HOUSE OF COMMONS

# Treasury Committee

## Oral evidence: The work of the Banking Standards Board, HC 1715

Tuesday 13 November 2018

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Watch the meeting

Members present: Nicky Morgan (Chair); Rushanara Ali; Charlie Elphicke; Stephen Hammond; Stewart Hosie; John Mann; Catherine McKinnell; Wes Streeting.

Questions 1-65

### Witnesses

I: Dame Colette Bowe, Chairman, Banking Standards Board, and Alison Cottrell, CEO, Banking Standards Board.

# Examination of witnesses

Witnesses: **Dame Colette Bowe** and **Alison Cottrell**.

Q1 **Chair:** Good morning. Thank you very much indeed. I think this is the first time the Banking Standards Board has given formal evidence to the Treasury Committee. We are very grateful to you both for being here. People will be watching online as well as here in the room, so will you introduce yourselves? Then we will explore the work and the reports that you produce.

***Dame Colette Bowe:*** Thank you very much, Chair. I am Colette Bowe. I am the chairman of the Banking Standards Board. The only thing I want to add is that we are extremely pleased finally to be able to come to help this Committee by talking to you about our work.

***Alison Cottrell:*** I am Alison Cottrell, the chief executive of the Banking Standards Board.

Q2 **Chair:** Thank you both for being here. Again for the benefit of people watching, I want to make it clear that you, as the board, prepare both a general report and specific reports that are confidential to the participating firms. This morning, therefore, we will ask not about those specific firm reports, because they are private, but about your more general work. I wanted to explain that for people watching.

Dame Colette, as you say, this is the first time that the BSB has appeared before the Committee, so will you perhaps set out briefly its role and objectives? I will leave it open to you who goes first, but this is about the role and objectives of the Banking Standards Board.

***Dame Colette Bowe:*** I will kick off and then ask Alison to chime in. First, a small bit of history. As you probably know, we grew out of the Parliamentary Commission on Banking Standards. You are all aware of the work of that commission, and one of its important recommendations was that the industry should step up and do something to begin the process of reforming its own standards of culture, competence and behaviour. As a result of that commission, a process was undertaken that I can tell you more about if you want, but it was five years ago, so maybe we will take that as given and instead talk about now.

We were formed to assist and support the banking industry, and the lending industry more broadly, in reforming its culture, conduct, performance and standards. I say "assist", because the point of us is to be, if you like, a critical friend. When I say "assist", I do not mean remotely that it is our job to function like consultants, or as a PR exercise; it is our job to do serious, well-grounded work with each individual institution and then to say to them, "This is what we are finding about your institution. What are you going to do about it?" Also, as you said, Chair, in our public reporting once a year, we say, "This is what we have found across the sector."

That is our purpose. I would like to emphasise that we regard our job as being to hold up a mirror, if you like, to this industry and to speak a lot of truth to the people who are responsible for leading it. I will shut up now, unless you want to ask me something.

**Chair:** Alison, do you have anything to add to that overall introduction?

***Alison Cottrell:*** The aim of the BSB, encapsulating what Colette has just set out, is to help raise standards of behaviour and competence across the banking sector, but thinking all the time about helping to raise those in the interests of customers, clients, society and the economy as a whole. We are very interested in the outcomes. This is not for the sake of process; it is thinking all the time about the outcomes.

In terms of how we fit into the overall landscape, our starting point is that you cannot rely on regulation, however effective and appropriate it is, to achieve this. Regulation cannot keep up with real life and human ingenuity; it cannot answer every question an employee in a bank has to answer. And do we want a culture in which anything that is not prohibited by regulation is fair game? That is certainly not what I would want in my bank or in any organisation that I deal with.

From the BSB perspective, we would say that it is not that regulation would get you that good culture, but that you need a good culture for regulation to achieve the objectives of regulation. The BSB's role is to work with the sector and with firms that are committed to managing their culture and that want to do that—we are a voluntary body, so there is no requirement to join; that is entirely up to the boards of firms. We ask, what evidence can we provide to those boards to help them to know how they are doing, relative to their previous experience and relative to other firms and parts of businesses in the sector? And then, stepping back from that as the BSB, how can we look across the piece, from the evidence that was drawn primarily from the perspectives of employees, and say, "These are the common themes, these are the common issues, and this is where standards need to be raised. Where can we look for good practice?"

I would finally add that, as Colette also said, we have been around for just over three years now. We are learning and developing as we go along, and so, we would hope, are our firms in the sector with us.

Q3 **Chair:** Lovely. We are obviously going to probe into your annual reports and the points that you have raised. You mentioned the Parliamentary Commission on Banking Standards. In 2013 it described "a culture where poor standards were often considered normal" and "an absence of any sense of duty to the customer". Do you get the sense that if the parliamentary commission were to reopen its books today and write an update, those statements would still hold true, or would you say that progress has been made and that, overall, things have moved on?

***Dame Colette Bowe:*** If we were to reopen those books, Chair, as you say, I think the honest thing to say would be that some progress was being made, but I think we would all, as we sit here in this room today, be foolish to go any further than that. I suspect that any of the leaders of the banks you had sitting here in front of you would probably not go further than that.

That might sound like a slightly pessimistic read-out on what Alison has just described as being more than three years' work by us and others, but we have always known this is going to be a long haul.

Q4 **Chair:** Are there any emerging findings? Your next annual report is published next spring, so I don't know where you are in the cycle of analysing the latest information coming out from the banks and participating firms. Are you noticing any emerging findings now, ahead of next spring?

***Dame Colette Bowe:*** Yes, I will tell you a little about where we are and then Alison might give a bit of a heads-up on this year. We can talk more freely about what we found in the previous cycle, obviously.

In the spring and early summer of the year, we do our analytical work with the banks. We then turn that into the reports that go to the bank boards. That is the stage that we are now at. In April, or thereabouts of next year, we will have a public report. In short, we are really about halfway through the cycle.

I am banging on about all that because we would really like to come back and talk to you about this again when we have another data point. That is why I wanted to explain that. Alison, can you talk about last year, and we can then touch a bit on some emerging things?

***Alison Cottrell:*** Perhaps the most helpful thing is to summarise the key things we took from last year and to say how we are trying to dig into these issues a bit more this year, although, as Colette mentioned, we are just at the start of the stage of analysing the overall data.

Three of the themes that came out of last year's work—these were also evident in 2016 as well—*[Interruption.]*

***Dame Colette Bowe:*** Sorry, I have just made a complete hash of something. I am very sorry to disrupt the Committee.

**Chair:** Don't worry, we will sort it out. Alison was just getting into her stride there. I think that is a deficiency in the House of Commons water jugs.

***Dame Colette Bowe:*** This was obviously one of those tests, and I am sorry to say I have just failed it.

***Alison Cottrell:*** There are three themes that we picked out from the 2017 work. First, something we found in a number of firms was a disconnect between the values the firms stated and espoused and the way employees saw those values demonstrated in the way the firm did business.

The second area was around responsibility and accountability. How do you create a culture of accountability without creating a culture of blame?

Clearly, with the changes in regulation over the last couple of years, and the introduction of senior managers, that is something that everyone is very focused on. That particularly encompassed work on employees speaking up or speaking out.

Thirdly, there is the issue of wellbeing and personal resilience among employees, both in terms of banks as, we would hope, good employers and, again, the decisions those employees make for their customers.

We explored those three things a little bit last year with focus groups. We can certainly talk about some of the issues that came out there. In this year's work, in the 2018 survey, we have been asking some additional questions. For example, on wellbeing, you can only get so far with the "Do you agree or disagree with this statement?" question. What we found last year, although we did ask some extra questions, was that we just have to ask people, "If you are saying that working in your organisation is bad for your health, can you tell us why that is?" It could be their commute, it could be bullying or it could be the environment—it could be lots of things. We have asked them that, and we are now going through all that data.

From a diversity context, we asked for views on how employees see opportunities around their firm in terms of gender—"Do you think that opportunities are equal in your firm for men and for women? If you do not, who do you think has the greater opportunity?" We should not pre-empt that answer. ]

In terms of speaking up, we have asked people if they felt they wanted to speak up over the past year. If they did feel they wanted to, did they speak up, and how did they feel they were treated? If they did not, why didn't they? Again, that is building on the analysis we did last year, but thinking about what else we need to do to be able to say to firms that are getting this data back, "What can you do about it?" That is what we care about: how you can address some of these things and improve; it is not simply about finding the data.

Q5 **Chair:** We will move on to mental health in a moment, but before I hand over, when you were set up, did you look at other sectors? Do you think there is something particularly unique about banking that makes it subject to—as my brief suggests—cultural deficiencies? What we mean is that problems with culture contributed to the 2008 financial crisis. Do you think that is particularly unique to banking, or is it something you explored in other sectors when you were working out how the BSB was going to work?

***Dame Colette Bowe:*** I am afraid, Chair, that I do not feel competent to say whether there are things that are unique to the culture of banking, but the thing that animates us is that all of us here know why the issue is particularly important. If you cannot trust the banking sector, that is extremely fundamental to our society. There have been a number of scandals in other sectors—for example car manufacturing. There have been a number of scandals in the public sector—for instance the issues that emerged in the Mid Staffs report in the NHS. We would probably be wrong to think that there are unique things about the banking sector. I certainly do not feel that I have a grounded view on that. However, we are doing this because it matters to wider society, not just to the people who are purchasing or consuming that particular thing. Sorry, that is a rather long-winded way of putting it. I think it also animated the parliamentary commission.

***Alison Cottrell:*** I would just add that probably 95% of our work is with banks, because that is our mandate and our membership, but it is not bank-specific. We certainly hope, in terms of what we are doing in the good practice and approaches, all of which we regard as open source, that other parts of financial services and other sectors can learn from this, and that we can learn from them. We have had very good engagement over the past few years with companies, organisations and individuals in the health sector, the defence sector and various other sectors. This is about managing and leading human beings, and groups of people, but it happens to be in banking which, as Colette says, is a central sector to the economy.

**Chair:** Very interesting. Thank you.

Q6 **Catherine McKinnell:** You have already touched on some of the follow-up work that you are looking at doing, but I want to ask a few questions that have come out of your 2017-18 annual assessment. In particular, it found that a quarter of workers in the banking sector think that their job is bad for their health, and 44% feel they are under excessive pressure. That indicates, as you said, that there are things to explore if we are to understand the reasons for this. In particular, the excessive pressure is clearly within the workplace; it clearly appears to be a significant problem in the banking sector.

***Alison Cottrell:*** Yes, I think that's right. When we explore this issue—the pressure and the wellbeing questions, which are clearly very closely linked—with employees and focus groups, talking to employees at all levels, from the most junior up to very senior, two or three factors come out. Again, I stress this is within the organisation; we should get a better sense this year in terms of what lies behind some of the individual answers.

First of all, there is corporate change and how it is communicated, which has been a very strong factor in a number of cases and, of course, in other sectors—

Q7 **Catherine McKinnell:** What do you mean by that?

***Alison Cottrell:*** Where you have restructuring, or just uncertainty, in the industry, and how that is communicated. Is it talked about at the last minute? Are people consulted where changes are happening within teams or at the firm level? People worry; they see things happening in other firms, and they think, "Is this going to happen in my firm?" Again, it comes back to the degree of trust people have in their line managers and senior leaders; all of these things are very linked.

***Dame Colette Bowe:*** Could I just interject a further point on that? It is also not necessarily just about trusting senior leaders. People in this sector and in other sectors are constantly reading and being told about the impact of things such as artificial intelligence on employment prospects. So, this can feel as if you're moving into a very uncertain world, and that, obviously, for all sorts of obvious reasons, can have serious impacts.

It's another of the things that mean this is not necessarily specific to banking, but it is something that we are seeing. As the nature of this kind of work changes, it is immensely stressful, for obvious reasons. Sorry to interject.

***Alison Cottrell:*** No, I agree.

So, if the first issue that comes through is corporate change, the second issue—this is probably quite banking-specific—is the strong focus that there has been in many organisations since the crisis, very correctly and very understandably, on compliance and getting compliance right.

Now, compliance is absolutely central, but it's when it moves into a focus of, "We cannot have any mistakes" that you run the risk of moving into that blame space. People become very scared about taking any initiative—about doing anything. Does it restrain them from actually speaking up when they have made a mistake? That, of course, is not the culture that our organisation wants, but that is the risk. What we have seen are firms recognising that and trying now to move away from that. You can see why it happened, but that is another aspect.

The third issue, which is one that came through very strongly in our work and that we are very interested in exploring further, is the link between the sense of pressure and wellbeing, and also fairness—organisational fairness. When we look at the specific survey question that we ask on wellbeing—in other words, "Is working at your organisation having an adverse impact on your health and wellbeing?"—it is very closely correlated with the question about whether people feel that they are treated with respect.

This is also consistent with other analysis—not BSB work, but other research. For example, the civil service longitudinal study—some work from years ago—found that one of the strongest links between health and longevity was actually related to questions such as, "Do you often feel you're treated unfairly?" So there is this sense that maybe my organisation is very good on lots of things, but, actually, I am not getting fair access to it—whether it is support structures, IT, the performance management system or unfair line management. That does appear to have a strong link through on the pressure and the wellbeing of employees.

I will stress that it is not just because people feel they are being treated unfairly; it comes through as well when people say, "I can do this, but actually the team over there can't," or, "Head office can do this, but in the regions they can't do it." So that is something that we are chasing up.

Q8 **Catherine McKinnell:** A lot of what you have talked about so far is very much from the employee's perspective, but from your discussions with the boards, do you get a sense that they are taking on board what a serious issue this is? To what extent are you able to work with them currently to take the steps necessary to address some of these issues? From the way you describe them, it may well be perceived—rather than being reality, it may stem from reality—that there is a disconnect between management and employees.

***Dame Colette Bowe:*** I will mention a bit about how this is being discussed at board level and then, Alison, you can maybe talk about some of the follow-up work.

I think it is fair to say that every single board to whom we first presented these results about stress and wellbeing was shocked by them, because these are shocking numbers. Sometimes the shock was accompanied by a kind of thought about, "Hang on, we're doing all sorts of things that are intended to support the wellbeing of our colleagues. Why is it not getting through?" It has been an absolutely major theme in our discussions with boards, as a result of which we have been working with them on a number of things, which you might like to mention, Alison.

***Alison Cottrell:*** I will add just one thing, which is that, clearly, the Banking Standards Board's work is one perspective for firms and for boards. What we are seeing firms doing increasingly—we are very pleased, and we hope they will do this—is integrating that with all the other data they can collect internally, including work on absences, staff and other information, because it is about putting this BSB piece of the jigsaw in place, along with all the others, to get that overall picture.

One thing we found, for example, is that when we look at the differences between areas of firms that score very well on pressure and wellbeing and areas in different firms, or indeed the same firm, that do not score well on these questions, it is not about the provision of support facilities, or whether you have the gym membership, the fruit bowls or whatever. It comes down, again, to whether there is fairness in the way we are able to access these things.

The other issue that is increasingly of interest to us is that a lot of the focus, not just in banking but elsewhere, has been on companies helping employees with lifestyle choices—"Are you sleeping well? Are you eating well?" and all those things. That is great, and it is absolutely necessary, but it is not to forget the impact of the organisational structure and processes. You could have all the attention in the world on helping employees to sleep, eat and so on well, but if your performance management process is seen as unfair or biased, and line management is not good, that will more than offset the impact on personal lives. So there is organisational responsibility as well as an employer responsibility.

Q9 **Catherine McKinnell:** I just want to understand the role of the BSB in terms of what it brings. You said the boards appreciate what it does and put it together as a piece of the jigsaw. Presumably, you mean that most financial organisations are undertaking their own internal auditing of their employees and what the BSB brings is the bigger-picture perspective.

***Dame Colette Bowe:*** Yes.

Q10 **Catherine McKinnell:** In terms of giving a sense of how well they are performing in comparison—not direct comparison, but across the generalised, collated data. Is that what you mean?

***Alison Cottrell:*** Yes. Bear in mind that we are a voluntary membership organisation, so we have a self-selecting group of firms. Unless the firm is very new—we have a number of very new institutions working with us—they are probably already doing various things, a lot of things in some cases, in the area of organisational culture, employee culture. There are things where, absolutely, they should look at this data alongside all the other data.

What the BSB approach can bring is two things. First, as you say, it helps to provide that comparative picture. A firm may, in some cases, think it has been doing very well on something and then it looks at the comparative data and says, "Hang on, I'm doing this, but six or seven firms appear to be scoring better. What are they doing that I'm not? How can I improve on this?" Over time, it helps to see that you may be improving but the pack may be improving faster and there are things you can learn.

Q11 **Catherine McKinnell:** Is it anonymised?

***Alison Cottrell:*** Yes.

Q12 **Catherine McKinnell:** So other banks would not necessarily know which bank they were comparing themselves to.

***Alison Cottrell:*** No. They know the other participating firms, but they do not know which of the other firms they are comparing with. So it provides that.

Also, because it is an external, independent approach, and it is very much framed as that, all the employees who answer the survey across the firms do it more or less at the same time with the same sort of framing. They know that the data is coming straight to the Banking Standards Board. Sometimes, you can get differences between the answers people give on an internal survey or an engagement survey and those they give to a Banking Standards Board survey, and that can be because of a number of factors. Again, you need to dig into where those differences emerge from.

Q13 **Catherine McKinnell:** Dame Colette, you said that you were not qualified to compare sectors and that you are very focused on this sector. Are you not engaged in that at all? Some of the issues you have outlined in terms of the blame culture and the pressure of compliance have been analysed in other sectors and lessons have been learned—you referred to the Staffordshire report—to create that culture in which you can take responsibility for your actions and have the ability to convey to managers when things haven't gone right in order to avoid the snowball effect of things going wrong down the line. Are you engaged in that at all?

***Dame Colette Bowe:*** Yes, we are. I would like to be clear about what I meant when I said I did not want to comment on other sectors. As you see, we have done a lot of deep diving into this sector. I would be foolish, on the basis of that, to start pronouncing about others. That is all I mean. I don't want to be on a—

Q14 **Catherine McKinnell:** But it is part of your work and not just something you are unwilling to share today?

***Dame Colette Bowe:*** As Alison said, we have had people from the health service, for example, coming to share experience. That is just one fairly obvious one. It is obvious that the things we are talking about are not peculiar to this sector but quite what the drivers are is interesting.

Q15 **Catherine McKinnell:** Sorry, I know you say that they are not peculiar to this sector, but do you think there is a particular challenge within the banking sector? Do you think that these pressures and the culture are a particular challenge?

***Dame Colette Bowe:*** I would not like to go as far as to say that. I am not saying that because I don't want to say something uncomfortable. I am saying that I simply don't know. We try to ground ourselves on evidence. Unless we had done something equivalently penetrating on another sector, I would not like to say "Yes, this is particularly good or bad."

What I do know is that it matters like heck if the banking sector is permeated with these cultural problems. The second thing, to pick up on your general theme of others being in the same boat, we are doing our best to try to link people up and say, "Look, these guys over here seem to have some good ways of doing this. Why don't you talk to them?" That is another important thing we can do.

Q16 **Wes Streeting:** You will be aware that one of the issues that the Committee is looking at is access to financial services, particularly for consumers who might be considered vulnerable. In that context, I wonder if you might begin, either of you, by giving us an overview of your work on good banking outcomes for consumers. I think that would be interesting in the context of our inquiry.

***Dame Colette Bowe:*** Do you want to talk a bit about what we have done, and then I will pick up when you have done that?

***Alison Cottrell:*** Yes. As I mentioned at the beginning, our main interest is in outcomes—outcomes for all types of customers, of which consumers is one group. The challenge is always how we look at what is happening in an organisation's cultural changes and how that has a direct link across to outcomes. Trying to bridge that and make that link is something we are working very hard on.

In the employee survey that I mentioned as our core evidence base, we have six questions that relate to customers. They are asking about whether employees see their firm going the extra mile for customers and whether customers are at the centre of what the business does—that sort of thing. That gives us one hook into this.

Secondly, there are characteristics that we look to assess in firms. We don't try to measure firms' culture directly because every firm has its own culture. That is coming back to the issues we were talking about previously. We talk about the banking sector culture, but there are myriad cultures. One characteristic we measure, however—we would say these characteristics are linked to good outcomes—is the shared purpose of the organisation.

When employees and focus groups talk about this, most of them see this through how close the firm is to the customer and how linked our purpose is to the customer and how we see that pan out. Those discussions give us some angle on that. However, in order to help us in our thinking to develop the link between the culture and the outcomes, we wanted to ask directly what matters to customers.

We ran a consultation exercise with two parts: one was a consultation document aimed primarily at consumer organisations and civil society bodies, and the other a questionnaire aimed primarily at individual consumers, asking them for their thoughts on what we thought might be a useful consumer framework. What are the issues that matter most to you? Access was one of those. Things like access, clarity, choice, fairness, redress responsiveness, security and safety, and value for money.

Among the consumer organisations and civil society bodies that answered the consultation, access was the most important priority. Interestingly, among consumers directly, it was not—safety and security was. I think that partly reflects the fact that those who answered the survey already had access to a bank and were thinking about what else they value in their bank or building society. Access really came through.

We then had questions around vulnerable consumers—access is again very related to the question of trust, which we keep coming back to. Do they trust their institution enough to self-disclose a vulnerability or the employees in it to behave well towards them? I think a lot of the issues then come back to the characteristics we are trying to test within firms. However, you are quite right: we are always thinking about the outcomes, and customers and vulnerable customers has to be a large part of that.

***Dame Colette Bowe:*** I'd like to add one more thought that comes to me from work I did in a different sector a few years ago, when I was at Ofcom. In the telecoms world, we thought a lot not only about whether the market was delivering but where people are—that matters a lot in that world. A consumer in a dense urban area has a very different experience from someone who is not, to put it bluntly.

A thought I wanted to share with you about your work on consumer access is that it is about geography as well as everything else. That is a big potential issue in this sector. When you think about access, we perhaps slightly default into thinking about digital access, but access has a geographical dimension. If I may, I urge you think about that in your own work on what consumers want from this sector.

Q17 **Wes Streeting:** That issue comes across very strongly for Members of Parliament, and not only for the most rural areas. For lots of towns, things like bank branch and ATM closures are big issues. When can we expect your findings to be turned into formal guidance for the industry?

***Alison Cottrell:*** One area of work that we talked about in our last annual review, and which we are currently still in the course of putting it in place this year, is the creation of something that we are calling a member forum or a member panel. That sprang from some work we were doing on professionalism, which is closely linked to the way that consumers are served, and it will help us to think about some of the practical issues facing firms and their employees.

On the consumer framework we consulted on, we had the responses back and we are thinking whether that needs any revision, which is perhaps one thing that we can work through with that member forum. We will then look at what work firms are already doing—we do not want to duplicate what is already being done out there—and think about where the BSB can add value. In some areas of work, it may be our role to highlight issues, find information and find evidence. Another organisation or body or firm may be better to take it forward. If we are not duplicating, it might be us. That is what we need to work through, to make sure that we actually focus on where we can add some value.

***Dame Colette Bowe:*** Could I just have a rider on that, if I may ask that of you? What is the timing of your work on that area?

Q18 **Chair:** We have only just started. We launched our inquiry formally with a call for evidence last week, and the terms of reference are out there. It will be quite a few months. This place is potentially about to get very busy with something far less productive than that inquiry on vulnerable customers, so we are probably not looking until at least the end of quarter 1 next year to produce a report. We will have various evidence sessions, and if there is evidence from the BSB's work that you want to share with us to contribute to the inquiry, that will obviously be extremely helpful.

***Dame Colette Bowe:*** Thanks, that is very helpful clarification. If we may, we will take that away and think about how we might be able to support your inquiry, if that is its timing.

Q19 **Wes Streeting:** That leads neatly on to a related question. You have described very well the process you are going through to draw conclusions and the iterations that you will have with the industry through your member forum. How receptive have firms been to this initiative? What kind of appetite for change are you anticipating when you get together with some of your members?

***Dame Colette Bowe:*** I will give you my take on this and then see whether Alison has a similar one. They have been very receptive to the focus on outcomes. Because they are going through quite a big process of figuring out how the use of digital technology can enable them to deliver different kinds of service and deliver it differently, they have been quite receptive to our work on outcomes.

The issue that I remain not happy about is the industry's response on branch closures. I have spoken to the chairman of the trade body. I don't need to tell you, as MPs, how important this is. I have a concern that the issue of branch closures needs to get higher up everybody's agenda. I should perhaps do the usual qualification and say that I am speaking personally, but it is a statement of the blindingly obvious, and I think the industry needs to step up on this one.

Q20 **Wes Streeting:** Sure. As you said, you do not need to tell Members of Parliament, but it is great to hear that from you. Hopefully, what you have said to us this morning will be heard by the industry and a very wide range of organisations, newspapers and consumer groups that are as concerned. That is a very reassuring message to hear from you. Alison, feel free to—

***Dame Colette Bowe:*** She probably wants me to emphasise that I am speaking personally, which is always an interesting sign, isn't it? The other quick thing to say—again, you, as MPs, will all know about this—is that this is very much a small business issue. It is not good if you have to drive 20 miles to bank your takings.

***Alison Cottrell:*** Colette's personal views are always worth listening to, as well as her organisational views.

***Dame Colette Bowe:*** That's the right thing to say.

***Alison Cottrell:*** They are very focused on outcomes, and they want practical steps forward. We have focused quite a lot on the survey results today. The other aspect of our work is the BSB's facilitative role, which is bringing firms together and saying, "Okay. Here is the evidence and here is the information. What can we do about it by pooling thoughts and ideas?" It is about providing space where firms can discuss issues—for the retail side, it may be on the consumer side for different parts of the market and different issues—and say, "We are not getting these things exactly right." It is about being self-critical, reviewing, learning and sharing good practice.

Providing that space is something we could not do if we had regulatory powers. We can do it precisely because we don't have them and because this is a voluntary body. Some of these issues, particularly around access, may be solved with competition. For some of them, you need collaboration. Whether it is about branch closures and sharing branches in one space, or whether it is about design principles and minimum standards of service, you need somewhere where they can discuss this.

Wherever we go on the basis of the evidence—three years in, the problem is not having enough to do; it is thinking about what we prioritise at any one time—we must ask what we can learn from this that adds to the mix and not do it just for the sake of it. Then firms can do something with it, and we can support, help and challenge where appropriate—often in very uncomfortable ways.

Q21 **Wes Streeting:** Finally—I am conscious of time—you have touched on geography and other concerns. One of the questions we have been asking as part of our inquiry how we address vulnerability. I am interested in how well you think the industry serves vulnerable customers. Who does the BSB have in mind when thinking about vulnerable customers? Most importantly, perhaps, do you think there are particular aspects of vulnerability that are currently being poorly served by the industry, to which both the industry and the Committee, as part of our enquiry, ought to give particular attention?

***Dame Colette Bowe:*** I will give you a couple of thoughts, Mr Streeting, to which Alison could add. In the civil society discussion—with which the banks have connected, to be fair—there is a good understanding that vulnerability is something that can happen to any of us at various times in our lives. You can't put people in a box and say, "You are vulnerable and you are not". The work that is being done very well in civil society has permeated into the industry and it is engaging through the work that leading firms have done—not just with issues like bereavement, illness diagnosis, uncertainty around medical issues but also general mental health problems and issues with people who cannot get themselves into a better economic situation because they cannot get access to banking.

There is still a way to go. One of our board members is Gillian Guy, who leads Citizens Advice. She has a very good overview. I would not want to put words into her mouth, but I think Citizens Advice can see that there is still quite a lot of work to be done in that margin where, if only people could get better access to financial services, they could make changes in their lives. If you do not mind my saying so, if you do not already have Citizens Advice in your sights for helping with your inquiry, they would be terrific.

**Chair:** They were part of our first scoping evidence session.

**Wes Streeting:** Alison, is there anything you would like to add?

***Alison Cottrell:*** I think that the Lending Standards Board's recent review of the vulnerability principles is a very useful first take on how the industry is moving on this. Again, they highlight in that the importance of trust between the vulnerable customer and the firm. One of the things that I think is a challenge all the time is access—not just in the sense of geographical access but actually understanding the products, when we look at the literacy and numeracy rates in the UK population—and how easy these things are to understand. Thinking about the Edelman Trust Barometer of earlier in the year—because from our perspective, we focus on trust worthiness: trust is reputation in the eye of the beholder, so our focus is rather on how trustworthy the firm is. There were some interesting findings on enhancing or detracting from trust in the financial services sector. For the UK, top of the list of what people said would help trust were terms and conditions that they could understand. Then there was fraud protection and product information. From everyone's personal experience, there is a way to go. Can we talk about proper access for everyone if there is access to a product but you are not actually having access to information you can understand?

Q22 **Stewart Hosie:** Dame Colette, you may have seen the Committee's report on women in finance published last June.

***Dame Colette Bowe:*** I'm awfully sorry, Mr Hosie, I can't quite hear you. I have got a very heavy cold, as you can see, and it has bunged my ears up a bit.

Q23 **Stewart Hosie:** I will lean forward. You will have seen the Committee's report on women in finance published earlier this year. We expressed dismay at the under-representation of women in financial services. What is the BSB's assessment of the level of gender diversity in banking, and how does the banking sector perform in terms of other forms of diversity?

***Dame Colette Bowe:*** That is rather a big set of questions.

Q24 **Stewart Hosie:** General diversity first—and then how banks perform in other forms of diversity.

***Dame Colette Bowe:*** Well, you will also have seen the report published today by Philip Hampton, which shows that there is a gender diversity problem right across industry in this country. If you look at the Hampton report, you will see that the banks, in terms of board membership and female membership, which I think is one of the issues that Hampton was focused on, are certainly not behind the pack at ExCo level according to their analysis. That does not mean it is all right by any manner of means.

I have two or three issues that I would like to mention to the Committee. First, the whole discussion on diversity is too narrowly framed. I do not think any of us, including people in this room, give nearly enough thought to the diversity of what is in people's heads. For example, I would not regard a board that was gender and ethnically balanced as being particularly diverse if everybody had had the same education—if everybody had been to the same university, for example, and had the same degree. That is one of the things we do not focus on enough. There is an easy discussion—sorry, it is not easy. You can have one level of discussion about diversity and then there is a harder one about what is going on in people's heads. I do not think we are even at first base on that second one. That is my first thought on diversity.

Q25 **Stewart Hosie:** Before you move on—I agree entirely with what you have just said—how do we break that down? How do we encourage financial institutions to recruit outwith traditional recruiting areas and recruit people who are not quite like them? We all know what that means. How do we get them to go to Nottingham Poly to recruit their people rather than Oxford or Cambridge?

***Dame Colette Bowe:*** They are making a start. There are now apprenticeships available in the industry, for example, which is a start, but I think we are only at first base. This is one of the most difficult issues and it is going to take a bit of time. I am not trying to dodge the gender issue—I want to come back to that—but I wanted to widen the discussion on diversity. It is partly a matter for the education system.

Q26 **Stewart Hosie:** Let me take you back to gender. What do you, or what does the BSB, consider to be the main barriers to progression for women in the industry?

***Dame Colette Bowe:*** Would you like to say a word about what has come out of our survey, Alison? Then we will come back—I have another couple of points that I want to make, but I ought to let Alison have a go.

***Alison Cottrell:*** This is thinking about what people have told us in focus groups. Again, purely on the gender aspect, it is about retention and promotion rather than hiring. There is a question about how well firms use the data they have as to why women are not progressing up the ranks. Is it because they are not applying for the roles in the first place? Is it because they are applying but they always come second? At what point do they lose them?

What we find in what employers tell us is a lot a variation in how returners feel—that is, of course, thinking on the gender aspect about returners after maternity leave, although it is not always women and it is not always after maternity leave—about the degree of challenge in the roles they come back to and the ease of access to flexible working.

That can go in two ways, the first of which is whether it is available or not, and the second is whether people feel trusted to use it when it is available—again, this affects men as well women. People ask themselves whether their manager and their colleagues trust them to work flexibly and work at home. There are huge differences even within organisations depending on the local management approach.

I also mentioned that one of the questions we are asking this year—I do not know the results as yet—is whether people see men and women as having equal opportunities. How do men's answers and women's answers compare and how does that look across different parts of the sector? Certainly, one of the things I would see as important is that it is not set up as men and women having to fight over a limited set of opportunities to get the position. Firms are at different stages in how well they are communicating the fact that this is for the organisation and everybody's benefit, and communicating the benefits of diversity. It is not simply that every opportunity that comes up is either going to go to a man because it always has or going to go to a woman because things are different. You cannot do it in that sort of fighting-over-a-place way.

Q27 **Stewart Hosie:** Is the BSB promoting diversity in an active way within the member companies, and how co-operative are they being, particularly on soft things like flexible working, the challenge in the roles for returners, as you say, and trust? How understanding are they being, and how co-operative are they being in changing what they do?

***Alison Cottrell:*** They are very receptive and the policies and the procedures are there in most cases. It is about how they are implemented. Our work can help show whether they are being implemented in the same way across the firm, and how it looks from the point of view of the employee. You can have the best system in the world but if it is not being applied, it could have completely counter-intuitive consequences.

The other thing I would mention in terms of our approach is that, although it seems like a bit of an overused phrase now, we always think of diversity and inclusion together. If you just focus on diversity, you find you are recruiting a very diverse-appearing set of people, and then you wonder why they do not stay. It is because they are not in an organisation where anyone is listening to them. If you want the wisdom of crowds, you have to have an environment where it is safe for people to speak up. We are very interested in tracking, or following over time, the links between the work that we are doing on speaking up—or more accurately, speaking out; being able to say a different opinion, or "We could do that better"—and on diversity.

Q28 **Stewart Hosie:** Dame Colette, without naming names, have you seen any examples of best practice within any of the membership companies?

***Dame Colette Bowe:*** I have seen some very good practice from a very prominent member of the Banking Standards Board—I am not going to name a name here—where this is led at the level of the chairman of the business. That is the main point I wanted to make to the Committee: the board of a company and its composition, and the composition of the ExCo, is the direct responsibility of the chairman—or the chair, if that is how they prefer to be addressed. There is nowhere to hide. If a company is not delivering on this, then you go straight to the chair and say, "Why not?"

Q29 **Stewart Hosie:** Let me just ask one final question. That is a very good example: it has been led from the chair down, so it has been driven from the very top. In general terms, are the majority of the institutions, or all of them, taking this as seriously—giving it as much attention—as they ought to?

***Dame Colette Bowe:*** Among the banks that we talk to, I would say yes, in terms of gender and other forms of diversity such as ethnicity. The jury is still out on whether, to go back to my very first point, the recruitment practices in that industry are making it truly open to all the talent of our country, and whether they are delivering on that.

Q30 **John Mann:** You wanted to know why you hadn't been invited. We did not know you existed, in reality. I have two questions. Let me just go through this list: HSBC money laundering, UBS LIBOR rigging, J.P. Morgan trading scandal, UBS aiding tax fraud, Standard Chartered breaching standards, ING breaching standards, RBS LIBOR manipulation, and Goldman Sachs misleading investors. Those are the top 10 fines on financial institutions.

What is the point of your organisation? So far, you have told us about the nice little things that the banks could or should be doing, and you said there is no hiding place. None of the people in the financial institutions responsible for huge fraud, doing over customers, and wrecking the economy is hiding, because they all have jobs elsewhere in the banking sector. So when it comes to the senior managers, what has your organisation done to change the culture whereby the people at the top of financial institutions in this country have been provably found wanting by reason of criminal activities within their banks and other institutions?

***Dame Colette Bowe:*** I think, Mr Mann, that the best way I can respond to that is to say that if you look at our published reports, you will see, from the work we are doing on the culture of organisations, the progress that is being made to address the cultural issues that have led to the kinds of events that you have just described, which themselves have been in various ways addressed by the regulatory authorities. I think that is the only way I can answer that.

Q31 **John Mann:** Let me ask about your remit. You are not statutory. You don't meet the remit that was requested by Tyrie's Commission when it recommended setting you up. So no miscreants have been dealt with by your organisation. Ms Cottrell, what powers ought you to have? Should you be statutory? Otherwise, you are simply tinkering on the sidelines rather than dealing with the fundamental issue, which is that the fundamental frauds and manipulations within this sector have occurred with the knowledge of, and sometimes the involvement and connivance of, the people at the top—the very top. We have seen with TSB that they still don't get it even now. That's under our watch; it's under your watch; it's under Parliament's watch. What powers should Parliament be giving you in order that you can do the job effectively and change the culture and standards within banking?

***Dame Colette Bowe:*** I think—

**John Mann:** I was asking Ms Cottrell first. I'm sure you'll have something to say, Dame Colette, but let's hear Ms Cottrell first.

***Dame Colette Bowe:*** Before Ms Cottrell replies—

**John Mann:** Sorry; I'm asking Ms Cottrell first.

***Dame Colette Bowe:*** Sorry; I thought from the way you were addressing me that you were addressing me.

**John Mann:** I addressed Ms Cottrell directly and asked her.

**Chair:** Well, let's hear from Alison first and then we will hear from Dame Colette.

***Alison Cottrell:*** I don't think we should have statutory powers. I don't think the task of addressing culture is best delegated to a regulator. I don't think we should be a regulator. This is about how boards and firms take responsibility for managing their culture, and it is the board's responsibility. From the perspective of a regulator or a statutory body, there are two ways such a body could go: either it could prescribe what the culture of each organisation should be—I think, to be fair, that is on a hiding to nothing, because the culture of each organisation will be different and reflect its history, its people and the environment it works in—or it can say, "It is the responsibility of firms to manage their culture and we, as the regulator, will assess and hold the firms accountable for that," which is what the regulators in this country are doing.

Our role is to work with the firms and to say, "This is your job. How can we help, support and challenge?" Our work with them can be very, very uncomfortable. If you are a board or an executive and you get a report that says, "You are in the bottom quartile on this"—or this or this—"Everyone else is doing better and your results are very, very poor," that is not an easy place to be. If we want boards and firms to manage their culture, we have to actually leave that responsibility with them. I don't think it should be a regulatory responsibility; it is the responsibility of boards.

If you were to give the BSB statutory powers, it would not be a BSB with statutory powers; it would be a completely different organisation, and my question would be: who, then, is working with the firms? I think the BSB fills its own space.

Q32 **John Mann:** Thank you. Dame Colette, is there anything you want to add? And finally, what is the largest organisation that has chosen not to join you?

***Dame Colette Bowe:*** I am not sure about relative size, but two of the firms that you mentioned in your opening remarks, J.P. Morgan and Goldman Sachs, are not members.

Q33 **Chair:** Do you have anything to add to Alison's point about the nature of the BSB?

***Dame Colette Bowe:*** I just want to correct a point that Mr Mann made in his opening remarks, which was that the parliamentary commission called for the banking standards to be statutory. It very emphatically did not.

Q34 **John Mann:** It called for you to be capable of disciplining miscreants, and that would require some powers somewhere.

***Dame Colette Bowe:*** I don't think I have got anything to add.

Q35 **Charlie Elphicke:** Dame Colette, what is the difference between a culture of accountability and a culture of blame?

***Dame Colette Bowe:*** I would say that a culture of accountability is one where people know what they are responsible for and they step up and take that responsibility, and if they have made mistakes, that the people they are accountable to distinguish between honest mistakes and what I might call dishonest mistakes. Okay? That is, roughly, how I would characterise a culture of accountability. A culture of blame is the kind of culture where, if something goes a bit wrong, everybody is rushing for the exits saying, "Well, it was nothing to do with me" or, "I didn't have the right training or equipment" or whatever, and where nobody wants to step up. Maybe the distinction is between stepping up and not stepping up.

Q36 **Charlie Elphicke:** So how can firms and regulators bring about greater levels of accountability while avoiding a culture of blame?

***Dame Colette Bowe:*** That is one of the things that, as Alison was saying earlier, is rather important in the conclusions we have found about speaking up. The senior management regime is a really important contributor to developing a proper culture of accountability. Again, as Alison mentioned, one of the things that our analysis is revealing is that since all the changes in regulation that followed the crisis have taken place and very severe sanctions have followed, there has been something of a culture of anxiety around people not wanting to step up and say, "I am responsible for this."

Going back to what we were discussing earlier about anxiety, stress and lack of wellbeing in the workplace, a culture of blame has, to some extent, followed from the tightening of regulation, and that is of great concern. A culture of accountability has got to be one where you can put your hand up and say, "I did this. I am sorry, but I made a mistake. I made the mistake for the following reasons. How are we going to fix it?"

Q37 **Charlie Elphicke:** Do you see whistleblowing as part of that?

***Dame Colette Bowe:*** I think whistleblowing is part of it, but I think there is a more interesting side to it in a way, which is speaking up. You can speak up without being a whistleblower. You can say, "I think we are not getting this particularly right" without necessarily saying, "I am accusing X of having not got it absolutely right." Alison, do you think I have covered that there?

***Alison Cottrell:*** If I may, I will just add two thoughts. On the accountability/blame dichotomy, one of the areas we ask employees in both the survey and the focus groups is about people taking responsibility and actually owning responsibility. In a sense, if you have a culture of accountability, people do own it and it is clear what their responsibilities are. The regulatory changes around the senior managers and certification regime have certainly helped that. In the blame culture, people try to pass the responsibility on; they don't want to hold it.

The issue that Colette referenced about mistakes is fundamental here. Something that comes over in the focus group discussions is that where you have a senior member of a team or someone in an influencing position—it might be just a team manager, it might not be someone on the executive committee—who stands up and talks to people and says, "Yes, I made a mistake; that project is going wrong; I didn't do this, and this is what I am going to do about it," people talk about that all across the firm. In a way, that tells you that it doesn't get done enough, because when it happens it makes a huge impact. It gives other people permission to say, "Well, if that person did it, then okay, I can talk about it as well."

When you just get silence and no one has any examples of where someone makes a mistake, then you know that, whatever the policy is saying, it is not actually resonating through the organisation yet. So leading by example is fundamental here.

Q38 **Charlie Elphicke:** If you are the person whom the whistleblowing is done against, you don't know who has said it and you don't know how to answer it. How do you make sure that it is not used as a weapon of corporate warfare, or false allegations launched simply to smear people?

***Dame Colette Bowe:*** The honest answer is that you try to have the best processes you can, but we have all seen instances where this has happened. There is nothing unique to banking about this. We see it in other sectors. As I look around this room it may well be that you have seen it in this institution in which we are sitting. So you have to have the most robust processes you can. You have to have very good processes of inquiry into the nature of the thing that is the focus of the whistleblowing. However, as we all know, this is an area that is very difficult to get right. You have to walk a line between interrogating the matter on which the whistle is being blown and not seeming to put people in a box where they feel they can never do this.

Q39 **Charlie Elphicke:** Is there not a risk, though, that with this kind of culture of, "Let's have whistleblowing" you can end up with a situation kind of like Salem? The guardian against that in our history has always been natural justice, to enable people to make an answer. Is there a risk that we don't allow that to happen with whistleblowing, and it is a free hit, for someone to simply launch a malicious campaign on someone?

***Dame Colette Bowe:*** Mr Elphicke, it is perfectly possible, and any organisation or institution has to have very robust procedures for interrogating matters being complained about, or on which the whistle is being blown. I have actually had to do this myself previously, although not in this job, obviously; in my commercial life, when I have chaired an audit committee, I had to be the person to whom whistleblowers make their complaints, and you have to be extremely careful that you have a process that is fair to both sides.

Q40 **Charlie Elphicke:** If we are to have a culture of anonymous denunciation of people, is it not important that where it is found that the whistleblower is in fact malicious, they should themselves be sanctioned and be accountable for that, and not simply be allowed to have a free hit?

***Dame Colette Bowe:*** Absolutely.

Q41 **Charlie Elphicke:** Does that happen in our current regulatory set-up?

***Dame Colette Bowe:*** I am afraid I cannot comment on how the regulators deal with whistleblowers, because as we are not a regulator and we are not party to how they deal with whistleblowing. I am really commenting in the light of my own experience in the commercial world, but obviously you have got to be fair to all parties, and you cannot allow malice to become the animating spirit of procedures that are meant to be there to protect the integrity of the whole organisation.

Q42 **Charlie Elphicke:** I raise this because Jes Staley was famously fined for trying to find out who launched the accusations against him. He felt that they were malicious and the result was that not only could he not know who it was, but he was fined for doing that. What message does that send in terms of accountability being on both sides, and ensuring that there is a fair hearing, and that natural justice and the rule of law is preserved?

***Dame Colette Bowe:*** I am afraid I cannot comment on regulatory dealings in any case, Mr Elphicke. I am sorry if that seems unhelpful to the Committee.

Q43 **Charlie Elphicke:** As a matter of principle, then—shall we say of banking standards, or life standards—would you think it is important that we make sure that when we have a culture of accountability we ensure that we also have the rule of law and natural justice, and that everyone gets a fair hearing, and everyone gets a chance to have their say and ensure that injustice is not done to them?

***Dame Colette Bowe:*** Absolutely, and plainly no arrangements any institution can have for dealing with whistleblowing can be placed above the requirements of natural justice and the law.

Q44 **Charlie Elphicke:** Finally, your 2017-18 annual review notes: "Learning from other sectors…has been an important aspect of the BSB's work" on accountability. What have you learned?

***Dame Colette Bowe:*** Alison, do you want to say a little about the health service connections that we have made?

***Alison Cottrell:*** Yes. We have mentioned some other sectors that we have spoken to—clearly health, as another regulated sector, has been a very interesting one in this context. It is about getting a sense of how organisations deal with things such as hierarchies and silos, which are evident across health institutions, as they are in banking. What we find when we talk to our focus groups is that that comes out from employees. In organisations that score well on accountability, people talk about collaboration and about knowing who does what across the organisation; at the poor end, they talk about silos.

We have worked and talked with individuals and leaders across sectors, including health, about how they are trying to break things down and encourage communication across different professions within the health service, whether that is in the context of morning meetings or of trying to encourage people to look beyond roles and talk to individuals. You can—and often do—have exactly the same policies in organisations in different sectors, or even in the same sector, but the way in which they are implemented will be different depending on the culture of the organisation. What it comes back to, time and again, is the example that the people at the top are setting.

Whichever organisations you talk to, they will always say, "We put a big emphasis on encouraging people to speak up"—not just whistleblowing, which is at the formal end of the line, but talking up. They say, "My door is always open." It may always be open, but you have to be brave to walk through it. The question is how those managers and leaders can cut through the cloud that surrounds them, reach through to invite views back up, and listen to them, even when they are views that they really do not want to hear.

They also need to respond to them. The other thing that comes through when you ask people why they are not speaking up, either in other sectors or in the banking sector, is that some are worried about the consequences, some do not trust in the confidentiality, and others just say that nothing ever happens. Again, it is about how you can learn, not just in terms of the processes, but in terms of the communication back down, so that if someone says something, it is worth it because they will be listened to. Again, it is the practical things that we are looking for across sectors.

Q45 **Stephen Hammond:** Good morning, and thank you for coming to give evidence. May I ask a few questions about your assessment process? Your 2017-18 annual review, which was published earlier this year, talks about the quantitative and qualitative element. Dame Colette, you said that you had added a number of questions this year. Could you say where you think the process still needs to evolve, what the strengths and weaknesses of the current processes are and what you would like to add?

***Dame Colette Bowe:*** This is really Alison's special subject, so I will ask her to crack on.

***Alison Cottrell:*** Briefly, there are two areas. One area in which we absolutely need to develop, but in which we cannot move faster than time, is simply having more data. In the 2017-18 report, we could look at two sets of data. We could say that a change had happened, but we were some way from being able to say that it was a trend or that it was consistent. This year, we will have three sets of data, which is very exciting for us, although is still only three sets. It will allow us to say how the industry has built on its progress, or indeed gone back on it. Over time, we will be able to build up a more detailed picture and analyse it in greater depth. We have added to our capability at the BSB with behavioural economists and behavioural scientists to allow us to do that, now that we have this great database.

The second area goes back to something we talked about earlier: the connection between culture and outcomes. How do we make that link? When we think the way in which the firm serves its customers is improving, how do we know how it actually feels to customers? Is there information that we can bring into the assessment process so that it is not just about the views of employees, and if so what is it? Alternatively, what other things that the information in the assessment process provides should we be looking to link to? If we are thinking of consumer outcomes in the retail space—the treatment of consumers, the treatment at repossessions, all of those sorts of things—how is what we are looking at within the firm translating into outcomes outside it? What connections can we draw? What are the causalities? This takes time. It takes that initial evidence base, and it takes skill and capacity on our side, but it is about where we can draw those links.

Q46 **Stephen Hammond:** Thank you—that's helpful. Can I just probe a little more? You have set out nine characteristics that define culture. You will have seen the recent speech by Vice-President Stiroh of the New York Fed. He made a number of points about your process, but also said upfront how difficult it is for anybody to measure the culture.

Clearly the cultural inputs will determine the outputs at the other end. Do you agree with his assessment that culture is almost impossible—or very difficult, or not straightforward—to measure, and what have you done to reassure yourselves that you are measuring that part to get the output at the other end?

***Alison Cottrell:*** I don't think you can measure culture. I would agree with him absolutely. Each organisation and firm that is a member of the BSB, and every firm that isn't, has its own culture. That will be affected by its leadership, by the people who are part of the firm, and by the environment and basically a function of its own history. Actually, it should be a source of its competitive advantage, and it is a part of its identity.

Our starting point is that each firm is very different. There isn't, therefore, a single good bank culture that we measure all the firms against, but we define a good culture by good outcomes for customers and for society, and a sustainable business model. Because we do not have a direct link—I would argue that nobody has a direct link as yet—between the culture and the outcomes, we could either have spent a very long time trying to build that link theoretically, or we could do as we have done and say, "We need to do something. Something needs to happen. Let us assume that a firm that demonstrates certain characteristics well will probably be better placed to serve its customers than one that does not."

That is where we come back to the characteristics such as reliability, honesty and competence. We measure those characteristics, but they could exist to a very high degree in firms of very different cultures, and they do because the culture will be different in a new challenger than in a long-established retailer, a long-established private bank or whatever. They could have very different cultures, but all demonstrate those characteristics very well or very poorly. That is what allows us to draw—

Q47 **Stephen Hammond:** Just to clarify, on the characteristics that you set out, are there any others that you would like to add, or are they the right nine?

***Alison Cottrell:*** They are the nine that we use. It is a judgment call. We spent a long time debating this, as you can imagine, at the beginning. Did we want integrity in there, for example, which is an obvious word that would stand out? We thought, "Actually, no. All of these add up to something called integrity, rather than it being a particular one." There are lots of different views on what they could be. Those were the ones that we chose.

Q48 **Stephen Hammond:** In Vice-President Stiroh's speech he talks quite a lot about your processes and comments on the qualitative and the quantitative process. I wondered how much conversation you had with other international standards bodies when you assessed what characteristics you include and the process that you follow.

***Dame Colette Bowe:*** It is not a direct answer to the question, but you will be interested to know that, once we got going and other people in other jurisdictions started seeing what we were doing, we had some very interesting conversations with them. They are starting to say, "Maybe there is something generic that we could apply." That gives us confidence that this approach has some sort of validity. It isn't just: "Here's some stuff we've thought of. Let's try it."

I should also say—I cannot remember whether Alison mentioned this—that the initial approach was developed in conjunction with some ethnographers, which I thought was quite interesting.

Q49 **Chair:** What is an ethnographer?

**Stephen Hammond:** Glad you asked!

**Chair:** I thought I'd ask the obvious question before everyone pretends to know what one is. Dame Colette, please enlighten us.

***Alison Cottrell:*** It is a branch of anthropology. It is observing groups, and how people behave.

***Dame Colette Bowe:*** It is how people behave in groups and tribes.

**Chair:** Let's hope they have not observed the House of Commons then.

**Stephen Hammond:** That would be fascinating.

***Dame Colette Bowe:*** We were thinking of offering to make our services available.

**Chair:** Mr Hosie is on the Commission. I am sure he will take note of that offer. Sorry—I interrupted.

***Dame Colette Bowe:*** Talking of making our services available, you may possibly be aware that the Irish banking industry is setting up a similar body. I am in the process of helping them with that on a pro bono basis. It has some attractions in various jurisdictions.

***Alison Cottrell:*** Actually, just going back to your question, when we built up this model at the beginning, we looked at what was being done elsewhere, both commercially and in other organisations. To be honest, it would have been a lot easier to be able to take a model off the shelf, rather than having to build it and design it ourselves. All the models we looked at did not have that endpoint focus on the outcomes for the customer, which is why we built our own model. As Colette has mentioned, we worked with ethnographers, behavioural psychologists and different academic experts to test it. We then tested it with employees at firms, saying, "Were the questions understandable?" We can argue that any firm should demonstrate these characteristics, whether they are a bank or not. People do understand them as concepts.

Q50 **Stephen Hammond:** I have a couple of final questions. Obviously the output or outcome would measure misconduct, but do you think you have a good enough measure of misconduct risk—the two things are obviously different—with your characteristics and the process you follow?

***Alison Cottrell:*** Yes. It is interesting, isn't it? You mentioned conduct and misconduct there, and often the conversation is not about avoiding the misconduct. You take that as a given; it is about what you do in the conduct space, in a sense, asking, "What is the difference between average and good?"

In terms of the risk culture—any good organisation, particularly a bank, with a good culture needs a good risk culture—we have found it useful and interesting over the past couple of years to work with different networks and different professional bodies and networks in banking. Whether that is on the audit side or the risk management side, it is about how the information can be used in what someone is doing. Again, you do that with other things you are doing, but how can you bring that into the mix? It is not about how the firm comes to the BSB, but how the BSB information gets embedded within the firm so that it becomes part of business as usual. We are learning as we go along about the best way of presenting it, asking, "What you are focusing on? How is this useable?"

***Dame Colette Bowe:*** The only point I wanted to add on your question about misconduct risk, Mr Hammond, is that if you are a board receiving one of the reports, that question is very much in your mind. It is one of the things you would be assessing as a director of the business.

Q51 **Stephen Hammond:** That neatly leads on to my final question. In your response to Mr Hosie, you talked about the importance of the chairman being involved in the discussions you have with firms. I take it that people can choose whether to be a member of your body, but in how many of those conversations and discussions you have had post the assessment process has the chairman been involved? Would you like a number of these institutions—I will phrase this carefully—to be taking the discussions you have with them more seriously?

***Dame Colette Bowe:*** I think I am correct in saying that with every institution that is a member of the Banking Standards Board, I have had discussions at chairman level. I think that is right. With the long-standing members, I have had repeated discussions at chairman level. When we set this up, we knew that the only way it would work would be if that was the level it happened at. That is how it works. It might not always be the nicest conversations they have.

**Chair:** Just to expand on your question, in one of your answers, Alison, you said that no one wants to be in the bottom quartile. At the heart of what Mr Mann and Stephen were asking is how the BSB is seen. Is it right that people do not want to be in the bottom quartile? Does it affect them in the changes they are making internally? Should there be more public disclosure of how each specific institution is doing in a kind of league table? You produce a general report. Naming and shaming is perhaps going too far, but do you get the impression that people really do not want to be seen to be wanting by the Banking Standards Board?

Q52 **Stephen Hammond:** Just as a supplementary, the Chairman is right that you publish the overall, but do you encourage firms to publish their own individual reports?

***Dame Colette Bowe:*** We leave it to them whether or not they decide to publish. A number of the firms make the core findings available to their colleagues which, in my view, is the right thing to do. But in essence this is the responsibility of the board. We are not a group of people coming in and saying, "You will do this; you will not do this." We say, "This is your responsibility."

***Alison Cottrell:*** Just to follow up on the point about the board taking them seriously when they are in the lower quartiles, certainly one of the things that I have learnt as we have gone along and talked with different boards is that the board is not a homogenous entity. It's a number of people sitting around and focusing on issues. When we talk about the BSB findings, it is interesting that executives and the non-execs have different experiences and different angles: They can say that they are not sure or that they recognise something; or ask how they address a finding. The findings can be at odds with the firm's expectations—some of the most challenging discussions are not necessarily with a firm in the fourth quartile, but with a firm that is not in the first quartile when it thought it was going to be. "How do we do this? Why is this different? What are we missing?" Yes, it's a very challenging conversation. It's also a conversation you couldn't have if we were sitting there as a regulator, because that discussion would then be with us all the time, whereas actually it can start to be around the board, which is important.

**Chair:** That brings us very neatly to Rushanara's point about regulators.

Q53 **Rushanara Ali:** Before I go on to the relationship that you have with the regulators, I have a supplementary. Are you able to tell us whether you had a conversation like that with TSB, for example?

**Chair:** You said you weren't going to discuss individual institutions. Unless you want to add something—

***Dame Colette Bowe:*** What I can say is that TSB is not a member of the Banking Standards Board.

Q54 **Rushanara Ali:** That's revealing in its own right.

In the 2018-19 business plan, the FCA describes a firm's culture as a priority. How can authorities regulate for improvements in culture, and how much progress has the FCA made in relation to the banking sector in recent years?

***Dame Colette Bowe:*** The FCA has made a lot of progress. One of the ways in which they have moved along—you will realise I am saying this on the basis that we spend a lot of time talking to the FCA about our work—is in understanding this key point that there isn't a single good culture, and that the point of all of this is to understand what is the culture of any given business and then how is it conducive to meeting the purposes of the business or not. The FCA understands that extremely—*[Interruption.]*

**Chair:** There are an awful lot of bells in this place.

***Dame Colette Bowe:*** I am afraid I have lost my thread. I think I was saying nice things about the FCA.

***Alison Cottrell:*** Perhaps it's worth adding to that. As we have mentioned, the only regulation that the FCA could have is the choice between being very prescriptive or saying to the firm, "Your responsibility is to manage the culture. Tell us how you are doing it and we will focus on the outcomes." What we have found in working with the FCA and the PRA—it has been very important in our work—is the role that the regulator has played by not having a full relationship with us and allowing the firms the space to be self-critical and to self-review when they have the report. It's important for the BSB's type of work—the industry-driven work—to make headway for boards to be given that space to reflect and then have a conversation with the regulator about what they are going to do.

Q55 **Rushanara Ali:** Have you had conversations with the FCA about the pace of action when they are involved with some of the things that go wrong? The GRG is one of those examples.

***Dame Colette Bowe:*** No. We do not at all get involved in regulatory interventions.

Q56 **Rushanara Ali:** You mentioned joint working. Are the PRA and FCA the main institutions that you liaise with, or do you think of your role as being wider than that? I will come on to why I am asking this question: it is related, for instance, to our economic crime work, where the NCA has an important role in what happens throughout the financial industry in this country. How widely do you cast your net in your engagement and joint working with other institutions?

***Dame Colette Bowe:*** I am going to say something that will sound a bit feeble, which is that we are quite a small organisation, so the top priority for us in liaising with other institutions is the financial regulators.

Q57 **Rushanara Ali:** Should you be better resourced?

***Dame Colette Bowe:*** No, I don't think so, because what we are doing is quite difficult and quite focused. Somebody else might take a different view from me and Alison, but we have a rather "stick to our knitting" approach. We do not want to become generalised so that we have an opinion on everything. One point I would like to add is that, in constructing the board of the Banking Standards Board, we try to ensure that we have people on the board who connect us to other worlds. I mentioned earlier that Gillian Guy of Citizens Advice is on our board.

Somebody we have recently recruited is the very recently ex-chief executive of the Alan Turing Institute, which as you will know is the national institute for artificial intelligence. We are trying to connect ourselves in to stuff that is going on.

Q58 **Rushanara Ali:** I am going to move on, because I have a few more questions. Do you have a view on the FCA's proposal for a duty of care?

***Dame Colette Bowe:*** I am never sure whether a duty of care is a fiduciary responsibility or not. I am never very clear about that. That is my only view. I am not sure whether it would add greatly to the sum of present regulatory actions, but I don't know whether you have a different view, Alison.

***Alison Cottrell:*** Yes, I think that is the main question. Clearly, we would all like firms to behave as if they had a duty of care, irrespective of whether it is a formal responsibility. That is what we are trying to focus on in our own work. In the new regulatory regime, with the senior managers regime and the FCA's conduct rules now in place, there is a question about what it would add on top and whether some of the issues that sometimes lie behind questions about the duty of care are actually about the regulatory perimeter. It is a question of what would be additive.

Q59 **Rushanara Ali:** But you would not be closed to the idea? Would you be willing to discuss and explore this further? From the point of view of our experience, our constituents and the consumer dimension, we are frankly not satisfied that the regulators, the Banking Standards Board and other institutions responsible for looking at the sector have done enough to address the impact of failures on consumers. If it is just a definitional matter and the FCA's definition is wider than fiduciary, should it not be something that you work up the answers to, to come up with something that gives us confidence that duty of care would be a bigger facet of the regulators' work?

***Dame Colette Bowe:*** We would be very open to that discussion with them, and we obviously ought to be part of that discussion.

Q60 **Rushanara Ali:** Thank you. I am just going to come on to some of the points that were made about some of the failures, despite the banking crisis, your work and so on. The recent one was the TSB evidence session. There were 100,000 complaints following the transfer of the technology platform. We have got used to senior managers coming in front of this Committee. When things go badly wrong they are very good at apologising, but the action takes a long time to follow. What is concerning is that, despite your work and the work of the wider sector and the regulators, we often find ourselves in those situations where things have gone badly wrong. There are a lot of cases of technology failures now, which is a new frontier challenge for us. What are your reflections on what should be done to shore up that sector and the advice you give to banks on how they should approach these issues and how they quickly redress and address the problems that consumers face? Do you have a view on how the regulators should act in those circumstances? It has now been quite a long time in relation to the TSB case.

**Chair:** Seven months.

**Rushanara Ali:** Yes, and some of the cases are harrowing.

***Dame Colette Bowe:*** I am sorry to be boring, but I do not want to comment on how the regulators conduct their business.

Q61 **Rushanara Ali:** But do you have a view on how standards should be applied in relation to technology and the new challenges that technology poses, given the growth in FinTech and the use of technology buybacks? That is a general point. Do you have a view on that?

***Dame Colette Bowe:*** On the general point, I think it is for the boards of banks to ensure that they have the technical competence within their organisation to cope with the things that they are trying to do. That might sound blindingly obvious, but it isn't.

Q62 **Chair:** Does it go back to your consumer framework and the questions that Mr Streeting was asking, and Rushanara's point about operational technical IT resilience being a part of the consumer framework?

***Dame Colette Bowe:*** Exactly.

Q63 **Rushanara Ali:** Do you see the frustration in people passing the buck, frankly, and saying that it is the board's responsibility? The board chairs will come along and say, "We are very sorry, but we have messed up," and the thing just goes round in circles. Post financial crisis, given your remit, what has happened? Do you think the number of failures is good enough? Should there be more action and what should those things be? I appreciate that you do not want to muddy the waters in terms of being seen as a regulator, but I am concerned whether you are feared enough. When you intervene, do they take you seriously? If they are not taking you seriously, we would like to know why not, and what we can do to ensure that those who are not joining and not playing ball are made to do so, because we cannot go on with continuing failures like this, which have not stopped after the financial crisis. It is not on the scale of the financial crisis, but the problem has not gone away.

***Dame Colette Bowe:*** Of those various points, the one about why certain people have not joined is one you might like to ask them. That would be a very pointed question, if I may say so.

***Alison Cottrell:*** Could I just draw out one point? Chair, you mentioned the links with the consumer framework. There are also links with work we have done and are doing on professionalism. But also, going back to one of the themes that keeps coming back in so many areas of our work, namely speaking up, we often hear from employees that—this is not the whistleblowing end of things, but in the context of teams and daily life—it is easier to speak out when there is something clearly detrimental to the consumer or something which links to regulation, but it is much harder when it is around personal behaviour—when we are in the bullying and harassment space. It is also harder in a context when decisions have been taken, the project is rolling and the deadline is there. "If we stop it, my manager won't look good and I won't look good." When we are looking at the culture of the organisation, it is not just a case of whether people are happy to speak up, but whether they are happy to speak up in areas that make a difference. One of those areas is when a decision has been taken, how do you keep checking it? Some of these issues come down to poor project management and poor handling. Were people able to say at some point, "We have made a mistake there and that could be done better"? That is about prevention, rather than cure.

Q64 **Rushanara Ali:** I have one final question to do with the wider culture. We have just recently had an example where UK Finance commissioned Simon Walker to do a review of small business complaints and resolution. Those who have experienced problems in the SME sector and campaign groups pushed for a tribunal, and this Committee recommended it, but the UK Finance report didn't. Do you think there is still a bit of a cosy culture in a very male-dominated institution where, through a quiet word or two shared, things are stitched up ahead of time. I am not asking specifically about that, but what are your reflections on the wider culture of this sector? Has that changed sufficiently? That is one example, but there are others. The public still feel that their interests are not put first. Despite your tireless work on improving banking standards, it feels like they have a point from all the examples of failures we have seen in this Committee.

***Dame Colette Bowe:*** I don't think it is a cosy culture and people do not think we are particularly cosy.

Q65 **Rushanara Ali:** I should think not in your case, but I wonder whether that is the case across the industry.

***Dame Colette Bowe:*** Tough Scousers are not normally regarded as cosy, so be very careful, everyone. Plainly, there is a lot to be fixed. A word in the ear of some chap—life is not like that in this sector. I have worked in this sector and it is not. That said, there is a heck of a lot to be done.

I know you want to finish, Chair. I would be delighted to talk to you about an ombudsman for small business, perhaps outside a hearing. I happen to know an awful lot about that because I set up the ombudsman for the telecoms industry 16 years ago, which is now Ombudsman Services. It is not statutory and it has been a great success. I do not know why we do not just get on and have an ombudsman for small firms financial issues and stop faffing around, saying that we have to legislate or have a tribunal. You don't need to—just do it.

**Chair:** On that note, I thank you both very much indeed for your evidence. We hope the BSB will be a regular attendee at sessions. I know that often strikes fear into the hearts of some witnesses, but we think this is an important relationship. Dame Colette, I know you have been battling with a heavy cold, so thank you particularly for giving evidence this morning. We are very grateful to you all for being here.

***Dame Colette Bowe:*** Thank you very much. We really would like to come back again.