ensure appropriate capital and liquidity provision, and improve recovery and resolvability, it is not clear how such an arrangement will improve the firm's culture and restore the trust and confidence relationship. Where the dominant organisation, and its senior management, is transaction focused and profit-maximising, there is likely to be increasing demand for sales, market share and ever increasing pressure to achieve short-term high returns on capital.

Regulatory and societal pressure may push firms to achieve full separation, and those firms where the ring-fenced bank is the dominant part of the organisation might find it more beneficial to divest the non-ring-fenced part.

5.2. Banking standards board

One of the outcomes of the PCBS (2013) was a recommendation for the establishment of a Banking Standards Review Council (BSRC). The BSRC has now been established as the Banking Standards Board (BSB, 2014) and has now been and up and running for some time.

A number of the larger investment banks appear to have initially expressed some reluctance to join. This is not surprising and reflects the discussion in this paper that standards that are likely to be applicable and beneficial to high-street banking (information asymmetry), are unlikely to be applicable and beneficial to investment banking (knowledgeable market counterparties).

This would suggest that the BSB would be more effective if it did not dilute its focus and focused on the area of most need—high-street banking—where the 25-year growth of a retail approach (represented by sales and chasing market share) and the natural information asymmetry between the bank and the customer has done such damage.

However, this raises the question of what to do about the investment sector where Boards have been articulating high standards, while their traders appear to have been adopting a completely different approach based on self-interest related to their incentive/reward structures. The Bank of England's Fair and Efficient Markets Review [FEMR], 2014) has advocated the establishment of an investment firm/wholesale market equivalent of the BSB—those firms with a transaction based business model dealing with market counterparties. Although the FEMR's focus is on the Bank of England's areas of interest (fixed income, commodities and currency (FICC)), the FCA current plan (FCA, 2015) also has wholesale markets on its agenda. The establishment of a new FICC Market Standards Board (Fair and Efficient Markets Review [FEMR] 2015) and co-operation between the Bank of England, PRA and FCA to ensure the re-establishment the principle of *my word is my bond* and the restoration of trust in the City of London would also seem of critical importance.

6. Conduct risk

Following the demise of the FSA, and the creation of two new regulators the PRA and the FCA (Bailey, Breeden, & Stevens, 2012), many firms, in recognition of having to face-off against a new conduct-focused regulator, have raised the profile of what used to be called compliance and rebadged it as conduct risk.

Conduct of business regulation has always been about the relationship between the firm and its customers and is broadly defined as regulation that:

> … focuses on how firms conduct business with their customers. It includes information disclosure, the honesty and integrity of firms and their employees… fair business practices, the way financial services products are marketed etc. (Goodhart, Hartmann, Llewellyn, Rojas-Suarez, & Weisbrod, 1998)

This broad definition illustrates a number of key issues that need to be addressed to restore trust in banking and put banks back at the heart of the community, in particular:

- Recognition of information asymmetry;
- The honesty and integrity of firms;
- The honesty and integrity of employees; and
- Marketing.

Given a vocational perspective (desire to support the community) and the need to restore trust, it is questionable whether the term conduct risk is the right one as it gives the impression of a firm managing the risk to itself from conduct regulation rather than thinking about what the risk is to the customer—which should be the heart of the ethical and cultural approach to restoring trust. This is an issue of internalisation (see below).

7. Ethics

As the FSA was being established at the beginning of the century, it was suggested that an ethical approach to regulation rather than a compliance approach would serve firms better (Newton, 1998), and the FSA issued a Discussion Paper exploring this subject in 2002 (FSA, 2002b). In principle, this is a perfectly sensible suggestion and firms would most likely have much better cultures if they were able to internalise regulation and take an approach that involves *a more active engagement with the values underlying the legislation* (Jackman, 2001a) so that the employees were following the firm's own internal rules (aligned to the firm's own values and code of ethics) as opposed to what is sometimes referred to as regulatory box-ticking.

However, the pace of regulatory change over the past 15 years at International, European and National level has meant that firms have had to invest very substantial sums just to keep up with the changing regulation. They have also had to contend with a level of intrusive supervision checking that they have implemented all this regulation, with little time to catch their breath and internalise. Ironically, the successful internalising of an ethical approach to compliance would most likely lead to a reduction in supervisory intensity (Jackman, 2001b).

It should be noted that this degree of regulatory intensity is a potential threat to the stability of the system in that it is as much a challenge for regulators as it is for firms to keep up with ever-changing regulation. This can lead to a position where box-ticking become the core of the relationship between the regulator and the regulated. The regulated firm ticks the box and the regulator checks that the box has been ticked with little attention paid to ensuring that the expected outcome of the regulation is ever really delivered or paying enough attention to reviewing the dangers that the regulation produces unintended outcomes. It is important for firms to focus on the spirit of the regulation (McBarnet, 2007). Internalising regulation should allow firm's to spend more time focusing on their customers and less time on regulatory compliance which will become a natural consequence of looking after customers.

8. Culture

The FRC emphasised the importance of the role of the Chairman, CEO and non-executive directors in supporting the right culture values and behaviours at a firm (FRC, 2011), more importantly they must take a leadership role—both determining what it should be, and monitoring that it is as expected, as:

> if culture is left to its own devices it shapes itself, with the inherent risk that behaviours will not be those desired. (Salz, 2013)

The issue of culture has also been the subject of consultancy research (Levy, Lamarre, & Twining, 2010) and academic research in the UK (Ashby, Palermo, & Power, 2012). One of the leading authors on culture, Schein (1985) defined culture as:

> A pattern of basic assumptions… invented, discovered, developed by a given group as it learns to cope with its problems of external adaptation and internal integration… that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.

However, a useful definition for a management culture for the banking industry might be an adaptation of a Basel definition. The Basel Committee in the updated "Principles for the Sound Management of Operational Risk (BCBS Basel Committee on Banking Supervision, 2011) explained what they meant by operational risk culture which, by removing the words "operational risk", could be easily adapted for a wider bank culture definition:

> Internal [operational risk] culture is taken to mean the combined set of individual and corporate values, attitudes, competencies and behaviour that determine a firm's commitment to and style of [operational risk] management.

This creates four key activities: (1) determining what is an appropriate culture for the nature of the business of the organisation; (2) implementing and embedding the culture in the organisation; (3) induction training for new staff; and (4) monitoring that the culture is as expected.

A key aspect of embedding culture is education—to create a common base of knowledge and behavioural expectation both in individual firms and in the industry. Following the Chartered Institute of Bankers decision to change its name and become a business school, latterly a university and now the London Institute of Banking and Finance, the only vocational trainer left for the high-street banks is the Chartered Banker Institute (CBI). The CBI has developed an excellent step-by-step career development programme that can allow both graduates and non-graduates to progress right up to a specialised banking Masters in Business Administration. Embedding these qualifications in a firm's promotion hierarchy would help create a common knowledge base and help establish the right cultures and values in both individual firms and the high-street banking sector.

Although, it is generally accepted that regulating culture itself is a difficult, if not impossible task (Sants, 2010a, 2010b), a common base of knowledge and behavioural expectation should also be a requirement for sector regulators, and the Ombudsman service, i.e. those in the PRA and FCA supervising high-street banks, and those in the FOS dealing with high-street banking complaints. If regulators and practitioners have a common vocational education base with similar training and cultural understanding, it will minimise misunderstanding and help increase the probability that all parties pull together in the interests of the customer.

Thirty years ago when an individual joined a high-street bank most joined with the view to developing a lifelong career and working their way up the ranks in the bank. Now employees tend to stay for three to five years and then move on for their next challenge. This may have created a reluctance to invest in staff training in some cases and particularly in general management training. If high-street banks accept their role in society and all invest in a common training regime, it will lessen the risk of counter culture when staff change job within the sector. Of course some staff may leave the sector, but investment in training is still a public good and can be seen as investing in customer knowledge as the skills acquired will be useful to an employer outside the sector—who will of course have to bank somewhere.

There is also a current vogue for specialisation and not enough investment in general management training. This sometimes creates a problem when individuals who have developed in a silo role are promoted into a position that requires general management skills. Firms need to do more to prepare staff for senior roles. If necessary place time limits and repayment clauses into education contracts—but investment in training and development is vital across the sector—for both firms and regulators.

9. Conclusion

Over a thirty-year period, relationship managed high-street banking has become retail banking and been influenced by a transaction focused, market share, sales-driven profit-maximisation approach. While it will be difficult to turn the tide, the only way to achieve this is to re-engineer the business model and re-educate a generation of bankers over a similar period.

While most financial service firms remain commercial organisations, those in the business of high-street banking need to attract, and re-train, staff for a vocational approach that recognises the unique place of the high-street bank in society and should exercise an appropriate degree of paternalism (reflecting an ethical and moral responsibility) where required to, and in the main, encourage that *old fashioned attitude of living within your means* (Andrew, 1988b). Such an approach requires a consensus of support from government, regulators and senior bankers over a sustained period.

To truly change the culture in high-street banking, the industry needs to re-establish the banker–customer relationship, and while making use of technical innovation, somehow re-engage with the customer and make them feel that they are at the centre of the relationship and not a number in the machine.

Given the magnitude of investment required over a 15–20-year period, the point of interest for the industry must be that if it can restore the trust and confidence banker–customer relationship by the self reinforcing activities of introducing an ethical approach to internalising regulation, a focus on a customer lifecycle marketing orientation, investing in education and promoting a customer service culture—the dividend will be a corresponding reduction in regulatory intensity, and a more stable economy and society.

A number of related topics have been covered in this article and many of them merit further research. While banks appear to have had a practice of telling regulators and politicians what they like to hear, it must be hoped that the banks statements on improving culture and trust do not turn out to be profit-maximising rhetoric.

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Whether you wish to call it high-street banking, retail banking, community banking or RFB, further areas of research that may add to the debate on the future of this type of banking might be:

- What should the role of the BSB be in restoring trust in banking, and should it limit its focus to high-street banking—both personal and small businesses?
- Could the FOS, the FCA (with the assistance of the new BSB) do more to provide clarity in the form of precedents and interpretative guidance on the meaning of the banker–customer relationship?
- Is the manufacturing/distribution model an appropriate model for relationship-driven high-street banking?
- Is vocational banking education central to creating the right culture in the banking industry?
- Are firms being realistic in their short-term plans—is restoring trust a 20 year plus journey and are short-term goals relevant for relationship managed business with customers that may be looking for a 50 year plus relationship?
- How do banks make the best use of new digital technologies in way that engages with customers and meets their needs rather than a driver to the lowest cost?

Ultimately, high-street banking needs leaders who understand the service profit chain in the context of the customer lifecycle, who recognise the importance of their employees, and who develop and maintain a corporate culture centred on service to customers. They also need a senior management team that recognise that the real success of a high-street bank comes from the vocational commitment of the employees that serve customers day-in/day-out in the branches and regions, on the telephone and via digital channels, and that everybody, including the executive, are mere caretakers, charged with being good *custodians of their institutions, improving them before passing them on to their successors* (Carney, 2013).

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Notes
1. For example: The Life Assurance and Unit Trust Regulatory Organisation (LAUTRO), The Securities and Futures Authority (SFA); and the Investment Management Regulatory Organisation (IMRO).
2. It is worth noting that capability is made up of both competence and capacity—some firms employ competent people but do not have enough of them (capacity) to deliver services properly.

‡ The viewpoint contained in this article represents the opinions of the authors and does not necessarily represent the view of former or present employers. This article is intended to stimulate further debate on a number of topics set out in both the article and the conclusion.

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