Issue 2 | 2024

Chartered Banker

The future of banking

Open Mic:
What are the biggest challenges facing banking today?

Natural progression:
How can bankers help to forge a more nature-aligned profession?

Country spotlight:
Could Vietnam be a land full of Eastern promise?

Mission impossible?
How to tackle the risk of deepfake in the banking sector.

Defensive moves

How can banks protect their customers from risk?

Polycrisis?
What does it mean and what are the underlying effects?

Political choices:
In 2024 more than 70 nations across the world go to the polls.

Risky business:
With risks aplenty, what should be on the CRO's radar?

The CRO's CV:
The experience and competencies required to fulfill the job.

Chartered Banker

THE FLEXIBLE, ACCELERATED ROUTE TO CHARTERED BANKER FOR EXPERIENCED BANKING PROFESSIONALS

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MORE INFORMATION

For further information and guidance about the eligibility criteria please visit: www.charteredbanker.com/CBBE

Alternatively please contact the Institute's Membership Engagement Team via: info@charteredbanker.com

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Chartered Banker
The future of banking

The front line

Navigating a course towards a better world

Joanne Murphy,
Interim Chief Executive Officer

Welcome to the latest issue of *Chartered Banker*, where we explore the dynamic intersection of banking, technology and societal responsibility. As we stand at the crossroads of digital transformation to support sustainable and responsible banking, this edition brings together insights, case studies, and thought-provoking discussions. Exchanges of opinion and debates have been the constants that have brought together our community of bankers since the Institute's formation in 1875.

Change, therefore, is nothing new to the Institute and its membership. However, we are now in an era of rapid technological advancement, a time when banks are redefining their customer relationships. We delve into how institutions are leveraging digital tools to enhance customer experiences while maintaining the personal touch. From bespoke services to seamless omnichannel interactions, the future of banking lies in striking the right balance between human resources and machines. This will be one of the key thought leadership themes we will explore during our online Annual Banking Conference in November as we endeavour to understand how we can create more intelligent organisations, driven by human-centric inclusive design.

The banking industry also continues to play a pivotal role in addressing global challenges, but it can't solve the world's problems alone. Our articles spotlight banks' efforts in promoting sustainability, working in collaboration across green finance initiatives and social impact investments. We explore how sustainable banking aligns with societal needs, emphasising long-term gains over short-term profits – at the Institute we refer to this as 'responsible banking'.

Members may notice that sustainable banking principles have been incorporated into our core learning to ensure sustainable practices are applied to our lending, risk, ethical and professional decision-making. These tenets are applicable to all banking professionals, not just specialists.

> **"We also relish the opportunity to continue to build an inclusive community with purpose."**

To support our work in this area and continue to provide the profession with relevant qualifications, and learning, we launched a new qualifications framework. It supports the industry's diverse skill sets and focuses on future expertise that we require. The new framework provides greater flexibility in the choice of subjects and career pathways for anyone working in banking, providing optionality along the route to both Associate and Chartered Banker member status. Continuous learning, risk management and leadership development will form the central pillars of our new framework, with fresh qualifications and short courses being developed throughout the year.

Our qualifications framework provides an opportunity to re-engage the banking profession and continue to build a global community of ethically responsible professionals. Next year marks a significant milestone for the Chartered Banker Institute as we reach our 150th anniversary. With 35,000 members, we honour our legacy of raising standards of competence, and indeed mastery, and look forward to shaping the profession during this critical period of transformation. We also relish the opportunity to continue to build an inclusive community with purpose – a community that drives positive change and sets the gold standard for banking professionals.

Thank you for embarking on this journey with us. I look forward to engaging with many of you across the range of the activities planned for the rest of this year and going into the next. As you read through the magazine, please consider your role in helping to shape the banking landscape. Together, we navigate uncharted waters, guided by professionalism, ethics – and, most significantly, a commitment to creating a better world. CB

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ISSN: 1759-9520
Charitable Body No SC013927.

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The professionals in this issue

David Coleman is Vice President, Chief Risk Officer, European Bank for Reconstruction and Development (EBRD) and leads the team that manages the Risk Management Department, the Environmental and Sustainability Department and the Procurement Policy and Advisory Department. Before joining the EBRD, he spent more than 35 years in retail, wholesale and investment banking. **p14**

Dr Nicola Ranger leads the Resilience and International Development Programme of the Environmental Change Institute. She is also Executive Director of the Oxford Martin Programme on Systemic Resilience and a Senior Research Fellow at the Institute for New Economic Thinking of the Oxford Martin School. **p30**

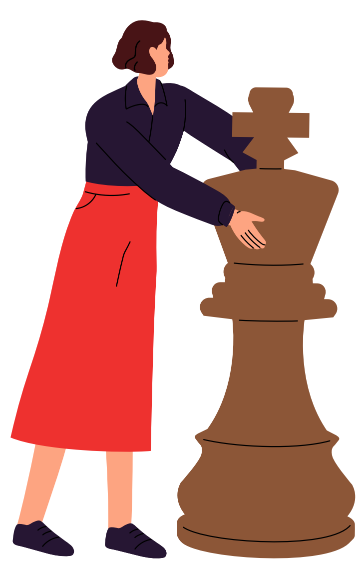
Jonny Haseldine is Policy Manager at the British Chambers of Commerce (BCC) and leads its work on the economy and business environment. This includes convening BCC's Economic Advisory Council. Prior to this, Haseldine worked for an MP for five years. **p37**

Jochem T. Hummel is an Assistant Professor in the Information Systems Management and Analytics group at Warwick Business School, University of Warwick. His research focuses on collaboration and digital innovation, particularly emphasising the impact of novel technologies, such as AI, within organisations. **p44**

Juliette Aiken is CMO at Dotdigital. She has at least ten years' experience of startups, scaleups across MarTech and Ecommerce industries. Aiken is an expert in product marketing, customer engagement, and innovation. **p49**

Rebecca Stephens is a CX research and insights director at Ipsos, specialising in financial services. With over 20 years of experience in the field, Stephens has a deep understanding of customer behaviour, motivations, and desires within the financial sector and leads projects that help financial institutions enhance their customer experience strategies. **p49**

People & numbers



Facts & Figures

£22bn

Size of the “hole in public finances” according to Chancellor Rachel Reeves, which Paul Johnson, Director, Institute for Fiscal Studies (IFS), has described as a “black hole” largely resulting from cuts to National Insurance made by the previous government.

£9.4bn

Public sector pay deals for NHS workers, teachers, the Army, police and prison workers.

Rachel Reeves is nobody’s pawn

Labour Chancellor of the Exchequer Rachel Reeves became the UK’s first female Chancellor following the July general election. Reeves is a former British Under-14 chess champion and favours an opening gambit known as the Sicilian Defence, designed to open up the board for later in the game.

Reeves also seeks to open up the UK economy to private investment and support the building of 1.5 million more homes and the reconstruction of the nation’s crumbling infrastructure. However, she has also set out her stall as a Chancellor determined to “take tough decisions” and balance HM Treasury’s books, both of which give her little wiggle room for stimulating growth via public spending.

This came at a time when a letter from HM Treasury published on 29 July identified £21.9bn in “net pressures” on departmental budget limits, with the Office of Budget Responsibility (OBR) describing this overspend as “one of the most significant risks to the fiscal outlook”.

AI promises growth – if ‘neglect’ can be reversed

Tech entrepreneur Matt Clifford, Chair, Advanced Research and Invention Agency (ARIA), has been appointed to lead a new UK Action Plan on AI, part of Science, Innovation and Technology Secretary Peter Kyle’s desire to place AI at the heart of the government’s growth agenda.

Clifford will be exploring ways to build and scale the UK AI sector to compete globally while boosting productivity and accelerating economic growth. The International Monetary Fund (IMF) estimates that the UK could see productivity gains of up to 1.5% every year, although this will rely on the further growth and development of AI applications elsewhere.

The Department for Science, Innovation and Technology (DSIT) will also establish an AI Opportunities Unit in a bid to improve public services and enhance product development. However, a White Paper published by the Open Data Institute (ODI) identified “significant weaknesses in AI infrastructure, particularly in data governance, with both present and future implications”, commenting that governments and organisations have “neglected critical data infrastructure”. It stated that its research revealed “flaws that could cause model and business collapse, due to lack of data transparency and poor data-sharing practices threatening rights and livelihoods”.

Von der Leyen puts Europe’s green deal back on the agenda

The European Commission adopted a set of proposals it dubbed the ‘European Green Deal’ in March 2024. The deal was threatened by July parliamentary elections in France, which nearly saw the far right disrupt European commitments to tackling climate change. The re-election of Ursula von der Leyen as President of the European Commission was also a further shot in the arm for the EU’s ‘clean tech’ industry, with von der Leyen renewing her commitment to climate action. The German politician also announced what she called a “Clean Industrial Deal” in the first 100 days of her second term. This will include investments in clean energy infrastructure and technologies, simplified business rules, and an Industrial Decarbonisation Accelerator Act that will support energy-intensive sectors through the green transition.

Swiftenomics reaches the Bank of England

American singer-songwriter Taylor Swift is not just a pop sensation, she is also an economic phenomenon. So much so that her much-reported Eras Tour was expected to cause inflation in the services sector by up to 30 basis points. Experts predicted this could influence the Bank of England's decision over whether to cut interest rates.

Swift's 2023 tour (set to conclude in December 2024) is poised to be the highest-grossing in history, bringing in over $1bn in global ticket sales while creating economic ripple effects in local economies dubbed 'Swiftenomics'.

Around 1.2 million Swift fans, or Swifties, descended on the UK this summer, projected to inject more than £997m into the UK economy. Each attendee spent £848 on average on tickets, accommodation and other gig-related expenses.

France's Olympic overspend

The cost of the Paris 2024 Olympic Games was £7.7bn. Despite this large sum, the figure is only 25% over the original budget, compared with the London 2012 Olympics which went three times over budget. France kept costs down by committing to 95% of Olympic venues being hosted at existing or pop-up infrastructure in a bid to hold "the most sustainable Olympics ever," according to *The Daily Telegraph*.

Only around a quarter of the costs came from taxpayer funds, with the rest covered by private sponsors such as Louis Vuitton. The French organisers are hoping to "break the streak of financial strain that past games have left on host cities," according to analysis from the Council for Foreign Relations (CFR). The CFR noted that Montreal did not pay off the debt it incurred from its 1976 hosting of the Games until 2006 and that Greece went into bankruptcy partly due to its Olympic debt burden from the Athens Games of 2004. France is hoping to dodge this particular hurdle.

McDonald's sales take a big whack

There was a 1% fall in sales at McDonalds outlets between April and June 2024 compared with the previous year, the first such fall in prices since the pandemic. Factors contributing to these declining sales include cost-conscious shoppers cutting back on expenditure and boycotts over McDonalds' perceived support for Israel's war in Gaza, according to reporting by the BBC. The report went on to say that 5% of McDonalds' franchise operations are in the Middle East, where boycotts have taken place as well as in parts of Europe.

Facts & Figures

22%

Size of pay rise offered to junior doctors in order to end strike action.

£2.6bn

Amount Labour claims was "lost" due to "dodgy contracts" signed during the pandemic.

£6.4bn

Size of overspend for the previous government's now-scrapped Rwanda plan.

£1.5bn

Cuts to winter fuel payments budget, which will now be available only to pensioners on pension credit. The cuts could affect up to two million older people, who will no longer be eligible for payments of up to £300, according to *The Guardian*.

0.3%

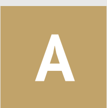
Amount of growth in the Eurozone in the second quarter of 2024, slightly higher than forecast. The news came as a relief following fears of an economic slowdown in the region.

Spain, France and Italy posted the strongest quarterly growth numbers, at 0.8, 0.3 and 0.2 respectively, while Germany – the largest economy in the Eurozone – saw a contraction of 0.1%, which analysts feared could lead to a drag in the region's overall performance.

MEET THE NEW PRESIDENT

Embracing change, respecting tradition and sharing expertise

Paul Denton FCBI, Insititute President



As our new President, Paul Denton, takes the helm of the Institute for the next three years, he outlines the topics he will champion and his far-reaching aspirations for our thriving global organisation.

As the Institute's new President, what is your vision for the organisation and which strategic priorities will you adopt to achieve this?
My vision for the Institute is threefold:

First, it's crucial we rebuild our reserves and so it will be my priority to work with fellow Trustees and the Institute's Executive Team to manage costs and build sustainable income streams to ensure that the Institute is sustainable financially as well as strategically.

Second, to celebrate the proud history of the Institute through its 150th anniversary. I can't stress enough, the incredible sense of pride I feel at being the custodian of the Charter we hold and of being a Chartered Banker myself. To this end, I will support activities that promote the benefits to an individual of belonging to our Institute, the oldest professional banking institute in the world.

And third, to enable and continue our growth in the UK and internationally by increasing our global impact and influence. This work will include leveraging the investments already made in the Principles for Responsible Banking (PRB) Academy and refocusing on our core proposition of Chartered Banker.

Which themes would you like to champion across the Institute and the wider banking profession during your presidency?
There are four themes I would like to champion covering a combination of traditional and new areas of banking. They are:

Conduct – this encompasses the Institute's work on professional ethics, culture and conduct. We will remain committed to championing the qualities and behaviours required to be a responsible professional banker and will continue to develop expert and highly qualified professionals.

Knowledge – core banking skills and professionalism in areas such as credit, lending and risk management are key to ensuring the safety and soundness of banks.

Leadership – banking leadership through qualifications, such as our Advanced Diploma in Banking and Leadership in a Digital Age.

Innovation – this is an area I would like to term 'Finance in the 21st Century', including digital finance, AI and sustainable finance.

How do you plan to support the professional development of Chartered Bankers in the UK and further afield?
Alongside digital finance and sustainable finance, two global megatrends shaping the future of banking, we will continue to ensure that all our Chartered Bankers, both here in the UK and across the globe, are equipped to successfully lead banks and banking for many years to come.

For example, to support this endeavour, alongside our existing route to Chartered Banker and offering Chartered Banker by Experience and Certificate in Climate Risk to learners, the Chartered Banker Institute and the Asian Institute of Chartered Bankers (AICB) recently signed an agreement.

This means the AICB now offers the Chartered Banker Institute's benchmark qualification for sustainable finance: our Certificate in Green and Sustainable Finance; our full suite of sustainability courses offered by the Principles for Responsible Banking (PRB) Academy, which helps banks and bankers implement the UN Principles for Responsible Banking; and last but not least, our new Certificate in AI and Digital Evolution.

We will continue working with banking institutes and universities in the UK and abroad and also with educational partners to raise standards of banking education and training worldwide.

How will you help the Institute address the many challenges facing the banking industry today?
I recognise that thought leadership plays an important role in building the Institute's reputation as the voice of responsible and sustainable professionalism.

The Institute's emphasis on the importance of professionalism, expertise and community supports our core theme of responsible banking and will be embedded in our qualifications, professional learning, thought leadership, and membership offerings going forward.

I also support the Institute's efforts in the sharing of best practice across a global community. The Institute takes pride in promoting this sense of community by showcasing the professionalism of bankers around the world, for example at our Annual Banking Conference, which will once again be held virtually in November. I am also looking forward to the Institute hosting the 25th World Congress of Banking Institutes in Edinburgh next year, which will be a key part of our 150th anniversary celebrations.

Alongside this, we will continue working with banks and other FS organisations to accredit and certify learning and development programmes that meet the Institute's high standards and are aligned with the principles and values we espouse. CB

MEET THE INTERIM CEO

Address from our interim CEO

Joanne Murphy, Interim Chief Executive Officer

On 1 February 1875, consensus was reached for the establishment of the Scottish Banking Institute. It was founded five months later and would become the Chartered Banker Institute.

The principles of gathering together professionals to raise banking standards and to work in collaboration for the public interest has stood the test of time and we find ourselves upholding this philosophy almost 150 years later. Today, our purpose is still focused on raising standards of professionalism in banking globally, underpinned by our responsible banking agenda.

In a world of accelerated change and disruption, one certainty is that our professional resilience, and expertise, will be frequently tested. It will be essential for you as members to lean into your professional community and continue to build your knowledge and skills. We can never buy the lived experiences of others, nor underestimate the influence their wisdom, knowledge and expertise can have in supporting and developing future talent and careers.

As banking becomes increasingly digitalised, it is important to remember that at its heart it is a people and relationship business; relationships and connections will be the main competitive advantage as the digital landscape evolves.

Helping businesses and customers prosper, with a thoughtfulness around banking's role and responsibility to wider society, is the bedrock of the industry. This requires all of us to move away from short-term thinking and consider longer-term gains for all.

This year we have launched our new qualification framework realigning our core learning to risk, credit, lending, professionalism, and leadership, all of which create the pillars required for responsible banking and building sustainable institutions in the broadest sense.

The simplification of our new framework will make it easier than ever to accumulate knowledge and expertise throughout your career. Acquiring skills such as critical thinking, analysis, adaptability, professional scepticism and judgment are essential not only when building an enduring career but in supporting the tenets of responsible banking.

Looking ahead to 2025, we have an exciting calendar of events to celebrate the world's oldest professional body in banking and its 35,000 members who are part of the responsible banking community. We will continue to focus on simplifying not only our qualification pathways to Chartered status but also offering a more diverse range of shorter relevant certifications and courses.

In support of the Institute's mission in raising standards of banking competence and excellence worldwide, we will continue to work in partnership globally with professional bodies and universities. Together we can establish the benchmark in banking standards, remove barriers to the achievement of Chartered status, and expand our community.

Let's continue to build an inclusive professional body for all with a strong professional – and social – purpose. CB

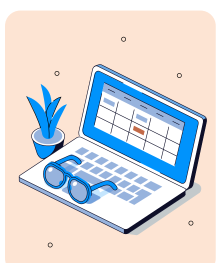
Institute agenda

Robert Owen wins WCIB Joseph King Memorial Trophy

Chartered Banker Institute Fellow and 2025 Foundation Committee member Robert Owen was awarded the Joseph King Memorial Trophy by the Worshipful Company of International Bankers (WCIB) earlier this year. It's presented annually to an individual who has made a substantial contribution to the work of the WCIB.

Robert received the award for his sterling contribution to the Membership Committee where he has held the position of Secretary for a number of years and has also conducted many one-to-one interviews with prospective members looking to join the Company.

He undertook this role as a volunteer, fitting it around his busy schedule. He is pictured here being presented with the trophy by Angela Knight CBE, WCIB Master and former Economic Secretary to the Treasury.



REMINDER:

Learn it, log it

The CPD year ends on 31 December 2024, so it's time to make sure that you have logged your learning activity. The Institute provides a wide range of CPD resources, which are regularly updated in response to members' needs. Resources include *Chartered Banker* magazine, My Career Hub, and the Responsible Banking Toolkit, with e-learning on a range of topics including green and sustainable finance, the Consumer Duty and supporting vulnerable customers. Members also have access to other content, including blogs, webcast recordings and podcasts.

Members are politely reminded of their responsibility to undertake and record evidence of their CPD activities each year to ensure they maintain, and can demonstrate, professional competence. Doing so goes a long way towards embedding and sustaining professional standards and trust in banking.

The number of CPD hours you are required to complete depends upon your membership status. Please see our CPD guide *Where will your career take you?* (https://bit.ly/CBguideCPD) to find out more about your requirements.

Institute's 150th anniversary

The Chartered Banker Institute was founded in 1875 as The Institute of Bankers in Scotland and, as many members will know, is the oldest banking institute in the world. In 2025, we will celebrate the Institute's 150th anniversary.

Plans to mark this milestone year are still in development but activities will include:

- Hosting the 25th World Congress of Banking Institutes in Edinburgh on 18 September 2025. The Institute hosted the very first congress and is therefore delighted to be doing so again during our special year
- A gala dinner and ceilidh at the National Museum of Scotland on 18 September 2025, which will also serve as a fundraiser for the 2025 Foundation
- The return of our Young Banker of the Year competition with the final taking place at London's Mansion House on 11 December 2025
- Publication of a history of the Institute, written by our former Chief Executive, Professor Charles Munn.

We hope to add to this list and we are searching for ways to involve the wider membership in the 150th celebrations. We will share further details through this magazine, newsletters and the Institute website.

MY CAREER HUB:

Latest updates

Have you visited the Institute's career hub recently? It offers a wide range of resources to help you build and sustain a fulfilling career. Here are some of the latest updates to the platform.

- A collection of new articles on CV writing including:
  - Is your CV the right length?
  - CV mistakes to avoid
  - Writing your personal statement
  - Have you grammar-checked your CV?
- There are 12 new Career Coach videos, with topics including:
  - Creating gender equity at work
  - Creating an open and inclusive culture at work
  - How to adopt a positive mindset
  - Why motivational leadership matters
- We've updated six of our transferable skills courses, dividing each into two bite-size resources. One resource explores the transferable skill in question and analyses its value in the workplace, and another shares tips on developing that skill. The titles include:
  - Developing communication & interpersonal skills
  - Developing creativity & innovation
  - Teamwork & collaboration explained
  - Self-management & initiative explained
  - Developing IT skills & digital literacy
  - Developing critical thinking & problem solving

You can use the career hub resources however you wish, but one of the best ways to get started is to complete the short Career Pulse self-assessment. You will be asked to rate your confidence in 10 areas, and you will receive a personalised report that not only tells you how you are doing but directs you to activities that will help you improve.

To get started now with the career hub by completing your Career Pulse assessment, please go to: https://bit.ly/3FRWqBJ

Annual Banking Conference

This year's Annual Banking Conference will be held virtually on 6 and 7 November 2024. If you are unable to join us on the day or would like the opportunity to revisit a session, you will be able access recordings of the keynotes and panel discussions via the Knowledge Hub on the website or through our YouTube channel.

The Conference will bring together colleagues from across the global banking industry to focus on this year's theme of Optimising Banking in a Digital Age: People, Professionalism and Technology.

DAY ONE - 6 NOVEMBER 2024

The bank of the future has arrived

The importance of building the foundations of a responsible culture in banking has never been so critical, as we navigate AI-driven technology that provides both benefits and risks to the profession, its customers, and society more widely. Day One will focus on bank leadership, bringing in important themes of professionalism, expertise and community to outline how we can navigate the bank of the future.

DAY TWO - 7 NOVEMBER 2024

How to make organisations more intelligent in the era of digital transformation

With AI and technology emerging across the sector, it is critical for financial organisations to consider how to become more inclusive and reflective of their customer base, deliver products and services that match their audience needs, and make ethical decisions.
Day Two will feature two panels outlining how to make organisations more intelligent, with a second panel providing an in-depth focus on ethical leadership and decision-making in the age of AI.

For more details of the conference content, visit the events section on the Institute website at www.charteredbanker.com.

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SPECIAL REPORT

Running risks, taking the gains

Who would want to become a chief risk officer today? It's somewhat of a poisoned chalice these days. We are facing numerous global economic perils from all quarters. The ongoing geopolitical hazard as a result of Russia's invasion of Ukraine and its subsequent consequences is just one of several significant factors impacting today's world. Indeed, the World Economic Forum has labelled a period such as this, when multiple threats have a compounding effect on each other and on people, as a 'polycrisis'. As the types of dangers we face continue to change and converge at rapid pace, what do they mean for the banking sector - and in particular, the chief risk officer - in the assessment, management and anticipation of risk?

"We're at a point in geopolitics where there are multiple areas of conflict that have the potential to impact businesses, communities, transport, credit risks and much more."

Joshua Tucker,
Senior Political Adviser, Kroll

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What does this mean and what are the knock-on effects?

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More than 70 nations across the world go to the polls in 2024.

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In an uncertain world, what should be on the CRO's radar?

25 **The CRO's CV**
The experience and competencies required for the job.

SPECIAL REPORT

Polycrisis? What Polycrisis?

'Permacrisis' may have been Collins Dictionary's word of the year for 2022, but today, many people believe we are in the midst of a 'polycrisis'. Here, *Chartered Banker* examines what the term means and the knock-on effects that this phenomenon – if true – could have on the banking industry and society at large.

In the past 16 years alone, the world has lurched from a global financial crisis to a climate crisis to a pandemic to a cost-of-living crisis. The world has experienced unprecedented weather-based activity – ranging from droughts and floods to devastating wildfires – and has recently felt the very real threats of slow growth, superpower rivalry and a potential third world war.

In late 2022, Columbia scholar and *Financial Times* contributor Adam Tooze popularised the term polycrisis, which describes the simultaneous and overlapping crises facing the world today. "If you've been feeling confused and as though everything is impacting on you all at the same time" he said, "this is not a personal, private experience. This is actually a collective experience."

The roots of the word polycrisis, according to Tooze, come from an idea that was launched by French theorist Edgar Morin, which was then picked up by Jean-Claude Juncker, the President of the European Commission, in 2016. Juncker was describing the challenge of governing Europe in the face of the Greek debt catastrophe in the aftermath of the 2008 global crisis, Putin's initial aggression against Ukraine in 2014 and the refugee emergency in Syria triggered by the violent State crackdown in March 2011, which spilled over into Europe, all against the backdrop of Brexit.

But it was at the annual meeting of The World Economic Forum in 2023, often referred to as Davos, where, prompted by our most recent combination of worldwide emergencies, the word came to the attention of those within corporate risk.

A fractious and fragmented world

David Coleman, Vice President, Chief Risk Officer, European Bank for Reconstruction and Development, states that a huge challenge that we face today is the fact that ironically, despite globalisation in terms of trade, we live in a much more fractious and fragmented world than ever before. "For a long period of time, there's been hegemony in the greater part of the world. But this seems to be breaking down, and we're seeing a possible retreat from globalisation. This, in turn, means that our supply chain has to be reoriented, which will do damage to prosperity.

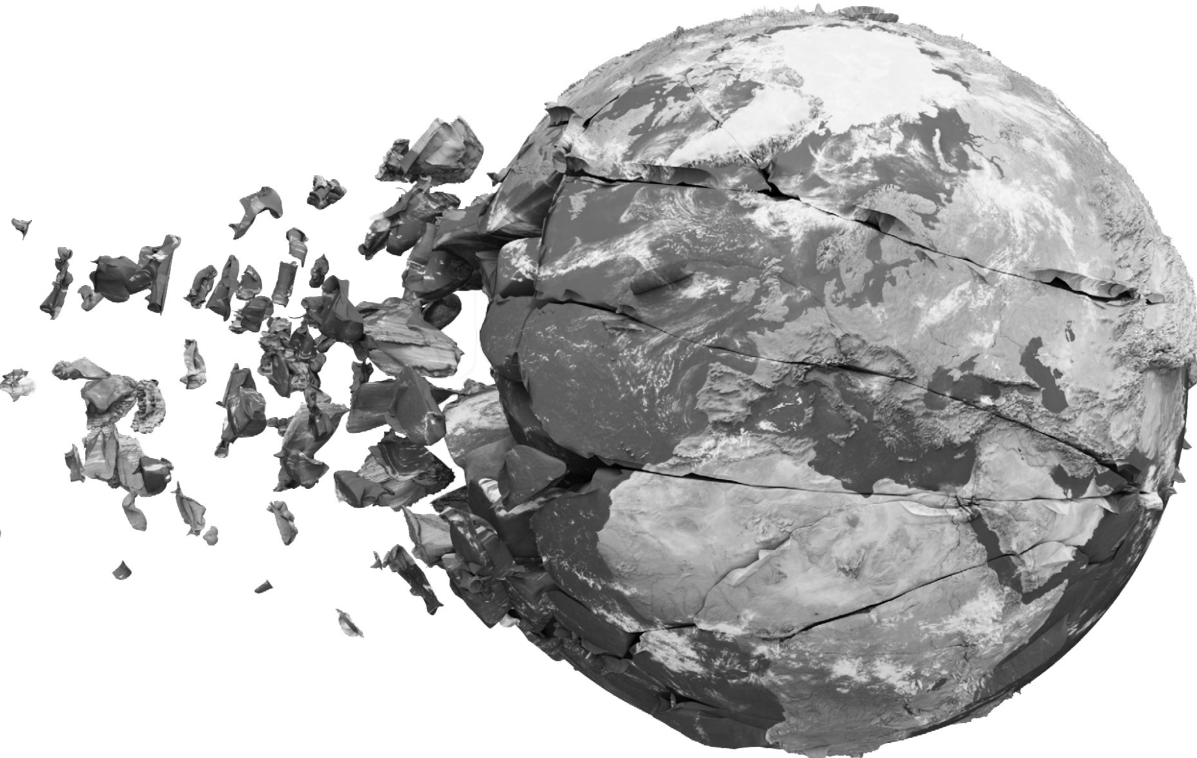
"It will also mean that there's less cohesion around tackling the big problems that we need to come together to solve."

Joshua Tucker, Senior Geopolitical Adviser, Kroll, agrees. "It looks like we're on the precipice of an end of an era and the beginning of new one. This particular period started at the end of the Cold War in the 1990s when we saw the rising dominance of the United States and the West. They were setting general rules of global order in a way that had not been seen during the Cold War, when we had these competing great powers.

"In the background, we had the rise of China. But for a while there, if a nation wanted to be part of the international system, it meant playing ball with the Western order. We saw, for example, the rise of elections around the world because elections were part of the Western order, even if they weren't competitive, free and fair."

On a positive note, however, Tucker explains that a decline in

> **"It's a complex world that we're in at the moment. Take Russia's invasion of Ukraine two years ago, and what that did to scramble everything in Europe and scramble everything globally."**
>
> Joshua Tucker,
> Senior Geopolitical Adviser, Kroll



geopolitical conflict occurred over the ensuing three decades. “It didn’t go away entirely,” he points out. “But compared with what came before, this was a calmer period.

“But now, 30 to 35 years later, we’re seeing a fraying of that global order – of Pax Americana. And instead, there are myriad different events happening in lots of different parts of the world – the most obvious being the rise of China, which is sometimes a global rival and sometimes a partner to the United States.”

Greg Jones, Chief Risk Officer, Europe and Asia Region, TD Securities, points out: “Today, China is the powerhouse that fuels the global economy. If we interfere with that, we know that there will be a great deal of sensitivity across all related markets and what the consequences of that may be.

“But what sits above that is the forthcoming US election. On an economic and financial scale, this is very much material. Because of course, the US is the primary market and if the election causes a sustainable boom in the US, that’s fantastic for global markets. But similarly, if something goes wrong, it’ll without a doubt damage them.”

Looking beyond Europe

Tucker explains that, today, we’re also seeing the US pivoting from thinking just about Europe to having to keep a close eye on much more. “We’ve seen Russia, which early on in the 1990s looked like it was going to be more of an ally of the West, morphing under Putin and becoming much more of an adversary. And we continue to see the volatility in the Middle Eastern region, and also in other parts of the world.”

He stresses that there are multiple global hotspots that we have to examine in order to see what the future holds and where conflict might break out. He also believes there are, in general, fewer constraints on state actors than we tend to have in more settled periods of time.

“We’re in this moment where we have a lower level of certainty around geopolitics than we’ve had previously,” he stresses, using Nagorno-Karabakh as an example. “This was an area of dispute between Azerbaijan and Armenia and it’s been frozen under conflict for about 30 years. Then, after Russia invaded Ukraine in 2022 and a conflict broke out in the Middle East in 2024 – right in the middle of all this, Azerbaijan just went in and grabbed the territory.”

UK regulators step in

In order to assess the key risk factors currently affecting the FS sector, TD Securities’ Jones looks to some recent economic events. “We had a fantastic reaction to COVID-19 from the central banks,” he says. “They truly kept the financial industry and the economies on their feet. But then, as central banks and the regulators started to plan for the reversal of that, we ran straight into the liability-driven investment [LDI] episode, which was, of course, triggered by the Liz Truss and Kwasi Kwarteng mini-budget in September 2022.

“As we all know, this caused a strong market reaction and led to UK regulators looking at securities, financing transactions, fixed income and the market mechanisms that enabled this incident to happen.”

“It’s common of course for banks to be strong in some areas and slightly behind in others. But this doesn’t mean that you’re risky or that you’re not in control. It just means that you’re potentially not prepared for what might be around the corner.”

Greg Jones,
CRO, Europe and Asia Region, TD Securities

SPECIAL REPORT

Within six months of this occurring , the world witnessed US regional bank distress with the failure of Silicon Valley Bank, Silvergate Bank and Signature Bank in March 2023. Credit Suisse also collapsed at the same time, but the cause was different. "Once again, we had the regulators looking at market structure," recalls Jones. "And their reaction was to revert to cross-sectional reviews, which involves looking across the industry for the highest standards.

"It's common, of course, for banks to be strong in some areas and slightly behind in others. But this doesn't mean that they're risky or that they're not in control. It just means that they're potentially not prepared for what might be around the corner."

Jones explains that the regulators came under public scrutiny due to the severe nature of these events. "They, quite rightly, started to consolidate, and communication between them improved," he says. "They have colleges, regulatory colleges, where they gather to examine current standards. They look at what they're dissatisfied with and how the markets are operating. And when this happens, it leads to a sharp uplift in terms of expectations."

Climate change and demographic developments

Tucker points out that there are other global developments currently taking place that have geopolitical consequences without necessarily being straight geopolitics themselves. "Number one, he says, is climate change, and then there's the huge question of how that is going to impact the flow of people.

"What is climate change, for example, going to do to people's demand for resources? What is it going to do to the issues of food insecurity? And what is it going to do to migration?

"Then on top of that, we have demographic developments such as the ageing of Western societies and countries falling under the replacement level of population. How is this going to impact countries' abilities, and what is that going to mean for the resources that different countries have to offer?

"It's a complex world that we're in at the moment," he continues. "When we think about where we currently are, we can look to the hotspots in terms of geopolitical risks. Take Russia's invasion of Ukraine two years ago, and what that did to scramble everything in Europe and scramble everything globally.

"Then in the Middle East, we thought there would be a rapprochement between Israel and Saudi Arabia, but that obviously became disrupted by the activities [Hamas' attacks on Israel] of 7 October and its aftermath."

A source of uncertainty

Tucker continues by explaining that we now have a constant situation in the Middle East that continues to be a source of violence, as well as a source of uncertainty. "We're never sure if a full-scale war will break out between Israel and Iran or between Hezbollah and Israel and what's going to happen there.

"Then we have the omnipresent question of what's brewing in Southeast Asia, with continuing manoeuvring between China versus the US and its allies. And we're also always looking at how Northeast Asian nations are positioning themselves in that regard.

"And finally, we have signs of growing cooperation between Russia, China, Iran, and North Korea – in various combinations – and the implications of these types of relationships for global stability."

Permacrisis or polycrisis?

So, crucially, does all of this amount to a polycrisis? Tucker says: "If you're the United States of America right now, you have to watch what's happening in Europe with Russia and you also have to watch what's happening regarding the conflict in the Middle East.

"You're also constantly keeping an eye on what is transpiring in Southeast Asia. That's because if a conflict broke out there, it could be an enormous concern for businesses globally – especially in the middle of the AI revolution with so much of the semiconductor industry and chip production going on in Taiwan.

"There's so much alarming activity in other parts of the world, too," he continues. "We're at a point in geopolitics where there are multiple areas of conflict that have the potential to impact businesses, communities, transport, credit risks and much more." Take, for example, the recent disruption caused by Houthi rebels launching attacks in the Red Sea – a relatively small-scale intervention by a non-state actor that has caused large-scale disruption in shipping routes.

"It's definitely poly, in the sense that there are a number of events taking place across the globe that contribute to risk and that feed on each other in some ways. But I'm not entirely sure if it amounts to a crisis." CB

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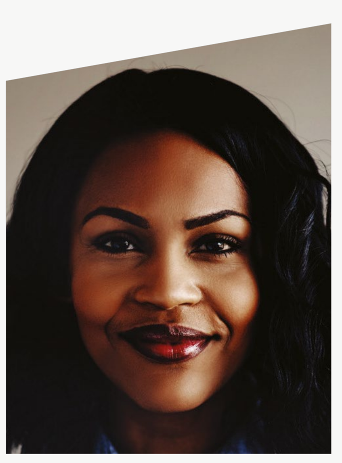
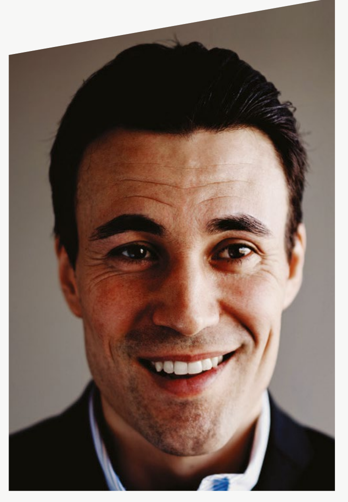
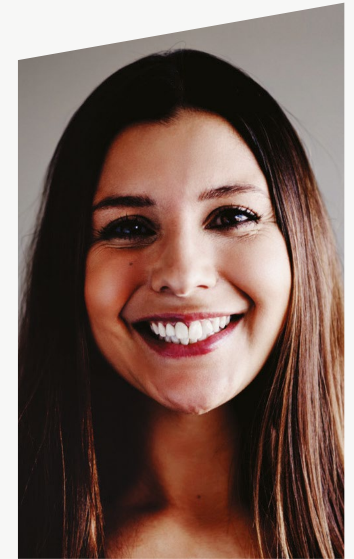
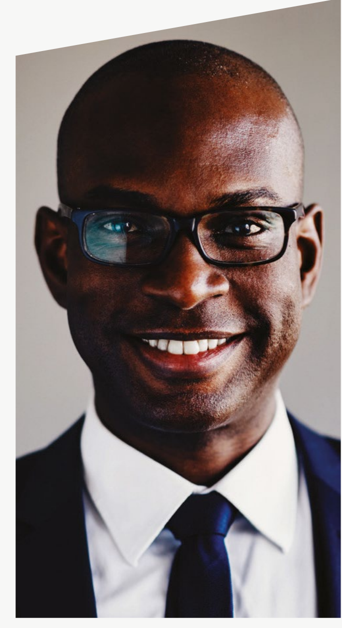

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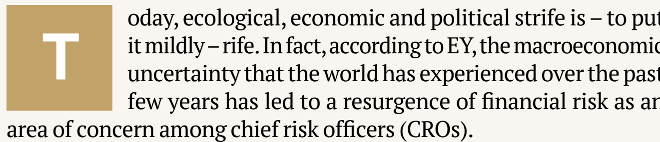
Electoral expectations

What happens when more than 70 nations go to the polls at once?



Today, ecological, economic and political strife is – to put it mildly – rife. In fact, according to EY, the macroeconomic uncertainty that the world has experienced over the past few years has led to a resurgence of financial risk as an area of concern among chief risk officers (CROs).

"We have instability, volatility and the absence of predictability," says David Coleman, Vice President, CRO, European Bank for Reconstruction and Development. "All of these are macro risks. Then add into the equation geopolitical factors such as the wars that are going on and the rise of nationalistic politics.

"If we want to have an environment within which people invest their money and banks can be certain that businesses are going to survive and therefore be able to pay them back, not only do we need to have relatively low volatility and instability, but that stability has to extend to the legally sound regions as well.

"If we have many countries looking at, say, legislating against China or protecting their steel industry, that will lead to an investment contraction, which in turn leads to a riskier world for CROs."

Regulators are under the microscope

Greg Jones, CRO, Europe and Asia Region, TD Securities, believes that while we're living in a more volatile world in general, today, risk is also felt more immediately and intensely than ever before. "When we came out of COVID, we had this need for a constructive plan to get economies back to normal," he recalls . "But this was then hit by the liability-driven investment [LDI] crisis and the Liz Truss and Kwasi Kwarteng mini-budget [of September 2022]. Then we went straight into the regional bank blow-up in March 2023 in the US, and this led to the regulators themselves becoming reactive.

"As a result, we have regulators under the microscope to ascertain how well they're governing market structures and financial stability, and this then transfers immediately through to banks because the regulators have set standards high.

"But when they are under review, banks are receiving findings that lead to internal audits – so they start to be engaged and react to these new levels of sensitivity."

Jones says it's important to note that banks don't need to operate at this level permanently, however. "We're in a corrective phase, and this is going to lead to a more conservative set-up and a great deal of attention directed on how banks operate, ownership and self-responsibility.

"Banks will adjust to those standards. And after that, the awareness and nervousness will dilute. But right now, I certainly think we're at the top of the peak in terms of market events leading to regulatory sensitivity, which then leads to more intense reactions within the industry."

In search of free and reasonable elections

This year's elections will, of course, also be felt enormously by CROs globally. This is because, from Algeria to Uzbekistan, and from Bhutan to Bangladesh, more than 70 countries will vote over the course of 2024. As of early July, 35 had taken place – including France's surprise snap election – and 1,209,837,193 ballots had been cast. Voter turnout, meanwhile, collectively sat at 64% (based on registered voters).

Like many others, Coleman is of the opinion that the most important election taking place this year will be in the US. "America is the de facto leader of the liberalism approach to the world. This means that the nation's attitude – and whether it is isolationist or not – really matters.

"But beyond that, what's also vital is that in every single election across the world, the institutions of democracy are not undermined. The credibility of elections is a very important factor, particularly in this age of technology and social media – where fake news and fake videos can be produced. Because of this, it's extremely important that elections are fought fairly and in a reasonable way – then we can deal with the outcomes accordingly."

The rise of the non-mainstream parties

Meanwhile, Joshua Tucker, Senior Geopolitical Adviser, Kroll, looks back at what we've witnessed to date in this year's elections, and points out that we're seeing three clear themes emerging – all of which he believes are relevant for businesses and CROs.

The first is an anti-incumbency sentiment globally. "In Mexico, we saw the ruling party return to power, and vociferously. But other than that, we've had the African National Congress losing full majority power for the first time in South Africa. And in India, Prime Minister [Narendra] Modi, who is a hugely popular politician, lost his majority status. In both these cases the parties will have to enter into coalitions.

“We saw the same sentiment on full display in the UK and in France too. The Conservatives were swept out of power for the first time in 14 years. And in France, centrist-liberal President Emmanuel Macron’s Renaissance party was pummelled in the European parliamentary elections.”

Tucker stresses that not all elections work in the Western way. “They aren’t all free and fair and open,” he points out. “But even in the Iranian elections, we saw an anti-incumbency sentiment. Out of all these Conservatives who were running, the one reformist candidate who was pushing back against hijab policies and against the foreign policy of Iran won the election.

Tucker continues by explaining that the second trend that we’re seeing is a continuation of one that’s been around for a while, and that sometimes ebbs and flows.

“There’s a willingness among many voters, especially in Europe, to consider non-mainstream parties, or those that are not the centre-left or the centre-right. This includes populist parties and what we would call extremist parties, as well as other smaller niche issue parties. And what this means is a weakening of the centre-left and the centre-right, which tend to hold in many of these countries.

“Both of these are important for businesses because if they are used to thinking that the centre-left and the centre-right are largely the same, they need to start preparing themselves for the new actors that are appearing. We saw this in the Dutch, Italian, French and even UK elections. Look at Nigel Farage [Reform UK MP for Clacton, Essex] – he won a seat after eight attempts.”

Don’t overlook the intricacies

Tucker believes that a third theme is the consequence of electoral rules. “This is a vitally important lesson for businesses and for banks, as well as for everybody who may not generally focus on the weeds of politics,” he says.

“When Rally National [formerly known as the National Front between 1972 and 2018] was able to emerge victorious in the European Union Parliamentary Election vote in France, that was in an election that utilised a proportional representation system of voting. But for the July snap national legislative elections, France employed a two-round plurality system of voting, which makes it harder for parties that are preferred by even a plurality of the country but disliked by the majority to do as well. And voila – two very different results.”

Electoral rules are also hugely important in the UK. “If you look back to the Liberal Democrats’ ill-fated coalition with the Conservatives in 2010, the one policy concession they secured was a referendum on whether to move to a more proportional system of voting, and it was voted down [by the public in a referendum in May 2011],” Tucker recalls.

“But in this election, the Lib Dems received a smaller percentage of the vote than Reform UK did. But Reform UK ended up with only a handful of seats because their percentage of the vote was spread out all over the whole country. Meanwhile, the Lib Dems won 72 seats because they targeted constituencies where the party had previously come second and where people voted tactically to oust the incumbent Tory MP.

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"All of this is really important to businesses and those working in risk. And that's because if one merely takes a superficial glance at elections when they're upcoming, one is likely to miss some of the intricacies that come about because of these different sets of electoral rules."

Presidential versus parliamentary elections

Tucker suggests a framework that businesses can use to help understand their exposure to a particular election.

"Obviously, the short answer is to find someone who knows the politics of that country extremely well and then ask them for insight and expertise. But I also look at three distinct periods and the different types of risks associated with those periods.

"There's the pre-election period. This has a whole set of policy risks associated with it. For example, incumbent governments might begin to turn their attention to the election and therefore take different actions than they normally would if they weren't in an election cycle. Then there's the actual day of the election, which leads to its own sorts of risk.

"Then there is the post-election period. If there is an incumbent being voted out of office and somebody else coming in, one might see widespread policy change. There could be political uncertainty around policies too.

Tucker stresses that this will be dictated by what the electoral rules are. "In presidential systems, there is usually a transition period before the new president takes over, but once that occurs, he or she has a lot of control over policy. In parliamentary systems, however, this change can occur much more quickly – just look at the UK where the new Prime Minister took power the morning after the election. However, parliamentary systems of government can also lead to coalition governments, which can take weeks or even months to emerge, and can often leave the new Prime Minister constrained by their coalition partners."

"In a country such as France, however, there might be a period of time when no one knows what the shape of the new government is going to be. "But businesses can look to the electoral rules to gain a better sense of what the risks are. There are, for example, different post-election risks for presidential systems than parliamentary systems.

"Similarly, there are different risks in standard liberal democracies with free and fair elections, and elections that take place in non-democratic countries, such as in Iran.

"Overall, businesses should be thinking systematically about how they can consider these risks ahead of time, which should reduce the chances of them being taken by surprise.

Four macro risks that dominated the second half of 2023

CROs were asked to select up to five threats that they expected to have a 'severe impact' on their organisations in the second half of 2023. At least half of them selected these four macro risks:

1. Macroeconomic indicators
2. Pricing and/or supply disruptions of key inputs
3. Armed conflicts and/or use of weapons
4. Regulatory changes, compliance and enforcement, encompassing developments related to green transition and AI.

Global voting facts for 2024

- More than 70 countries and territories – encompassing 44% of the global population – have held or will be holding national elections in 2024. India, the US and Indonesia account for more than two billion people – more than half of the voting countries' combined population.
- From April 19 to June 1, more than 640 million people cast their vote in the world's largest election in India.
- Voters in Mexico, the second most populous country in Latin America, selected the nation's first female president – one of just 26 female leaders worldwide – in June.
- According to the Economist Intelligence Unit's democracy index, elections are taking place in at least 26 authoritarian or hybrid regimes, making up more than one-third of all global elections this year. The rest are being held by democratic governments, at least 20 of which are categorised as flawed.
- In July, Iran held an election that saw the lowest voter turnout for a presidential contest since the Islamic Republic was established in 1979.
- Nearly half the countries holding elections have a population where more than 50% of the citizens are Gen Z or Millennials. CB

SPECIAL REPORT

Risky business

While the challenges that chief risk officers have to be aware of are apparent, their specific roles within their organisations are often less known. We seek the input of two industry experts to shed light on how certain 'threats' are identified and monitored and the shape of current best practices.

The chief risk officer (CRO) role is by no means a well-established one. In fact, it's widely believed that James Lam became the first person to formerly hold this title at GE Capital just over 30 years ago. And since its incarnation, this position has evolved from solely monitoring risk to having the ability to veto strategic decisions.

Today, to say that CROs are of the upmost importance is somewhat of an understatement. Take Silicon Valley Bank (SVB), which folded last year and had been without one for eight months prior to its shock collapse.

> **"This role isn't about excessive brainstorming, it's about thinking about the consequences of certain events, and whether you're prepared for that."**
>
> David Coleman,
> Vice President, CRO, European Bank for Reconstruction and Development

Laura Izurieta stepped down from her role as CRO of SVB Financial Group in April 2022, and formally left the company in October.

Her permanent successor, Kim Olson, did not join until January 4, 2023, a mere matter of months before the bank failed. It is unclear how the bank managed risks between the departure of one CRO and appointment of another, and this fact formed part of the Federal Reserve's investigation into the bank's demise.

Alan Greenspan, the American economist who served as the 13th chairman of the Federal Reserve from 1987 to 2006, went as far as to state that better risk management may be the only truly necessary element of success in banking. But what exactly does the function entail? How, for example, are emerging risks tracked and cascaded throughout the organisation?

Three lines

David Coleman, Vice President, CRO, European Bank for Reconstruction and Development (EBRD), initially looks to answer this question by introducing a 30-year-old concept – the three lines of defence, now known just as 'three lines'.

The first line of defence, he explains, is everyone. "All of the people in an organisation have to accept that they have a role to play in identifying, reporting, managing and mitigating risks," he says. "But because many people are given business goals linked to bonuses, that leads to a slight bias away from reporting risk.

"Then we have a second line. These are people who are not rewarded by the business for goals and objectives but are recognised for providing an objective view through an independent reporting line to the CRO."

The third and final line of defence is the internal audit function. "Here," Coleman continues, "we have a very small risk assessment team that carries out sample checks and sample audits of the second and first lines of defence to make sure they're conforming with the policies and are doing what they're meant to."

Coleman emphasises that it's vital to remember that the first line has culture and leadership at its heart. "The first line is the part we are really tackling, and this means that when managing, promoting and rewarding people, their goals and objectives should have a component of risk management.

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> **“That’s the extra piece that’s needed with risk – looking at what could potentially go wrong. The risk manager’s job is to look ahead and identify where there might be exposure that might not have otherwise triggered a concern within the business.”**
>
> Greg Jones,
> CRO, Europe and Asia Region, TD Securities

“And this needs to extend beyond, ‘I have to tell the truth’, and instead it should include how a department and team are run, if rules are being followed in terms of how payments are arranged, how they record bookings and are four-eye controls being exercised? It should be all-encompassing and should feature incentives and recognition.”

An all-important piece of the jigsaw

Greg Jones, CRO, Europe and Asia Region, TD Securities, shines a light on the structural and minimum standard policies and procedures that risk follows. “These are called risk and control self-assessments (RCSA),” he explains , “and they are the scheduled, structured frameworks and policies we follow – they are essentially the basic level that we should be working with. Think top and emerging risk reviews, reactions to operational events, assessment lessons learnt and avoidance of repetitive events.

“These are carried out to ensure that we meet standard regulatory expectations for risk identification, risk assessment and risk management, and they are growing considerably.”

Echoing Coleman, Jones explains that there’s a definite focus on making sure that awareness and attention are key from the start of any contact with a client or a business, all the way through to second-line controls and management, through to third-line assessment and checking.

“These are very much established and are the responsibilities that must be performed,” Coleman emphasises . “They are the window through which a regulator looks into a bank.

“Then there’s being reactive. Some banks will call this horizon scanning, and I think that’s where you get the true value.”

Jones stresses that in order to succeed here, firms have to have a risk management function that’s has the capacity, resources, skills and the commercial awareness to look at what is coming ahead – as well as the ability to discuss it with the business.

“The business might tell you that they want to be big in a certain client sector – for example chip manufacturing,” says Jones. “And the risk function might come back and say, ‘That’s great, but have you considered that this particular chip manufacturer is in the tornado zone in the US?’. You might also have to point out that the weather is getting worse, which means they’ll face physical ESG risks.

"That's the extra piece [of the puzzle] that's needed with risk – considering what could potentially go wrong. The risk manager's job is to look ahead and identify where there might be exposure that might not have otherwise triggered a concern within the business. The function's ability to do this depends upon the commercial awareness within the team.

"Risk needs to be close to the business and challenging the business. Discussions should be taking place at a commercial level, too. It's not just about performing the regulator-required tasks."

Consequences, resilience and fielding threats

Coleman, meanwhile, believes that a key aspect of effective risk management is ensuring that that the CRO and the risk team do not become excessively focused on the running of the organisation.

"The inward-looking issues should not be their main focus," he advises. "Instead, they should have the time, the space and the resource to be looking outwards, networking, intelligence-gathering and future-gazing. This role isn't about excessive brainstorming, it's about thinking about the consequences of certain events, and whether the company is prepared.

"Members of the risk team should ask themselves if the firm is prepared for a change of US government, or a change of the national government where the firm is based. Is the firm prepared for the new regulations or for the impact that a war could have on food and energy and inflation?"

Coleman states that the CRO role also has much to do with the resilience of an organisation. "We used to have an office building in central London, in the City," he recalls . "And that building was of vital importance. We had all of our services and provision of support in that building, including two-thirds of our workforce and a data centre.

"Clearly, we can look back and say that that was not a particularly resilient business model. Nor was it necessarily the most effective, given the fact that many others had already started outsourcing."

Today, the EBRD has a more complicated business model. "We have a significant reliance on external suppliers for services, including some of them around IT," explains Coleman. "Our data centre is no longer part of the main building, which is a good idea.

"We've also placed some of our support services into our branch network rather than having them in our headquarters. This makes it more efficient but it does mean complications in our business model. We've been through a pandemic where we had to learn to operate the entire business model from home, which was something we'd never conceived of prior to COVID."

What this means, he explains, is that business resilience has taken on a whole new level of complexity. "And although some of the challenges that we went through, including outsourcing and offshoring and having separate data centres, are factors that other companies had been dealing with for many, many years, we all still had to learn how to deal with a pandemic.

"Some people will have regretted where or to whom they outsourced because the world has changed and continues to do so. And just because a firm has outsourced to a major supplier, it doesn't mean that they will be there every day. These are internal threats, but businesses still need to think about them."

Eyes on the horizon

How can businesses ensure that early identification is a priority within the risk function? According to Jones, this starts with the inherent threats that encircle the business. "What controls do we have against those inherent risks? And then, how are those controls performing? What's emerging and what might need additional controls? That's a formulaic piece.

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"We have business economists and strategists," he continues. "They're looking forward. They're looking at what's on the horizon, what's going to affect their portfolios and what their decision is going to be for forthcoming business objectives. But what's needed is getting that feedback loop into your risk assessment process."

Capturing and quantifying the risk, he says, is of the utmost importance. "Every bank faces operational risks in terms of resilience, tech platforms and modernisation. Is your company, for example, missing updates? Truth be told, even the biggest banks with the largest budgets probably struggle to keep a resource pool sufficient to continually evolve."

> **"We have to promote networking. We shouldn't assume that our bank is doing everything in the best possible way. The chances are it isn't."**
>
> Greg Jones,
> CRO, Europe and Asia Region, TD Securities

Banks, he believes, operate best when they push the right level of authority down through the business. "If we suck all authority up to the top, then the processes aren't efficient. We need – throughout the business – commercial awareness, knowledge, competence, and confidence. And confidence leads to independence, which in turn leads to good control.

"Then those foundation blocks of confidence and independence control enable more authority to be pushed out, and more discretion to move lower down into the organisation. All of this means more effective and more timely responses to the business. This should also ensure that information flows up."

Ultimately, this means that if the right blend of capabilities doesn't exist on the lower levels, more processes fall to the mid and high levels, which therefore have to be higher touch.

"If this happens," says Jones, "there will be senior people looking at granular data when they shouldn't be. Instead, they should be looking at the core consideration operations around the business.

"The lower tiers should be the confident, independent and informed controllers 'at the bottom', and they should know what information needs to go up."

Placing the last piece of the puzzle

"We have access to the business, commercial awareness and access to management – and that leaves one missing piece of the puzzle, which is networking," says Jones.

"We have to promote networking. We shouldn't assume that our bank is doing everything in the best possible way. The chances are it isn't. We also have to push our risk controllers to get a flavour for risk management across the whole market. And you become aware of market standards by networking – by sharing with peers and other banks. You don't have to try to have facetime with J. P. Morgan. There are other banks that have been through the mill with the US regulators."

Coleman agrees: "For the Risk team to function at its best, time and effort must be devoted to networking. It is vital to have people whose job it is to spend some of their time looking at what others are doing and reflecting on that. They must also think about what's coming in terms of law, regulation and market developments. They should be looking at what's happening with clients, from a climate perspective and from a technology perspective – from all perspectives, in fact. Because these factors will change your business model and the business model of your clients."

Jones concludes: "Some of what your peers do will be world-class and ahead of the game because the regulator will have pushed them to reach that standard. But you don't just have to talk to the Premiership – there's plenty that can be gleaned from the Championship and the lower divisions as well." CB

SPECIAL REPORT

Who's best qualified for the CRO hot seat?

With banks globally facing an ever-growing volume and variety of risks, chief risk officers (CROs) find themselves wearing more hats and engaged with a swiftly multiplying range of issues. Here, two experts discuss how the role has evolved in recent years and the characteristics and competencies required to be an effective CRO.

What skills are needed to be a CRO?

David Coleman, Vice President, CRO, European Bank for Reconstruction and Development: One of the skills that you need to develop is influence. In my experience, in the past, risk was often tolerated because it was a regulatory need.

What I mean by this is that risk officers were able to have sway over others because they could use the threat of having this 'nasty' regulator standing behind them. But in actual fact, CROs must have the ability to influence their peers rather than just use this kind of blunt force of regulation.

Since the global financial crisis of 2008, most management teams have evolved to the point where they understand that risk is an essential decision-making part of the business. This, in turn, makes influence a lot easier.

You must also have the ability to explain complex issues in a simple manner. This will help you reach the people who are making the big decisions. If, as CRO, you think about presenting to the board, it is clear it will consist of people with a range of skills and backgrounds. Some of them will be familiar with risk from a technical point of view, and some of them won't. But you must have the ability to reach them all. It's about making complex and sometimes unfamiliar concepts easy to understand.

Greg Jones, CRO, Europe and Asia Region, TD Securities: Your communication must be crystal clear. You can't just say things loosely in a meeting. If it's important, it should be sent in an email and it needs to be clear.

You also need to be empowered to say 'no' to the business and to be able to control it.

For example, when dealing with a business that's large and active there is great deal of risk to manage. You might have systems that are failing, cyber concerns that aren't managed, regulatory pressures and governance gaps in terms of documentation. These are all non-financial risks [NFRs]. But the golden rule is that you can't deprioritise NFR in favour of financial risk.

> **"If, as CRO, you think about presenting to the board, it is clear it will consist of people with a range of skills and backgrounds. Some of them will be familiar with risk from a technical point of view, and some of them won't. But you must have the ability to reach them all."**
>
> David Coleman,
> Vice President, CRO, European Bank for Reconstruction and Development

In the same way that we have to hand out decision authority for the management of financial risk, we have to hand out that decision authority for management of NFR.

SPECIAL REPORT

What's more, those in operational risk must also be willing to say 'no' to the business. They're not there to just report and facilitate – they are there to control.

Say, for example, that there is outstanding documentation, such as a signed letter from a counterparty or anything else that means the framework isn't finalised, then you have to say 'no' to the business; they're not ready to go until you say they're ready to do so. Consistency and standards have to be upheld at all times.

We must ensure that when we allow something to happen, that that decision has ticked the relevant boxes, and that we are satisfied that nothing critical has been overlooked or has been circumvented.

What characteristics and competencies are required to be an effective CRO?

Jones: I transitioned from being Head of Market Risk to a CRO, so I'll tackle this question from that perspective. As Head of Market Risk, commercial awareness was critical, as was an understanding of the portfolio and the market environment. But when you become a CRO, you must learn not to do everything yourself – and instead, make sure that your heads of functions are doing what is required of them.

You have to raise yourself up a level and make sure that your structure reflects that too. If it doesn't, not only will it not work for you personally, but it won't be good for your function and how you approach risk because you won't be able to maintain that complete cross-section operational view.

You have to take yourself out of all prior roles and have a truly oversight function. You should stop producing and only evaluate. Evaluation enables you to plan, but production does not.

It's crucial that if you say something to the business, you stick to it – and don't contradict yourself, unless there's real justification to do so later down the line.

Saying that, you must be willing to reconsider – but only if the reasons to do so are extremely strong. And you must question yourself harder than you question the business.

You must be able to delegate well – but in a careful and managed way so that you can fully trust the outcomes of the situation. And when you've delegated authority, don't override that authority unless it's wrong. You must show that the use of the authority that has been granted is appropriate.

Who tends to gravitate towards working in risk?

Coleman: In my view, risk management has traditionally been an area that attracts introverts. Extroverts tend to gravitate more towards roles that involve selling – but introverts find selling harder. Instead, they have skills that are beneficial in risk management – such as intelligence, impact, influence, and leadership. All of these help any professional, not only CROs, to take people on a journey with them.

What does 'stress testing' mean in relation to the CRO role?

Jones: When driving, you have to know how fast to go on an unfamiliar road. Without stress testing, all you have is your rear-view mirror to guide you by looking back at your financial results to tell you how well you're doing.

But stress testing enables you to switch on the headlights and look into the future. This means you can put limits in place, which is akin to putting up flashing road signs that will alert you when going too fast.

> **"We're seeing headcount in NFR – but as part of a risk team – grow and grow. And these roles are so varied because there are so many sources of NFR out there to manage."**
>
> Greg Jones,
> CRO, Europe and Asia Region, TD Securities

> "You have to take yourself out of all prior roles and have a truly oversight function. You should stop producing and only evaluate. Evaluation enables you to plan, but production does not."

Greg Jones,
CRO, Europe and Asia Region, TD Securities

Or say, for example, that the business has to make a decision – and that decision is whether to go faster along that section of road or slow down before everything gets out of control. You might opt to go faster because the road surface is really good. Or it might be raining, so you might want to slow down because the surface could be unpredictable. Stress testing enables you to spot these hazards and make choices accordingly.

How do professionals get into risk?

Coleman: Traditionally, people started in a bank – so this could mean in retail, an investment bank or as a generalist supporting business objectives. They might have joined to support delivery and sales to clients – whether that's the man or woman in the street or big businesses.

They would have learnt the basic credit and risk skills and might have even become involved in persuading their own risk function to say 'yes' to certain decisions. This could have led to a secondment, during which they might have realised how well suited they were to the role from a personality and skill set point of view.

How has the CRO role evolved?

Jones: Financial risk has now become both a mature and stable discipline. Today, the ability that financial companies have to manage financial risk is very much set in stone.

There are, of course, new considerations coming in, such as concentrations and comprehensive testing of risks, but where we've seen real change is the uplift in NFR management.

All regulators have published expectations on third-party risk management and vendor management. For example, how do we ensure that our service agents are not exposing our data? Or, if we employ a quantitative company, how do we apply the same standards to their models as to our models. This is where, for me, there's been a real evolution.

We're also seeing headcount in NFR – but as part of a risk team – grow and grow. And these roles are so varied, because there are so many sources of NFR out there to manage. So, as a result, it's about ensuring that within a growing team, commercial awareness is still very much relied upon.

SPECIAL REPORT

Coleman: Over the past 30 to 40 years, there has been a move whereby credit risk and market risk have grown into operational risk. And now this has expanded to an enterprise-wide risk management approach, which includes taking into account a broad range of topics, including strategic risks, business model risks and the potential failure of key suppliers.

The range of skills required has also changed. At the EBRD, I'm not a technical expert but I'm the business sponsor for many of our IT change programmes and for our new data centres. I'm also the current business sponsor for what's called 'next generation security operations', which is the next upgrade of our cyber defences.

We are, of course, bringing in IT experts, but as the businessperson with the clearest interest in pursuing this, I'm their interface. I help to advocate and explain what we're doing and why we're doing it.

I've been in a range of senior risk positions for 30 years – and there's been a great deal of change during that time, which has led to me having to learn to cover these new topics and areas.

Climate change is another example. I mandated to our risk team that all of our credit employees had to undertake a climate risk course. Some people completed theirs spread over a longer period of time, while others went for more concentrated attendance.

In the past, we would have conducted assessments of the future cash flow from a client in a more simplistic way. But today, we're being asked to assess, for example, if they are likely to go out of business as a result of a climate event or due to regulations. This is something to which we've very much had to adapt.

Six years ago, when the EBRD signed up to the Task Force on Climate-Related Financial Disclosures (TCFD), I had a broad understanding of how we as an organisation attempted to prevent our impact on the planet – both as a business and through our clients. But looking at this in terms of how climate change affects our business and our asset was completely new. We started to build the team back then, and now we're busy embedding it. Not just through training, but through our policies and practices and across the entire organisation. CB

CROs in stats*

25%
Over the past five years the numbers of CROs in organisations worldwide has risen by 25%, indicating that more businesses are recognising the need for this critical position.

70%
Today an impressive 70% of firms have dedicated CROs, up from 55% half a decade ago.

85%
A significant 85% of FIs, meanwhile, have dedicated CRO positions.

70%
A notable 70% of companies now look to their CRO when considering matters related to digital safety and compliance regulations.

4-5
The average tenure for a CRO is around between four and five years.

82%
In a survey by Riskonnect, 82% of respondents said their risk management team headcount has increased or remained the same in the past six months.

6%
However, just 6% plan to hire one within the next year.

28%
Nearly one-third of companies (28%) reported budget increases for risk management technology, despite current economic conditions.

23%
Just 23% of survey respondents say they're very confident in the accuracy, quality and actionability of their risk management data.

5%
Only 5% are very confident in their ability to extract, aggregate, and report on risk insights to fuel decisions.

70%
A sizeable 70% of respondents said they have adequate collaboration across the different lines of defence for financial risk and 69% said the same about operational risk.

Source: 2023 New Generation of Risk Survey, Riskonnect

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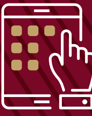

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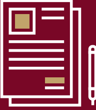

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Chartered Banker

HOW DO BANKERS GET CLOSER TO NATURE

Natural progression

With environmental degradation posing major risks to the global economy and wider society, how can bankers develop the skills and knowledge needed to forge a more nature-aligned banking sector?

The world faces a triple crisis of climate change, pollution and nature and biodiversity loss. With $58tn, more than half of the world's wealth dependent on nature globally, do banking professionals really understand just how much is at stake? And how can we help bankers become closer to nature?

A stark analysis of just how extreme the impact of nature degradation can be was recently produced by the Green Finance Institute (GFI). The report, *Assessing the Materiality of Nature-Related Financial Risks for the UK*, found that nature degradation could cause a 12% reduction of GDP in the UK economy. This is in sharp contrast with the 2008 financial crisis that removed 5% of the value of UK GDP, and is a greater potential loss than that caused by the pandemic, which caused an 11% loss of GDP.

"For the first time, we looked at what the impact could be on the banking sector specifically," says Dr Nicola Ranger, Leader, Resilience and International Development Programme, Environmental Change Institute, a lead author of the report.

She continues: "We looked only at the sectoral impacts of this, not the wider macroeconomic impacts, which means it's a slight underestimate," she continues. "For the sectoral impacts, we can see really big impacts on loan values, particularly in agriculture, but also in the manufacturing sector, construction, and in energy because it's a sector that's very dependent on water.

"We found overall if we looked at just the domestic portfolios of UK banks, it's about a 4-5% impact on the valuation of bank portfolios within the next decade," she adds.

> **"The physical impacts of nature-related risks are much more imminent than climate risk and can have a huge impact on business."**
>
> Dr Nicola Ranger,
> Leader, Resilience and International Development Programme, Environmental Change Institute

Watch out for tipping points

The report also examined the interaction between nature risks and climate risks, which need to be seen as interrelated concepts. "In reality, we won't just see nature risks or climate risks on their own, we see them both happening at the same time. They reinforce and amplify each other," explains Ranger.

"What we see is that the nature-related risks are as big as the climate-related risks, which means if we put them together we have a significantly greater risk than we had estimated in the past," she warns. As a result, banking professionals need to not only factor the physical risks posed by nature degradation into their risk management processes – such as negative impacts in the energy or agricultural sectors – they also need to factor them into their net-zero transition plans.

"Both climate change and nature degradation pose physical and transition risks and both have the potential for tipping points that can lead to very rapid changes that are irreversible," Ranger continues. "However, in many ways, the impacts of nature are closer to home than those of climate change.

"The impacts can be global, but they're also very local and they feel more real to people, for example the issue of sewage going into rivers. Local tipping points can also happen much earlier than global ones and can have a big impact," she explains.

"For example, nature degradation can negatively impact local agriculture, which can have a huge effect on farmers and also on issues around water availability and quality, as well as local health consequences."

Navigating transition risks

The starting point for developing a more nature-positive banking sector is assessing the risks posed by nature degradation and using these insights to help bankers support their customer base and ensure that portfolios are not exposed to threats that can undermine future performance.

"The physical impacts of nature-related risks are much more imminent than climate risk and can have a huge impact on business," stresses Ranger. "First and foremost, banks need to start assessing those nature risks, just like we've done on the climate side.

"The first step is to gain a basic understanding of where the exposures are to these risks across your portfolio. There are many tools that are available in the public domain to help you do that, so it's relatively easy to have a sense of where the actual risks are and how they can be managed.

For Ranger, these risks may be much more immediately felt than those posed by climate change alone. "Understanding the impact of nature risks is quite different from climate change because it's very difficult to connect climate change specifically to the risks that you feel on your real estate portfolio, for example," she explains.

"Financial institutions [FIs] run the risk of shooting themselves in the foot because the nature-related risks they're facing overlap with the impact they themselves are having on nature," Ranger points out. "Take the example of an FI that is financing manufacturing in Latin America. Within the same portfolio they might be financing activities in agriculture that are leading to deforestation. This could have an impact on water, which in turn impacts on the manufacturing that they are supporting"

One of the benefits, then, of becoming closer to nature is that banks can have a more holistic and beneficial impact on the businesses they are supporting. "Through reducing the nature impact of their activities, banks can also reduce their own risk, which can be beneficial from a risk management perspective," points out Ranger.

Identify opportunities

As well as helping reduce transition risks, Ranger believes that by adopting more sustainable operations, banks can also discover new opportunities. "For example, if a bank is not getting into sustainable agriculture now, it will be suffering a transition risk," she argues. "There's a real opportunity to get ahead of those trends and to be investing in more sustainable agriculture because that's going to be the most competitive in the coming years.

"There's growing demand for new types of food products, those that are less damaging to the environment; there are huge markets like this and they are growing. It's the same with polluting industries; if banks are supporting them to start transitioning now, those firms will be much more competitive in the years ahead when new regulations come on board," she adds.

This is one of the upsides of banks becoming closer to nature now, rather than waiting for regulation to bring the FS sector into alignment. As the economy retools towards more sustainable ways of working, those who already have a clear understanding of how nature affects their bottom lines could be the first to benefit from the opportunities present in a more nature-aligned economy.

"The businesses that will be successful over the next decade are the ones that are effectively managing their nature risks and supporting their clients to make that transition," stresses Ranger.

"Banks should start engaging with clients and investors where they have exposures and find out how they are managing those risks, while also looking for opportunities. For example, we're seeing growing demand for more nature-friendly products and we're seeing new regulations coming in such as biodiversity net gain [BNG] legislation," she explains. "Banks also need to start thinking about nature impacts when developing transition plans, because there are so many interlinkages between the net-zero transition and nature-positive adaptation."

Equipped with fresh skills for new conversations

Banking professionals keen to gain the skills and knowledge needed to help them succeed in a more nature-aligned banking sector, can benefit from the new Introduction to Nature and Responsible Banking course offered by the Principles for Responsible Banking Academy (PRB Academy).

This e-learning course, launched in March 2024, is aimed at beginners and takes between two and five hours to complete. It aims to raise learners' awareness of the importance of the natural world to both society and business. As well as discovering why nature loss is of such critical importance for responsible banking, the course explores how FIs can assess their nature-related impacts and identify opportunities to make a more positive impact on nature.

"The course enables everybody, at every stage of their career, to have the same foundational understanding as to why nature is so important to the finance sector," says Tanya Retter, Executive Director of Education, Chartered Banker Institute.

The course has been developed in a partnership between the Chartered Banker Institute, the United Nations Environment Programme Finance Initiative (UNEP FI) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

A follow-up course, Applying Nature-Responsible Banking, is also under development by the PRB Academy and scheduled to launch before the end of the year. "The second course builds on the foundations laid by the introductory and enables us to help individuals who are involved in discussions with customers and clients," explains Retter.

"It will help them understand how to make a difference and effect positive change within their roles, while also equipping them with some of the skills they need to support their own customers with their transition plans," she continues.

HOW DO BANKERS GET CLOSER TO NATURE

"It doesn't matter which sector they are in or which type of client they have, it will introduce them to the type of conversations and the kinds of skills and thought processes they will need to apply, while providing them with the tools and frameworks that can help them achieve that."

Filtering the information overload

For banks to develop a stronger understanding of the links between nature, climate and the FS sector, Retter believes that professionals should return to the fundamentals of responsible banking.

"If we are to get people closer to nature as bankers, we need to return to the question of what it means to be a responsible banker in the first place," she explains. This means keeping up with an evolving sector. The core competencies of banking have evolved greatly over the past 10 years. If you want to be a professional banker today and into the future, then you have to evolve alongside your industry and wider society.

Banking leaders also have a role to play in raising the general understanding of nature risks and opportunities among the professionals within their organisations. "The challenge globally is that, while there is some very strong engagement from leadership, we also need strategies that can support professional bankers who have face-to-face contact with customers every day. We need to make sure they are supported with the right skills and knowledge," Retter continues.

And in a world of ever-increasing information overload, gaining access to relevant, practical information will also be a challenge that industry bodies including the Chartered Banker Institute are working to overcome. "One issue is that there is actually too much knowledge out there," says Retter. "It's important to be able to find the information relevant to you.

"For example, if you're a relationship manager you must build up your core competencies and apply skills such as critical thinking and problem solving. This will empower you to help your clients and customers learn what they need to do differently," she adds.

The PRB Academy has plenty of learning content to support bankers towards reaching their goal, says Retter. If somebody wants to have a far broader career in sustainability in finance, then they have plenty of opportunity to explore content in the PRB Academy.

"The Chartered Banker Institute also offers some respected and popular qualifications in sustainable finance, specifically our Green and Sustainable Finance Certificate and also our Climate Risk Certificate, both of which lead to full qualification status for a learner," she explains.

"These types of qualifications become an excellent indicator of somebody's ability and competence, so I'm sure they will make the holders more marketable in the sustainability space," she concludes. "I'd love to see our nature and responsible banking courses being used globally to support a foundational level of understanding of the importance of nature to banking. In turn, they will support bankers not only in their conversations with customers but also with their career progression." CB

"If we are to get people closer to nature as bankers, we need to return to the question of what it means to be a responsible banker in the first place."

Tanya Retter,
Executive Director of Education,
Chartered Banker Institute

GUIDE TO DIFFERENT BANKING BOARDS

Playing by the rules

With so many standards-setting boards, it can be difficult to know which entity is responsible for the agendas and standards that will reduce risk and protect banks' resilience. Here, we offer a guide to some of the main boards globally, including their core areas of focus and main responsibilities.

Financial Stability Board (FSB)
Established during the 2009 G20 Pittsburgh Summit as a successor to the Financial Stability Forum, the FSB is an international body that monitors and makes recommendations relating to the global financial system.

The FSB's predecessor, the Financial Stability Forum was set up in 1999 following a proposal from the then Bundesbank President, Hans Tietmeyer, partly as a response to the Asian crisis.

The FSB coordinates the efforts of 24 national financial authorities and international standard-setting bodies to harmonise regulations and react to challenges.

The functions of the FSB include monitoring the international financial system for vulnerabilities and identifying the actions needed to address them. It also coordinates and promotes the exchange of information between the various authorities.

The FSB comprises representatives of central banks, finance ministries and supervisory authorities from the G20 countries as well as Hong Kong, the Netherlands, Spain, Singapore and Switzerland; the European Central Bank, the European Commission and all committees and organisations with a major role in global financial stability analysis and regulatory debate.

Basel Committee on Banking Supervision (BCBS)
The BCBS is an international committee that was formed in 1974 by central bankers from the G10 countries. At the time, these countries were working towards building new international financial structures to replace the recently collapsed Bretton Woods system – a collective international currency exchange regime that lasted from the mid-1940s to the early 1970s.

The BCBS is, according to the Bank for International Settlements (BIS), the "primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters". It also exists in order to develop standards for banking regulation and help national banking and financial markets supervisory bodies move towards a more consolidated approach when it comes to resolving regulatory issues.

The BCBS is headquartered in the offices of the BIS in Basel, Switzerland, and has two representative offices in Hong Kong and in Mexico City, as well as Innovation Hub Centres around the world.

Its 45 members comprise central banks and bank supervisors from 28 jurisdictions. Member countries include Australia, Argentina, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Office of the Comptroller of the Currency (OCC)
The OCC is an independent bureau of the US Department of the Treasury. It charters, regulates, and supervises all national banks, federal savings associations, and federal branches and agencies of foreign banks.

Founded through the National Currency Act of 1863, the OCC oversees several areas including capital, asset quality, management, earnings, liquidity, sensitivity to market risk, information technology, compliance, and community reinvestment.

Congress does not fund OCC. Instead, funding is from national banks and federal savings associations, which pay for examinations and processing of their corporate applications.

European Central Bank (ECB)
Headquartered in Frankfurt am Main, Germany, the ECB is the central bank for the Eurozone and has been responsible for conducting monetary policy for the euro area since 1999, when the euro currency was first adopted by some EU members.

The ECB manages the euro, keeps prices stable and implements EU economic and monetary policy. It is the central bank of the 19 EU countries that have adopted the euro and promotes cooperation between national central banks.

GUIDE TO DIFFERENT BANKING BOARDS

The ECB is also the EU body responsible for banking supervision. In conjunction with national central bank supervisors, it operates what is called the Single Supervisory Mechanism (SSM) to ensure the durability of the European banking system.

European Banking Authority (EBA)

The EBA is an independent EU authority. That said, it is accountable to the European Parliament, the EU Council and the European Commission. It was established in 2010 by the European Parliament, replacing the Committee of European Banking Supervisors (CEBS).

The EBA is part of the European System of Financial Supervision (ESFS), which comprises the national supervisory authorities and the three European supervisory authorities for banks, securities markets and insurance corporations (EBA, ESMA, EIOPA, respectively), the European Systemic Risk Board (ESRB), and the Joint Committee of the European Supervisory Authorities.

The EBA is tasked with working with the EU member states' national supervisory authorities to ensure an effective and coherent level of regulation and supervision in the European banking sector.

Reserve Bank of India (RBI)

The RBI, the central bank of India, was established in 1935 by the Reserve Bank of India Act. It was originally privately owned but was nationalised in 1949. It is headquartered in Mumbai and has offices throughout the country.

The RBI formulates and implements the government's monetary policy, issues bank notes and coins, manages the country's international payments and its FX market, acts as an investment bank for the central and state governments, and maintains the accounts of, and extends credit to, commercial banks.

A central board of directors headed by a governor oversees the bank. In addition, four local boards, headquartered in Mumbai, Kolkata, Chennai, and New Delhi, advise the central board on regional issues and represent the interests of regional banks. All members of the central and local boards are appointed by the government for terms of four years.

Australian Prudential Regulation Authority (APRA)

On 1 July 1998, the Australian Government established the APRA as an independent statutory authority after an inquiry into the Australian financial system.

Today, it continues to supervise institutions across banking, insurance and superannuation, and is accountable to the Australian Parliament.

The APRA promotes financial system stability by working closely with the Australian Treasury, the Reserve Bank of Australia and the Australian Securities and Investments Commission.

It's role is to protect the Australian community by establishing and enforcing legally binding standards that apply to these APRA-regulated entities.

The organisation supervises banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, private health insurance, friendly societies, and most of the superannuation industry.

Financial Services Agency Japan (FSA)

Based in Tokyo and formed in 2000 from a department of the Prime Minister's office, the FSA is the chief regulator of Japan's financial services industry, responsible for maintaining its stability and integrity.

The FSA was established under the jurisdiction of the Financial Reconstruction Commission and following the reorganisation of Japan's central government ministries. Because of this, the FSA, which is written 金融庁 in Japanese, and pronounced 'Kinyucho', became an external entity of the Cabinet Office.

It has a commissioner and reports its activities to the country's Minister of State for Financial Services.

The FSA is mandated to oversee the banking, insurance and securities and exchange industries and is also charged with protecting market participants from fraud and money laundering.

Its responsibilities include handling planning and policymaking regarding the country's financial system, supervision of private sector FIs, development of rules for trading in markets, development of business accounting standards, supervision of CPAs and auditing firms, and compliance of rules in financial markets.

Financial Conduct Authority (FCA)

The FCA is the regulator of the FS sector in the UK and is responsible for the functioning of its financial markets.

It was established on 1 April 2013 and assumed the responsibility for the conduct and relevant prudential regulation from the Financial Services Authority (FSA), which was abolished after the 2008 financial crisis and due to the perceived regulatory failure of the banks.

The FCA aims to ensure honest and fair markets by protecting both consumers and the financial markets and by promoting competition. It is an independent financial regulator and sits within the purview of the Treasury and Parliament. As an independent public body, it charges fees to the firms that it regulates.

The FCA also uses criminal, civil and regulatory enforcement powers to protect consumers and act against firms and individuals that are not authorised. The FCA's warning list, meanwhile, highlights firms that are suspected to be unauthorised and operating without the FCA's permission.

Prudential Regulation Authority (PRA)

Together with the FCA, the PRA is a successor regulator to the Financial Services Authority (FSA).

As part of the Bank of England, the PRA is responsible for the prudential regulation and supervision of around 1,330 banks, building societies, credit unions, insurers, and major investment firms.

It creates policy for the firms it regulates to follow and implement through the PRA Rulebook, and its rules require financial firms to maintain sufficient capital and have adequate risk controls in place. It also supervises firms, ensuring that it has a comprehensive overview of their activities so t it can intervene if they are not being run in a safe and accountable manner.

The Prudential Regulation Committee (PRC) makes the PRA's most important decisions, chaired by the Governor of the Bank of England (BoE). Five members are BoE staff, including the governor and four deputy governors. The PRC has a majority of external members, including the Chief Executive of the FCA and six others, selected for their experience and expertise in financial services.

National Financial Regulatory Administration (China) (NFRA)

The NAFR was established on 18 May 2023 – opening a new chapter on financial regulation in China.

It replaces the former China Banking and Insurance Regulatory Commission (CBIRC) and will also take over certain financial consumer/investor protection responsibilities from other regulators.

The watchdog now oversees all aspects of China's US$57tn financial sector apart from the securities market, which continues to be regulated by the China Securities Regulatory Commission (CSRC). It is hoped this will help reduce regulatory overlap, especially at the level of local government.

The reform came about after unprecedented regulatory scrutiny of several private enterprises over the past couple of years – following years of non-restrictive regulatory approach.

The NAFR also took over the responsibilities of the People's Bank of China's for daily supervision of financial groups (for example, financial holding companies) and responsibilities for the protection of financial consumers, as well as the CSRC's responsibilities for the protection of investors.

Monetary Authority of Singapore (MSA)

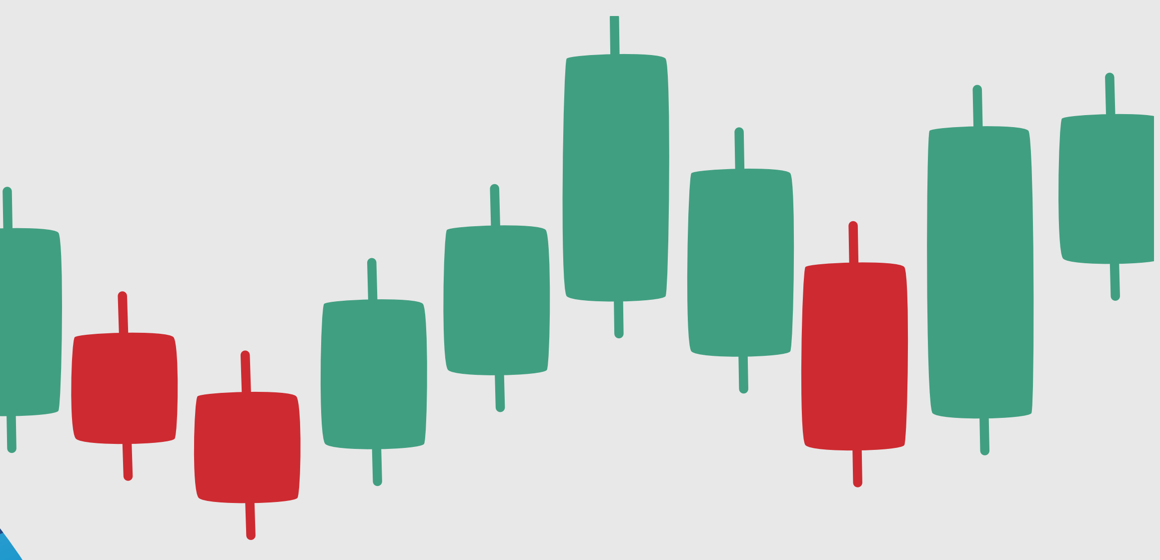
Created in 1971 to coordinate the city's rapidly developing financial sector, the MAS is, in effect, the country's central bank and chief financial regulation-setter and supervisor. It also works with the financial industry to develop Singapore as a dynamic international financial centre.

MAS promotes sustained, non-inflationary economic growth through the conduct of monetary policy and close macroeconomic surveillance and analysis. It manages Singapore's exchange rate, official foreign reserves, and liquidity in the banking sector.

The authority meets twice a year – in April and October – to set an exchange rate policy, which it uses as a tool of economic growth.

The policy is set by a board of directors, which is headed by its managing director, who is appointed by a chairman. As well as advising the government on financial law and regulation, the MAS also oversees and enforces them. CB

To learn more about the role of standard setting bodies, watch our webcast *How are standard setting bodies changing banking for good? The view from standard setting bodies.*



Chartered Banker
MENTORING PROGRAMME

Our Mentoring Programme is available to all Institute members. Find out more at **www.charteredbanker.com/mentoring**

The programme is designed to help members' professional development, expand their network and build their industry knowledge. The digital platform allows mentees and mentors to easily manage their mentoring relationship online, and we hope members find this service beneficial. As a valued member of the Chartered Banker Institute, we invite you to create a profile on the mentoring platform as a mentor or mentee.

Discover more about mentoring by visiting **www.charteredbanker.com/mentoring, or email info@charteredbanker.com.**

"The Mentoring Programme has enabled great conversation with someone who has a lot of experience in the sector. I have received good advice on how to reach my career goals and have also been put in contact with others to discuss potential opportunities. I would strongly recommend the programme to others."

Institute Mentee

"Becoming a mentor has allowed me to give something back to the next generation of professional bankers; to pass on the experience I have acquired in the industry and to press home the importance of professionalism. My advice to a new mentee is to be clear as to what you want to get from your interaction with your mentor. The Mentoring Programme is a great opportunity to enhance your professional network."

Institute Mentor

HOW BANKS CAN SUPPORT SMES

Growth and investment unleashed

Small and medium-size UK enterprises are facing many challenges that are impeding their potential for growth. From finance solutions to mentorship, banks are considered the trusted, forward-guiding voice of British business. However, to meet firms' needs of tomorrow, FIs must evolve from the ordinary to the extraordinary – and from financial in nature to transformative in practice.

Access to finance: a growing problem

Around half of small and medium-size enterprises (SMEs) in the UK are struggling to access funds, which is forcing them to curb their growth plans, according to the British Chambers of Commerce's (BCC) Insights Unit. The nation's banks are under increasing pressure to align their strategies to the changing needs of smaller businesses, as their specific challenges continue to cause the acute growing pains.

There are multiple reasons why an SME would seek finance, such as boosting company growth, raising capital and digital transformation. Asset and equipment finance, for instance, funds new tools and machinery, while invoice financing releases equity tied up in unpaid invoices and increases cash flow.

"It comes down to the specific needs of the business," says Jonny Heseldine, Policy Manager, BCC. "Our domestic network comprises 70,000 businesses and six million employees across every conceivable industry. While finance solutions that meet businesses' criteria are plentiful, many companies are telling us they're looking for a finance solution but not going through with it."

Low capacity for risk: mentorship over financing

From the perspective of banks and lenders, the diverse range of products in the market should mean that SMEs are catered for. However, the pandemic put incredible strain on their finances. While many sought and received financial assistance, today their risk appetite may be lower because they are already committed to government support, such as the Recovery Loan Scheme, or other types of financial aid. "Many businesses are still overleveraged from the pandemic," continues Haseldine.

However, this does not mean that their funding needs are currently being met. The BCC Insights Unit *Business Outlook Survey of 2023* indicates that 39% of firms that tried to access finance required a personal guarantee, while 72% of businesses with fewer than 50 employees haven't accessed finance from an external provider in the past year.

While important, access to finance isn't the only way banks can help growing businesses. "It varies bank by bank, but we're seeing many more traditional high-street banks provide more outreach – especially to the SME community. Banks cannot simply deliver a product or service and then sever ties. Now they provide services potentially to help business startups scale and grow. They're also coming to trade bodies such as the British Chamber of Commerce," says Haseldine.

Although fewer people now go to a physical bank location to enquire about products or services, business owners and managers still want a close relationship with their bank. "Professionals seek mentorship from banks – authoritative advice from people who understand the market in which that business is operating," continues Haseldine. "Banks are focusing more on their local growth, too, which benefits the typically local-based network of SMEs."

Diversity, fairness and accessibility

SMEs seriously considering finance solutions may face challenges when it comes to banks' own lending criteria and measures of risk.

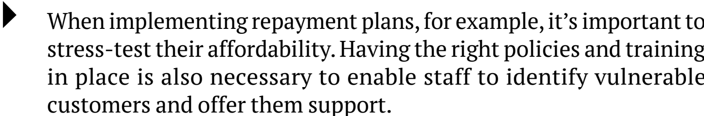
"Many small businesses would argue that banks' appetite for risk is getting worse, not better," states Haseldine. "If you look at the lending profiles of which SMEs they're lending to, they are becoming less diverse in terms of gender, ethnicity and age. SME Finance Monitor data also suggests that lending to women and ethnic minority owners in particular is becoming more sparce."

The rising cost of living has also put pressure on SMEs that perhaps are hesitant to apply for a loan or struggling to meet debt commitments. While banks are under an obligation to provide fair finance to all risk-assessed investments, the Financial Conduct Authority (FCA) has warned banks that they must treat SMEs more fairly. Sheldon Mills, FCA's Executive Director for Consumers and Competition, said back in July 2022: 'People across the country will be affected by the rising cost of living – and this includes small businesses. We were disappointed to find repeated instances of these customers not being treated fairly by banks when they're struggling. We expect the whole sector to act quickly to improve this. We will take action if problems continue.'

HOW BANKS CAN SUPPORT SMES

"The British Business Bank's Growth Guarantee Scheme is designed to help lenders provide smaller businesses with the finance they need to invest and grow."

Reinald de Monchy,
Managing Director, Guarantee & Wholesale Solutions,
British Business Bank



When implementing repayment plans, for example, it's important to stress-test their affordability. Having the right policies and training in place is also necessary to enable staff to identify vulnerable customers and offer them support.

From an accessibility perspective, banks are moving at different paces towards more digital-first banking solutions.

"The accessibility picture is mixed. New entrants into the market, whether that be Monzo or Starling or many other lenders, are digital-first by their very nature. This digital eruption in the market has given legacy banks a reality check, because their digital offerings aren't hitting the mark," explains Haseldine.

As banks continue to close their branches and move online, SMEs still desire a physical presence. According to the *Business Outlook Survey of 2023*, 90% of respondents said they preferred mobile or online banking for day-to-day operations, but in terms of financing for growth, more than 50% had a preference for telephone or face-to-face contact.

"Business customers are no longer visiting branches to discuss their day-to-day [needs], but they still want to go in and sit down with a human to talk about access to financing for their future growth – rather than manage it all in an app," stresses Haseldine.

Challenges and opportunities

SMEs face an array of hurdles going into 2025. Some of the greatest problems are the workforce, inflationary pressures and a skills deficit.

"It's a bit of a chicken-and-egg situation, because you can't invest in your business if you're not growing your business," argues Haseldine.

Falling short of the ESG standards adopted by major suppliers is becoming an acute, unique challenge faced by SMEs. Non-compliance may have a significant impact, such as losing bids on contracts or being excluded from the supply chain altogether.

"Smaller businesses are having to play catch-up, because many resource-rich multinational companies are enabling ESG adoption and attempting to enforce it across the supply chain. However, SMEs haven't had the funding or opportunity to become fully compliant. While many banks are providing green finance, more can be done to help SMEs become compliant in this space," says Heseldine.

AI continues to dominate the emerging trends in technology and finance, especially relevant for the banking industry in its support for SMEs. True of any organisation, there are often risks and opportunities associated with new offerings and technology . "At a recent UK Finance conference, the panel agreed that banks are aware of the AI risks but aren't necessarily doing as much as they should to mitigate them. AI can clearly play a massive part in banking, but needs to be handled delicately," says Haseldine.

Improving terms ahead

"If SMEs want to access financial products, the right one for them is probably available. They can shop around, but banks should be aware that many of these SMEs just don't have the capacity to access finance," argues Haseldine. However, new growth and investment initiatives are constantly evolving to businesses' needs.

The British Business Bank has recently launched a new programme, the Growth Guarantee Scheme, which will support SMEs across the nation. Reinald de Monchy, the bank's Managing Director, Guarantee & Wholesale Solutions, explains the initiative.

"The scheme is designed to help lenders provide SMEs with the finance they need to invest and grow. Under the initiative – the successor to the Recovery Loan Scheme – accredited lenders will be able to provide a range of finance types to smaller businesses, including term loans, overdrafts, asset finance, invoice finance, and asset-based lending. The scheme can generally support facility sizes of up to £2m and is designed to improve the terms lenders can offer borrowers.

"Lenders benefit from a 70% government-backed guarantee, with the borrower always remaining 100% liable for the debt," says De Monchy. The scheme's terms are intended to remain broadly unchanged from the original Recovery Loan Scheme, enabling continuity and consistency for lenders and the business community.

"It is expected to support around 11,000 SMEs between 1 July 2024 and 31 March 2026 and the bank already has 48 accredited lenders signed up. To date, 38 lenders have confirmed they are open for applications, with further lenders going through the accreditation process and will be accredited over the coming weeks," concludes De Monchy.

Further information on the Growth Guarantee Scheme, including the current list of accredited lenders, is available on the British Business Bank website. CB

OPEN MIC

Treat data like gold bullion

The bankers of the future are faced with myriad risks, from navigating the transition towards a low- or zero-carbon economy to maintaining relevance with their digitally savvy customers. Here, our experts share their views about the hazards immediately on the horizon.

What is the greatest risk facing the banking industry over the next two years?

DR NICOLA RANGER
Leader
Resilience and International Development Programme, Environmental Change Institute

The biggest perils we face are the transition risks posed by nature degradation and climate change. We are already seeing physical impacts on nature that we didn't anticipate, which could cost up to 12% of UK GDP if action isn't taken.

My research has revealed negative nature impacts, happening now, which we didn't anticipate, and I'm speaking as a climate scientist with 20 years' experience. We need to prepare for these risks by ramping up policies that help mitigate the deterioration of the natural environment. A failure to do so will expose us to very significant risks over the next five years.

JONNY HASELDINE
Policy Manager
British Chambers of Commerce

The regulatory reforms related to the implementation of Basel 3.1 are going to create both challenges and opportunities. The biggest risk for banks and businesses alike is the likely increase in the cost of borrowing. SMEs especially, which are already struggling to access finance, are going to find it harder and more expensive to borrow.

While politicians and businesspeople are urging caution, HM Treasury is deflecting the onus onto the Bank of England, which as an independent entity has the policymaking power. New risk weightings mean banks will have higher capital needs which, at a time when business growth through borrowing is being encouraged, will make life harder for growing UK companies.

JOCHEM HUMMEL
Assistant Professor
Warwick Business School

The most significant risk we face today is around data sensitivity. Hackers equipped with ever-sophisticated AI tools are striving to access and abuse consumers' sensitive data. To reinforce banks' defensive efforts against fraudulent activities, we must all try to reduce our data exposure through innovative measures. Advanced technologies such as disposable credit cards can enhance customer security.

Prioritising information security and privacy can protect banks and their customers. Data protection should be a fundamental strategy for banks, safeguarding their survival and success in the evolving digital landscape. Banks that treat data like gold bullion can gain a competitive advantage.

REBECCA STEPHENS
Research Director, Customer Experience
IPSOS

In a digital-first world, traditional banks are running the risk of losing touch with their customers. Their legacy systems are struggling to keep up with the data resulting in disjointed customer services. Banking customers set their expectations on holistic experiences that are based out of sector. They expect banks to be as digitally savvy as their favourite brands.

While it's obvious a high-street bank cannot mimic e-commerce behemoths such as Amazon, they are under increasing pressure to keep up with the sophisticated communication of their digital competitors. Banks' marketing and customer services teams should be focusing on the ease and brevity of engagement across multiple touchpoints. CB

USE CASES: GEN AI

The genie is out of the bottle

Generative artificial intelligence has dominated headlines and captured the imagination of the global business community with its promise of enhancing human creativity, boosting productivity and revolutionising communication. But what use cases have been implemented in the FS sector to date, and what does the future hold for this fascinating technology?

“There is much hype around generative AI [gen AI] at the moment. It’s the number one topic that financial services firms discuss with us,” says Dr James Bowden, Senior Lecturer, Accounting and Finance, Strathclyde Business School.

“Firms want to know how to incorporate it into their systems to help simplify compliance, and engage in horizon scanning,” he explains.

Despite significant enthusiasm for gen AI’s potential, there are few current use cases in the FS sector, and those that do exist are relatively narrow in scope. “There are hundreds of gen AI projects going on, but the overwhelming majority are still in the development phase,” he continues . “The current number of use cases is actually quite small.

“Most are low-risk use cases used in internal systems, to help improve operational efficiencies, extracting and summarising key information from the wealth of qualitative financial information that exists. But we’re talking about gen AI as a decision-support tool rather than a decision-making tool. I suspect that’s going to be the case for quite a while to come,” he adds.

Searching for use cases

A recent report by Golman Sachs, entitled *Gen AI: too much spend, too little benefit?* highlighted that more than $1tn is set to be spent on gen AI in the near future, but questioned whether this investment would pay off given the high costs involved and the lack of a decisive use case for the technology.

However, Bowden believes that gen AI can make a significant impact on the FS sector. He is a co-investigator at the Financial Regulation Innovation Lab research programme and has been exploring applications for simplifying compliance using AI, working in collaboration with FinTech Scotland and the University of Glasgow.

“We’re working on the development of a prototype of a large language model [LLM] that’s integrated with a large vision model [LVM]. It gives the consumer a kind of a visual avatar they can communicate with that helps them explore and summarise complex terms and conditions,” he explains.

Such an application has the potential to help FS firms comply with regulation such as the Financial Conduct Authority’s (FCA’s) Consumer Duty act. “This would vastly improve the consumer experience. Given the emphasis the FCA has placed on the Consumer Duty, you can see how this could be potentially extremely beneficial,” says Bowden.

> **“When it comes to readiness to implement AI technologies, banks have multiple advantages.”**
>
> Wendy Redshaw,
> Chief Digital Innovation Officer, Retail, NatWest Group

Overcoming barriers to adoption

The rise of AI-generated deepfakes, a particular risk in the FS sector, is just one example of several factors that can potentially undermine trust in gen AI if the issue is not brought under control. However, gen AI also has the potential to combat financial fraud. “We’re also building models for detecting financial fraud such as deep fakes, because the genie’s out of the bottle now,” adds Bowden.

Another challenge is the question of the reliability of gen AI models, which are prone to the phenomenon of ‘hallucinations’, where apparently factual information is, in fact, a total fabrication. This can include references and citations pointing to non-existent sources (a particular problem in academia, Bowden observes), invented names or fictional biographical data, to name but a few examples. A recent real-world example of an AI hallucination is that of a New York attorney who used an AI chatbot to perform legal research. The result was that they accidentally cited bogus legal precedents that did not exist.

"Hallucinations are an inherent limitation in these gen AI models," continues Bowden. "There are ways to address them to some extent, but they are always going to exist," he warns. One step that can be taken to overcome the potential unreliability of gen AI outputs is to engage in a process known as 'grounding', whereby gen AI outputs are constrained by pre-defined information.

Bowden points to the example of Morgan' Stanley's new gen AI tool, announced in September 2023, which enables financial advisers to rapidly consult the bank's database of more than 100,000 financial documents.

"Morgan Stanley using gen AI to query its internal documents is an example of 'grounding', which involves connecting the outputs of gen AI models to verifiable data sources, which limits the potential for hallucinations," explains Bowden.

One of the reasons hallucinations can pose a problem for the use of gen AI in the FS sector is that it raises the risk of falling foul of a growing range of AI regulation, such as the UK's proposed Artificial Intelligence (Regulation) Bill and guidelines set out in its 2023 White Paper as well as wider legislation such as the EU's Artificial Intelligence Act, which came into force on 1 August.

"The issues of explainability, trust and fairness are featured quite heavily in the UK's AI framework," says Bowden. "These issues need to be addressed if we are going to see these models used in more external-facing processes and client-facing environments. I think that's why FS firms are treating these matters with caution."

Human error vs machine error

Some of the challenges presented by gen AI, such as hallucinations, may be technical in nature, but accountability could ultimately rest with the humans using these tools. "The FCA's Consumer Duty places an emphasis on fairness, explainability and traceability," says Bowden. "But, ultimately, it's the human that is responsible for these issues rather than the model, so there needs to be accountability there.

"And we're not just talking about regulation, there's also the potential for reputational damage caused by gen AI. We've seen instances before where machine learning [ML] has been used for lending decisions and there have been biases in the models. And that's led to vast amounts of negative publicity."

However, it's worth considering that the risks posed by gen AI may be similar to those posed by other technologies. "There are comparisons here with technologies such as self-driving cars, for example," says Bowden. "There are so many accidents on the road every day that are a result of human error, but it takes only one error from a self-driving car and it's all over the news."

This tendency for negative publicity to stifle innovations – rightly or wrongly – may be another reason gen AI use cases are still relatively uncommon. "Human error takes place every day, but we don't read about it as much as if an algorithm makes a mistake," points out Bowden.

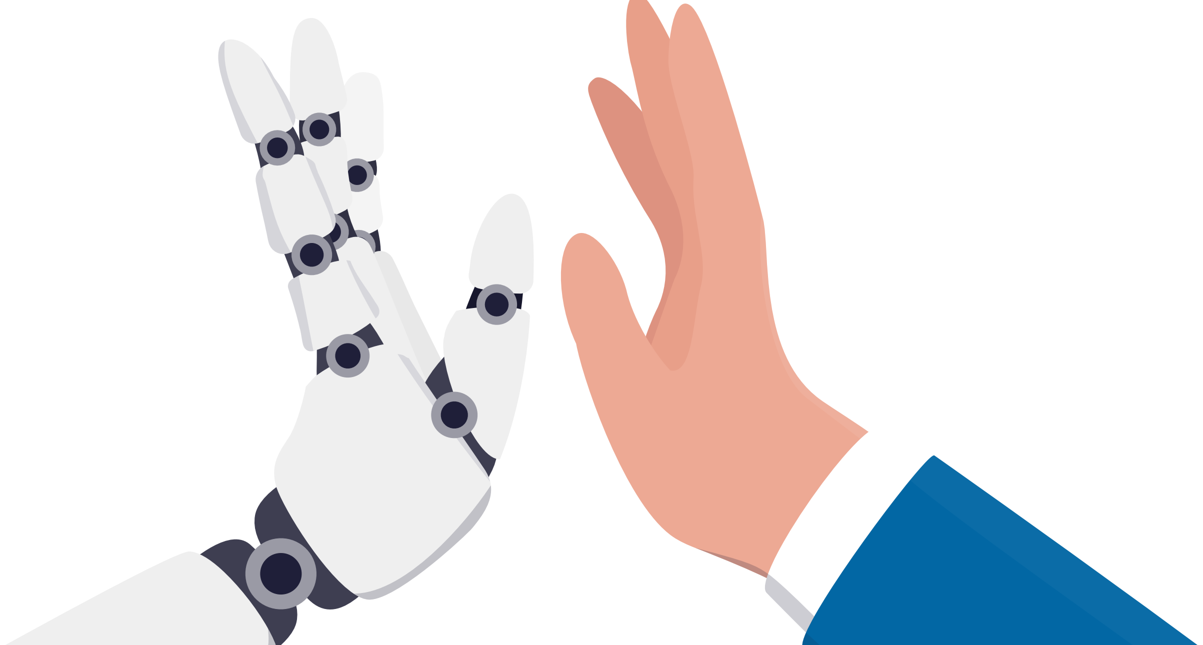
While the barriers to the widespread uptake of gen AI are real, he doesn't believe that they are necessarily insurmountable. "If you think about the amount of investment that is going into this space, if it's going into the right areas and is addressing the deficiencies in these models, I can see a scenario where these models are incorporated into decision-making roles within the next 10 years or so," he predicts. "If we can get it right, I can't see why we won't have a pipeline of extremely useful gen AI tools coming through."

Let's see what Cora says...

One example of a bank at the forefront of implementing gen AI is NatWest, whose Cora chatbot is getting a gen AI upgrade in the form of Cora+. So how is the bank leveraging gen AI for this new iteration and how can the tech deliver even more responsive services to customers?

"In 2017, we introduced Cora as a 24/7 AI-powered digital assistant to answer day-to-day banking queries and carry out simple instructions," explains Wendy Redshaw, Chief Digital Innovation Officer, Retail, NatWest Group.

"Over time, Cora has evolved through natural language processing [NLP] and machine learning [ML], and has incorporated more advanced capabilities, including voice recognition, to enhance the customer experience," she explains.



USE CASES: GEN AI

"In 2023, Cora helped 10.8 million customers resolve their banking queries – so this constant evolution of our 'digital companion' made the iteration to include gen AI alongside 'traditional AI' as an obvious one to explore," she adds.

"With gen AI, customers can ask questions and receive responses in a more natural, human style," she continues. "For example, previously, when a customer asked Cora about a mortgage or lending product, a link would be provided to a helpful but general page, and the customer would then perform a degree of research themselves from the different options within the page. Now, Cora+ will be able to understand the context and nuances of each customer query and will provide more accurate and personalised responses for certain journeys."

> **"Human error takes place every day, but we don't read about it as much as if an algorithm makes a mistake."**
>
> Dr James Bowden,
> Senior Lecturer, Accounting and Finance, Strathclyde Business School

Balancing opportunity with risk

Despite the need to take the development of gen AI at a cautious pace, Redshaw thinks banks could be well placed to benefit from this technology. "When it comes to readiness to implement AI technologies, banks have multiple advantages," she says. "The laser focus on customer benefit alongside data, risk, governance, and a highly proactive cadence of releases means that we're well set to learn quickly and deploy at pace," she explains.

"There's been a huge step forward in terms of readiness, and much of that has come from building on existing competencies – for example extending existing data and ethics principles to include AI."

NatWest has also been focusing its gen AI applications on areas where such implementation is appropriate and well considered. "There is also the ability and need to be discerning on appropriate use cases in banking due to the rigour of our governance," says Redshaw. "For example, some customer journeys need to be demonstratively consistent from a regulatory perspective whereas others can have a degree of flexibility."

While NatWest is aware of the potential benefits of gen AI, the bank is also mindful of the need to balance opportunity with risks. "As with any new opportunity, the introduction of a new approach, model or technology is subject to formal processes to evaluate and manage risk well within a bank," she stresses.

"However, it is vital that these processes are enhanced by a strong culture – one that has properly internalised what customer benefit looks like, and is capable of creatively scenario-planning, debating risks constructively, and then working transparently and collaboratively across business lines to mitigate them."

As well as putting risk management processes in place, Redshaw believes that employees should be supported to better understand the uses and limitations of gen AI. "As with any emergent technology, we must be mindful of privacy, ethics, and the risks associated, ensuring we have the right safeguards in place for our customers and our colleagues," she says.

"This must be front-and-centre in our employee education too. With gen AI appearing so 'human-like' in its responses, it can be easy to make assumptions about the level of intelligence and understanding that it has," she cautions.

"Education is an important aspect of helping people to understand the technology – and, specifically, what it can, and cannot, be expected to do," she adds. "Testing assumptions, thinking outside the box, and exploring 'what-if' scenarios can all help to guide understanding and appropriate use of the technology."

Caution, care and consideration

Given the complexity of applying gen AI within a banking context, how long will it be before other banks follow in the footsteps of NatWest's gen AI journey?

"We're happy to be leading the industry on this, but we're mindful that the pace and breadth of development in this field is fast, and probably will get faster," says Redshaw. "It feels like the industry is still at the stage of getting all the cards out on the table – looking at what 'could' be, before getting to a more focused view of what 'should' be, rolled out. And this makes good sense.

"My expectation is that other banks will follow in our footsteps; however, my hope is that any gen AI roll-out is undertaken cautiously, and with appropriate consideration – not just in terms of appropriateness of use case, and protection of customers or colleagues, but also in terms of the potential environmental impacts of gen AI, with its higher energy requirements."

While the gen AI revolution may not be upon us just yet, Redshaw believes that more use cases are soon to follow. "In 2023, we identified more than 100 priority use cases for AI – and in particular, gen AI."

She concludes: "We anticipate that this innovative technology will offer a few transformative 'hit shows' and yield many others that focus on improving the way that existing products and processes provide enhanced capability or more efficient support for our colleagues and customers." CB

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TACKLING AI SCAMMERS

The race is on to outfox deepfakes

As the limits of AI continue to expand beyond our immediate comprehension, what actions can banks take to mitigate the risk from cybercriminals intent on deceiving customers and disrupting the business world?

Artificial intelligence (AI) is changing the banking landscape, for better or for worse it still remains unclear. While there are opportunities on the horizon across multiple sectors, the more pressing issue for FIs is not only the risk to their own infrastructure and security but that of their customers.

"We are currently in the middle of an AI storm. It hasn't been around for that long, is developing quickly, and needs to be harnessed in a way that's safe to do so," explains Christian Garcia, CEO, Trusted Novus Bank.

The devil is in the data

Today AI can generate compelling content in multiple media formats. Better written text or authentic audio may be more believable to our eyes and ears, but data scrutiny may reveal otherwise. Dr Viktor Dörfler, Professor of AI Strategy, University of Strathclyde explains that generative AI (gen AI) 'hallucination' – whereby AI creates false information – is not a convincing concept, because it suggests that AI is making the wrong predictions based on incorrect or biased data. "This is wrong for two reasons. First, it is human to hallucinate, and we shouldn't attribute it to AI. Second, it suggests that something isn't working properly," he explains.

Human beings make relative assumptions based on their own interpretations of information that is not necessarily valid. Similarly, AI does exactly what it is programmed to do. "The essence of gen AI is to observe input patterns and then generate patterns that are similar to the ones served as input," says Dörfler.

AI output can only be as sophisticated as the data input by criminals – the humans behind the technology. "However, the more digital traces we leave online, the more data there is available for criminals to use to train these AI tools," says Jochem Hummel, Assistant Professor, Information Systems Management and Analytics Group, Warwick Business School.

Sorting out the fact from fiction

As the sophistication of AI increases, it may become more difficult for banks and customers to differentiate between a fake and the real thing. "Not only can AI impersonate a banker, but also friends and family. It can even emulate you as a person," cautions Hummel.

"Banks also may have to contend with the clever falsification of documents; AI has the ability to create fictitious documentation that supports the identity of an unreal person – in essence, a documented life," says Garcia.

Believing something that doesn't exist is the bedrock of the AI threat to UK banking. "Replicating someone's voice is incredibly easy with AI. Even a few minutes of a voice sample from someone means the fake will be so good that, even if you know that person in real life, you might not realise it isn't that person. But you may well recognise disparities in the wording," says Dörfler. The style of how someone talks is an entirely different issue, which is why the gen AI element is so important. "You may recognise that the person you know doesn't speak in that way or use those phrases in sentences," concludes Dörfler.

Augmentation, the collaboration between AI automation and human expertise, is where the real risk lies. "While automation creates impersonation, the scammer adds valuable details that can elevate the scam," says Hummel. "AI scammers are simply tapping into everyday technology available online – all they need is some of your own data to make quite a good impression of you," he explains. "However, for fakes to be truly believable, you need both a high quantity and quality of data – and currently, the abundance of data is low in quality," continues Hummel.

Banks and their customers should be more concerned about the details scammers seek and use to make their fakes more believable. "Criminals can use quality data – such as address, mother's maiden name, date of birth – to enhance their scams," explains Hummel. "These are details banks currently use for their security checks, and consumers are often giving this information – and more, such as fingerprints and photos – away without realising the risks. It only takes one good hacker to gain access to the cloud, where this data is stored, and impersonate you," he continues.

Fight fire with fire

In terms of deepfake scams, the biggest challenge facing banks is their difficulty in recognising the real voices of their individual customers. "Only real people can do that," argues Dörfler. "Banks have to commit to an expensive race. They need the latest detectors as a minimum wall of defence. However, AI scammers will also be

in that race. Sometimes the industry will be ahead, sometimes the criminals will be ahead. While banks' efforts may not provide a robust solution, doing something is better than doing nothing," he explains.

Hummel argues that technological solutions are a bank's best bet. "While banks have very basic technological means of defence, such as two-factor authentication, there are more advanced options available nowadays, like 360-facial recognition scans or face-to-face video checks.

"We are currently in the middle of an AI storm. It hasn't been around for that long, is developing quickly, and needs to be harnessed in a way that's safe to do so."

Christian Garcia,
CEO, Trusted Novus Bank

"Traditional banks seem to be lagging behind FinTechs, which are swift in their adoption of new fraud-prevention technology. For example, high-street banks still rely on sort code and bank account numbers. The problem with this data is its relevancy and availability to criminals, if you lose your card or phone. Meanwhile, digital-native competitors are using QR payments or single-use cards. This data, though readily available, quickly becomes irrelevant," adds Hummel.

Dörfler agrees that the commitment to technology is key. "For banks, the technology required to tackle the threat from technology itself is a money-consuming race in which there is no choice but to partake," he says.

Transactions are also happening so fast that scams can easily go unchecked. "Payments are almost instant, so it may be difficult for customers to recall transactions," says Hummel. "This creates a sense of urgency in mitigation practices, which could include AI tools that filter out unusual transactions. Pre-emptively, it could block anything suspicious and then wait for the bank to confirm the validity of the transaction with the customer."

Trust in intuition, urge caution

The vulnerability of human nature shapes our propensity to fall victim to criminal exploitation. Scammers pray on people's desires and emotions and on our brains that are wired to solve puzzles and find solutions. However, banks can leverage people's intuition. Our basic instinct is an internal repository of wisdom gained, lessons learnt and memories made, offering us invaluable insights without the need for conscious cognitive dialogue.

"If something feels off, then it probably is. Learning how to trust these feelings is key," advises Dörfler. "I believe that empowering our human intuition will become one of the most important security measures against AI fraud."

Inconveniently, the impetus falls on everyday individuals to figure out friend from foe. "While doubt puts people on high alert, they must rely on simple actions, such as checking the details of the message and verifying the identity of the sender – however believable both may be," he advises.

Hummel argues for the need of a collaboration entity between banks, governments and educational institutions. "People must be made aware of what AI can do and how we can develop and safeguard against its criminal activities," he says. Personalised campaigns that speak to individuals across the generations could help get the message across. "Reaching people to warn them about what AI can already do with their data, that's already available online, could help them become more cautious," he adds.

Garcia agrees that education and awareness are key. "We're learning all the time and have to keep abreast of the risks. Take social media, for example. Many fraudsters use it to learn about their potential victims, so we need to be more careful when socialising online."

TACKLING AI SCAMMERS

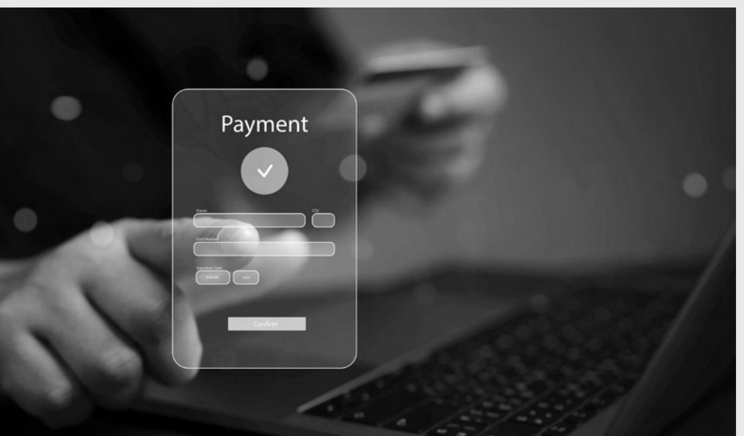
English is the reluctant language of crime

The prevalence of AI scams targeting customers within the UK banking sector could be down to the global use of the English language. "Many of the world's banks are British or, at least, English-speaking. For many multinational businesses, it's the main working language, so it all adds up," says Dörfler. "I think it's also equally important that the English language is far better processed than any other language, with an abundance of voice recordings. So, generating spoken text in English is far easier," he explains.

Hummel agrees on AI's proficiency of the English language. "English is the lingua franca of AI. Most of the training occurs in English because of the vast quantity of data available," he says.

However, Garcia believes that the prevalence of the English language doesn't need material attention when addressing the risks of AI. "English is widely spoken, yes, but it's not the only language. Asian languages cover a huge population and geographic scope. Many cybersecurity threats have originated in Eastern Europe and further afield."

Scammers may use the English language to their advantage, but customers can rely on their intuition. "Banks say that they will never ask you for your pin over the phone – and they don't. Customers require a degree of discipline. Criminals who deploy deepfakes rely on catching their victims off guard. After all, why would you have your guard up when you hear a familiar voice? Changing this is not necessarily a good thing – no one wants to have their guard up when among friends. However, more awareness can be useful," warns Dörfler.



Don't blame the tech itself

From data bias and privacy to transparency and accountability, AI cannot escape the pressing question of ethics. However, should the worker blame their tools? "AI does not actually have an ethics problem. Ethical issues derive from human beings and not computers. AI may make ethical issues more visible, but they are not tied to the technology itself."

While new generations emerging from digital-native environs may appear more technology-smart, and better able to spot deception, awareness shouldn't be a given. "The point is that people who aren't criminals don't think like criminals and find it very difficult to do so. Though it may not be our natural way of thinking, we need to be told that fraud can be committed – and by people who want to do harm," says Dörfler.

> **"For banks, the technology required to tackle the threat from technology is a money-consuming race in which there is no choice but to partake."**
>
> Viktor Dörfler,
> Professor of AI Strategy,
> University of Strathclyde

Hummel wonders whether an AI version of a human accountant could be an alternatively viable line of defence. Major B2B transactions typically evade fraud because there is usually an accountant acting as a conduit to ensure legitimacy. "An accountant builds that credibility that we all take for granted in our everyday transactions," he says.

Regulation has often been needed to engender ethical practices in business. "There's already discussion whether AI should be regulated across the board, or simply overseen by financial regulation. Either way, there is still much work to do," observes Garcia. "We need to collaborate between constituents of the sector, with continuous monitoring and auditing to detect biases and errors in AI systems, to ensure transparency and honesty about the ongoing risks," he urges.

The 'Wars of the AIs'

FIs cannot tackle scams on an individual basis, but they can urge caution and vigilance. However, banks can begin leveraging certain detection tools, which are constantly evolving, to help tackle fraud collectively. "The same people who are building the AI tools that can create deepfake are also making the best tools to detect those deepfakes," explains Dörfler.

Hummel argues that AI has become bifurcate. "We are seeing the 'Wars of the AIs' play out, with well-intentioned AI battling malicious AI," he explains. While players on either side look to outmanoeuvre the other, banks that invest in data-security technology can sharpen their competitive edge. "With AI, banks are usually behind the eight ball. They need to constantly innovate to overtake scammers and beat them at their own game," says Hummel.

Garcia points out that whenever there is business to be done, there will be interested parties. "Banks must ensure that the security technology they use cannot be overridden by AI technology, especially when in the wrong hands. Software security providers will be very interested, working full steam ahead in improving tools. Just like the boom of antivirus software, there will be businesses wholly focusing on AI protective software."

AI will enable banks to better identify AI fraud and scams, reducing the workload of professionals who can focus on more complex cases. Dörfler believes that standardisation at global level will have an important part to play, with ISO guidelines reinforcing the UK's regulatory landscape. "It's in all but the criminal's interest," he concludes. CB

GROWING A NEW BANK IN THE UK

Turning talent and vision into a wealth of opportunity

Interview with Graeme Hartop, CEO, Hampden & Co.

Hampden & Co. launched in 2015 and since then has amassed more than 5,500 high-net-worth clients (HNW) and its recorded profit before tax in 2022-2023 was £9.1m. Here, outgoing CEO Graeme Hartop discusses the strategy behind building a successful bank in the UK and reveals where he believes the young bank's future lies.

Graeme is a qualified Chartered Accountant and Chartered Banker with over 30 years' experience in the banking industry. He was Head of Finance at Adam & Company before joining Scottish Widows Bank in 1993 as Finance & Operations Director and where he became Managing Director in 2003.

Graeme joined Hampden & Co. in 2013. He was a Council member at the Chartered Banker Institute and Vice-President from 2007 to 2010.

You are stepping down this year; how would you sum up your time at Hampden & Co. as CEO?
I built up the business from a blank sheet of paper, which of course brings myriad challenges, but at the same time it has been incredibly interesting. We have reached a point where we have a thriving bank and I've enjoyed every minute of the journey. But the reality is, when starting a bank from scratch, it is important that you can enjoy the ups and the downs.

Being involved with every aspect of the enterprise means I've learnt many new skills. I've met some incredibly interesting people along the way, and I have some exceptional clients and shareholders. Stepping down as CEO of Hampden & Co. has been a brilliant way to end my executive career.

> **"I built up the business from a blank sheet of paper."**

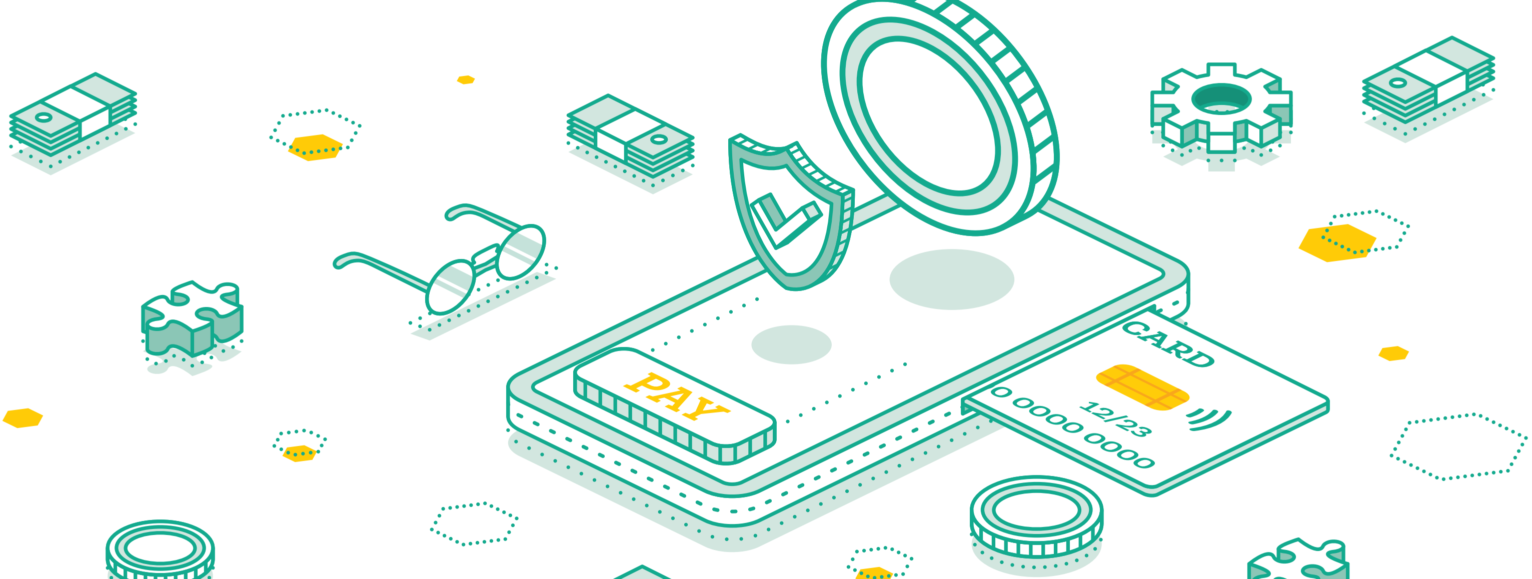
How successful are Hampden & Co.'s USPs in attracting HNW individuals?
The key USP for a private bank is to establish a strong relationship between you and the client; it all boils down to that.

From the outset, we recruited some highly experienced bankers who were able to train and coach the younger, extremely capable people coming on board. This meant everyone was equipped to give our clients a first-class service.

Many people don't realise just how much they benefit from a strong interaction with their bank. We've all been faced with times where it takes forever to get through a telephone queue to customer service when you really need help, but with us, our clients have somebody there right away to get things done.

We deal with complex situations – for example a lending scenario across multiple generations - and our bankers are skilled at arranging that. These are competencies clients really value, and this ability has helped us immeasurably to grow the business.

What were the main challenges of launching a new bank in the UK?
Clearly, it is not easy to launch a bank. Getting the banking licence is obviously a prerequisite, which takes a significant amount of work,



GROWING A NEW BANK IN THE UK

knowledge and experience. I joined at the beginning of Hampden & Co. in 2013 and we obtained a mobilisation licence [mobilisation enables new banks to benefit from the certainty of being authorised to help them to secure further investment, recruit staff, invest in IT systems and commit to third-party suppliers, etc., in exchange for limitations being imposed on their business] midway through 2014, but it was a further year before we properly opened the doors in 2015.

The second challenge is how to build the bank. The key is surrounding yourself with the right team and experience.

Next is putting the right technology in place, and it's not just the technology necessary for when the business is launched; it's the technology required for several years. Plans, processes and procedures have to be formulated. The list is almost endless.

A further challenge is securing the significant amount of investment needed to launch a new bank. Both the banking licence and the investment required to build the bank must be in place simultaneously because the regulators want to know you've got the capital before they'll give you a licence, while the investors want to know you have the licence before investing. It's a real chicken-and-egg situation.

How did you build and inspire your team at Hampden & Co.?
I have been in the industry for 35 years and I know a great number of people with the right capabilities and strengths, which meant I could recruit high-quality bankers who wanted to come and build Hampden & Co. with us.

We started not long after the global financial crisis of 2008 and there was a previously unimaginable amount of upheaval and change in the banking industry. Naturally, that had a massive impact on the culture of banks. It was refreshing to work at a new private bank, where my colleagues and I could make decisions and everybody was open and honest.

The culture I created is one with short chains of command, so decisions are made quickly. I admit it can be tricky to maintain that culture as a bank grows.

We've managed to do that extremely well by ensuring that communication goes in all directions. My door is always open. I know all my staff and that creates a strong collegiate atmosphere.

How is Hampden & Co. adapting to the changing needs of HNW individuals?
The biggest change since our launch is the high level to which people are prepared to interact through our digital channels.

Our new USP is around the range of channels our bankers and the team provide. People still value the personal service, but they also want to have the right technological capabilities.

We spent considerable time developing our digital service and apps giving people the opportunity to transact on their phones or online. But if they want advice from their nominated banker in person, who knows their specific circumstances and needs, they can also have that.

We are also specialists in multigenerational banking and wealth transfer. We can help structure assets for the best use of the family, for example helping the younger generation get on the property ladder at an earlier stage.

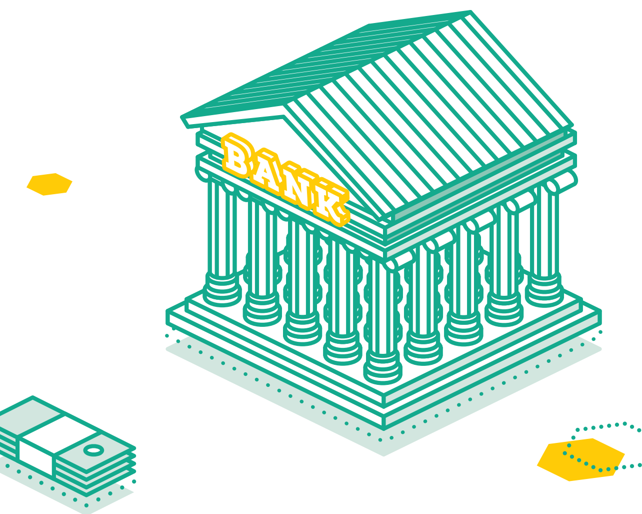
What are your reflections on the UK private banking market?
The competition for market share is as strong as ever among the major banks, and the climate in which we have to operate to deliver the right service is acutely challenging. At a time when local bank branches are closing at an alarming rate, it is difficult for the high-street banks to support customers who are not keen to operate digitally.

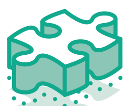
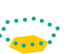
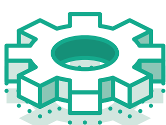
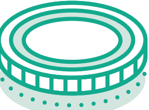
That presents a huge opportunity for us because we provide that all-important high level of personal service, and we can talk our clients through the steps required to surmount any issues they face.

The big banks might have larger budgets to develop their digital capability, but they're becoming less adept at being able to deal with issues that are not straightforward. Banks such as ours can deliver complex solutions to the evolving needs of HNW clients.

What is Hampden & Co.'s future?
Tracey Davidson is the new CEO. She will be starting this autumn, and I believe the bank is currently in a strong position. We've laid robust foundations through employing people with the right skills and expertise, and, as a result, the business is performing extremely well. Now we are looking to grow the business, to reach more HNW individuals and continue to deliver excellent service for both our existing and potential clients.

I wish Tracey and the team every success and I am confident they will build on those sound foundations and take the bank to even greater heights. CB



CREATING A SOCIAL MEDIA PLAYBOOK

How can banks close the feedback loop?

If a banker overheard a customer complaining outside a branch, they might rush to offer a swift resolution. However, in a world that's increasingly focused on technology, how can banks scale the regulatory hurdles to meet customer expectations and manage criticism online, all in a timely manner, while contending with their digitally native competitors?

Banks can no longer ignore the social media noise that typifies the matter-of-fact way new generations of customers communicate with brands. Younger audiences especially have increasingly more spending ability that has supercharged both their activity and interactions with banks online.

"As Generation Z comes into working age, we are seeing the first fully digitally native group emerge as critics of the brands they buy from. They resort to online first when they need to speak to someone," explains Juliette Aiken, Chief Marketing Officer, Dotdigital.

Helping brands engage online is an area of expertise for Dotdigital, a cross-channel marketing automation platform that enables marketers to connect with their customers. "As it becomes easier and more natural for customers to complain online, the banking and FS sector must be ready to respond," she continues.

This begs the question: why have complaints become so prevalent over recent years? "Borrowing is not new, but historically people took out loans only for bigger purchases. However, today consumers' credit-card usage is commonplace, and buy-now-pay-later [BNPL] schemes have normalised lending on a greater scale," she says. Aiken believes this new lending pattern, coinciding with the advent of digital, has likely increased the number of complaints.

The growing frequency of transactions continues to generate more customer experiences (CXs), too – some good, others bad. "There are the usual grumbles around financial services, such as fees, charges and security concerns, but the core of the issue is CX," explains Rebecca Stephens, Research Director, Customer Experience, IPSOS.

"When digital functionality doesn't work as expected, customers have to revert back to the call centre, which can't always offer a solution to a digital issue. They may face long response times, which fall short of their expectations," she says. "While some issues may not be serious, there's always a persistent anxiety that surrounds financial matters – a reason why customers may want their problems dealt with quickly."

In less than two decades, consumers have switched from complaining privately to complaining publicly and en masse. "Today, customers have fewer alternatives to raising their issues online. Before, you could complain over the counter, receive a human response and move on," explains Ian Davis, Insight Director, Customer Experience, IPSOS. "However, with fewer branches available, and younger digital natives intuitively spending their time online, where else other than Facebook and TikTok can customers voice their concerns?"

"Most of us are happy to carry out tasks and transactions ourselves digitally if it's easy and straightforward enough – but when the computer says 'no', our patience quickly runs out. The frustration expressed by a customer online, whose banking app isn't responding or who can't contact a real person, may be a cry for help," continues Davis.

> **"For a long time, traditional banks have relied on templatised conversations that are now out of tune with current audiences."**
>
> Juliette Aiken,
> Chief Marketing Officer, Dotdigital

SOCIAL MEDIA PLAYBOOK

Moreover, Stephens underscores the importance of ensuring there is human backup available when needed. "There's nothing more frustrating that trying to explain a complex issue to a bot and receiving automated responses that don't help."

Why legacy banks face an uphill struggle

"Digital-native banks are successful at adapting to users' conversational needs partly because their tech stack and internal processes are much more agile than those of their legal counterparts. Traditional banks may be more limited by what they can say, and there might be more risk if they get it wrong. As such, traditional banks have relied on templatised conversations that are now out of tune with current audiences," explains Aiken.

"Time is another factor," she continues. "Traditional banks may be slower to respond when consumers are increasingly expecting fast and personal responses that deal with their issues quickly." Part of the issue is the slow and reluctant adoption of new, popular channels. "Banks need a mentality shift, and that starts with investing in the right technology," argues Aiken.

"Indeed, many consumers assume someone will be monitoring complaints and act quickly to respond – especially when they see other brands on social media addressing customer issues almost instantly," explains Davis.

Stephens also underlines the common frustration of having to repeat information previously provided. "Customers shouldn't have to be repeating themselves every time they start using a different channel," she says.

According to *The Guardian*, 6,000 bank branches have closed over the past nine years. For Aiken, there seems to be a mismatch. "The absence of physical banks on the high street hasn't necessarily translated to more of a presence online. It doesn't appear that that resource has been reinvested into online channels," she says.

Although traditional banks hold vast amounts of customer data, their outdated legacy systems may not be designed to handle such a complex volume of information. "While there's an expectation that banks and other providers should be acting smarter with the insights they have, consumers should be aware of the enormity of the challenge banks face and appreciate that fast, seamless interactions may not always be a reality," explains Stephens.

In the data arena, FinTechs have the upper hand. "Disruptor banks have newer, agile systems that drive the value of data exchange between businesses and customers, resetting the expectations around CX. Traditional banks must think about what longer-term strategic actions they must take to address problems, fixing pain points to begin with so customers have less to complain about," she concludes.

Empowering those at the sharp end

Dealing with complaints can be a delicate process that requires empathy, communication and resolution. "It's probably good practice for any industry, but particularly for banking, to ensure that responses aren't filled with industry jargon or terminology that consumers won't understand. Keeping it simple is key, otherwise it may feel dismissive," advises Aiken.

While receiving a generic response may be frustrating, it may be difficult for banks to engage simply with customers on social media due to the sensitivity around the complaint. In this instance, standard prompts may be required to take the issue offline and avoid any risk.

"Customers may raise issues that are genuinely important to them on social, but replying directly in a public forum might not be prudent and could breach confidentiality," argues IPSOS' Davis. "The problem for banks is that users will see only complaints and not resolutions," he adds.

Aiken believes that, with the right training, teams across the bank can transform negative complaints into positive outcomes. "Can traditional banks empower social teams, content creators or even customer service agents? Can they be better educated and enabled within a changing regulatory landscape so that they can better respond authentically while remaining compliant within the framework they've been given?" asks Aiken.

Davis agrees that enriching the culture of the bank is key. "People must always be empowered to think about how they can continually improve CX."

> **"Most of us are happy to carry out tasks ourselves digitally if it's easy and straightforward – but when the computer says 'no', our patience quickly runs out."**
>
> Ian Davis,
> Insight Director, Customer Experience, IPSOS

Today many brands champion proactivity in customer service, however banks are still somewhat reactive. “Expectation-setting can often help remove that frustration while customers wait for a resolution,” says Aiken. “It’s important to provide clear SLAs [service level agreements] on response times – because you don’t want exasperated customers waiting on the line for however long.”

One way to proactively deal with complaints is to reduce the volume of existing common frustrations. “At Dotdigital we routinely monitor frequently asked questions or concerns coming through social. Banks can be more proactive by better surfacing that information without a customer having to take time out of their day to speak to someone,” explains Aiken.

Improving CX comes down to viewing the journey as holistic. “Banks should think about how they can improve the user experience [UX] across channels and manage down the points of failure that cause complaints, because they are extremely difficult to counter,” says Davis. “For example, banks could provide simple calls to action for feedback across their digital properties, which – compared with lengthy surveys – would require minimal commitment from users.”

Stephens agrees that implementing comprehensive, connected CX programmes could help abate complaints. “At IPSOS, we talk to our clients about closing the loop. That means reviewing feedback to set in motion actions to address individual problems. This kind of intervention means that banks could pre-empt a potential issue before it becomes a just cause for raising a complaint.”

In the long term, identifying commonalities across all issues can help streamline CX. “Once banks have mapped out the customer journey systematically, and identified points of stress or failure, they can put improvement plans in place to stop problems from reoccurring,” says Davis.

Pillars of social media strategy: resource and response

Dedicated facilities within banks are needed to engage with customers on their terms. “Banks need committed teams whose job it is to look at social media and deal with customer complaints. They should think about where customers are going to be. Is it X, Facebook or TikTok?” Davis asks.

Aiken agrees that enablement is required to future-proof practices. “Banks must to give their teams the tools they need to make customer-first decisions that abide by compliance – especially for international banks dealing with multiple governing bodies,” explains Aiken.

“Technology is a bank’s best friend. It can help identify what the important issues are, enabling teams to follow up and provide resolutions,” explains Stephens.

“There’s plenty of technology available to help marketing teams stay on top of their social media presence. Appraising tools from a usability standpoint can also help marketers tap into technology in a smarter way, helping them deliver better, faster experiences at scale.

“From an immediacy perspective, live chat is a tool many banks are utilising – and with success, because it gives people that speed of response.”

For FS providers, apps already provide a huge opportunity for positive engagement. “Realistically, there is only a handful of apps you use on a regular basis and that are visible on your home screen, your banking app included. So, banks could consider in-app messaging, as long as it’s helpful and accurate, and used carefully and sparingly. Customers won’t want to be overloaded with what feels like promotional messages,” emphasises Aiken.

Davis concurs that banks should avoid ‘salesy’ language. Overstepping the mark in such a private environment could appear invasive. “Customers may not appreciate seeing bestselling product recommendations in their banking app,” he claims.

That being said, banks may be able to leverage customers’ emotional attachment to brands. “Softer marketing that celebrates key milestones can help deepen that relationship with the brand and make customers more forgiving,” explains Stephens.

In an increasingly digital world where anonymous interactions with brands have become the norm, adding a human touch can make all the difference to CX.

“Curating an authentic tone of voice and content guidelines that are compliant, without forcing people to be overly formulated in their responses to complaints, can also add personability to customer conversations,” highlights Aiken.

Monitor the red flags

Aiken believes that a robust social media strategy is about putting the customer at the centre. “Social listening and sentiment analysis are not new, but perhaps underutilised by banks. There are many tools now that can measure what proportion of engagements are positive, neutral and negative,” she says.

Davis concurs that by employing a systematic approach to analysis, banks can better identify where the issues are. “Technology can search for trigger words or particular sentiments that are valuable for social media teams,” he says.

Putting actions in place to improve CX, and then tracking interactions to see if there has been an uptick in positive reviews, can also be a good measure of success. “Analysing the language that people are using can provide a more qualitative assessment of how banks are perceived by their customers,” suggests Aiken.

Davis asserts: “There are still brands that only measure satisfaction within a number range, benchmarked against a target. However, banks should be taking every opportunity to close the loop with the customer – have people on standby for any alerts while monitoring potential red flags in the quality of customer service.”

With generative AI, there is more opportunity to use language-processing modules to extract the most valuable feedback. “This is not just identifying whether this comment is good or bad, but what it means and how to act on it,” explains Davis.

“At IPSOS, we advocate the double-closed loop – contacting the customer personally, wherever they may be, to find out if the resolution is satisfactory,” he adds.

Aiken concludes: “When all is said and done, banking doesn’t have to be a faceless industry.” CB

REGULATORY ROUND-UP

Why playing by the rules is a winning strategy

The UK may have been in political limbo while the election campaigns progressed towards the ultimate date of 4 July 2024, but this hiatus did little to slow the march of the regulators in tightening governance in the banking sector.

The slew of compliance deadlines so far this year includes the anti-greenwashing rules which came into force in May; the Financial Conduct Authority's (FCA's) Consumer Duty implementation deadline for closed products and services at the end of July; while the ISO 20022 roll-out continues apace with an eye on November 2025 for completion.

Compliance teams, grappling with so many new frameworks simultaneously, may be forgiven for feeling overwhelmed, but there is evidence that banks are – on the whole – meeting the challenge.

Anti-greenwashing rules aim to help ensure that sustainability-related claims made by banks and other authorised firms about their products and services are fair, clear and not misleading, and are consistent with the sustainability characteristics of the product or service. When examining them, Victoria Hickman, Financial Regulation Counsel, Linklaters, says despite the immediacy of the rule coming into force, banks have made significant positive efforts.

What's the definition of 'green'?

"The introduction of the FCA's anti-greenwashing rule has undoubtedly been tight from a timing perspective; global financial services firms are fighting concurrent fires on the ESG front. However, the sector has engaged closely with the FCA's rule and guidance, and we have seen banks survey their operations to understand where the rule may bite and what, if any, changes are needed to their internal operations and governance," she explains.

But if all banks were making reliable sustainability claims, there would be no need for the anti-greenwashing rules, and the reality is some institutions will have to make changes to their operations.

Roger Hattam, Director, Retail Banking, Triodos Bank UK, says: "We have seen banks presenting claims about social and environmental characteristics in recent years in ways that aren't consistent with the new rules, so for some this will mean a change in their practices."

The challenge for banks in making those amendments, however, lies in sourcing and validating reliable data on which to substantiate sustainability claims.

This data-collection exercise is somewhat hampered by the lack of definition of 'greenwashing' within the guidance.

Further, the FCA says the terms 'environmental', 'social' and 'governance' are used to refer to sustainability, but there is no single definition of 'sustainability'.

Hickman points out that banks are already drowning in data-collation requirements; not just for the UK's anti-greenwashing rules but corresponding regulations in the EU including the Sustainable Finance Disclosures Regulation.

> **"The introduction of the FCA's anti-greenwashing rule has undoubtedly been tight from a timing perspective; global financial services firms are fighting concurrent fires on the ESG front."**
> Victoria Hickman,
> Financial Regulation Counsel, Linklaters

"Data availability continues to be a challenge in complying with the rule. While data is increasingly available, that challenge moves towards the volume of data required for myriad reporting requirements. With the patchwork of greenwashing requirements in the EU added to the UK's anti-greenwashing rules, firms are struggling to manage the volume of different data requirements across the range of unharmonised regulatory regimes," Hickman says.

Banks also level criticism at the anti-greenwashing rules for failing to improve transparency.

Hattam says banks should make clear how much they invest in particular companies, making it easier for investors to understand precisely the amount that is allocated to each firm.

Triodos, for example, applies a 5% maximum revenue threshold on areas of a business that do not align with the bank's positive impact mission.

Hattam explains: "For us, a threshold demonstrates honesty, transparency and accountability, which should be encouraged. We think it would be unfair to group together a product that has 1% indirect exposure to fossil fuels with one that has 98% direct investment, for example."

He adds that while the guidance will make it harder for FS firms to make unsubstantiated claims relating to sustainability, it also places the burden of proof on those firms that are 'doing the right thing'.

"The rules don't increase the requirements for overall transparency, which would make it easier to make informed choices between products with positive and negative environmental – and social – impacts. What the industry really requires are mechanisms that drive the whole FS sector to become more sustainable, and we are yet to see this."

Doing your duty

Almost a year before the anti-greenwashing rules came into force, banks were already held to the FCA's Consumer Duty, which demands that "firms must act to deliver good outcomes for retail customers".

Banks were given until the end of July 2024 to apply the Consumer Duty to all closed products, which may have seemed a worryingly short deadline for those banks that are yet to meet the first round of regulations. But, according to the FCA's Sheldon Mills, Executive Director, Consumers and Competition, there is "no need to panic".

"Much can be achieved in six months to a year – some of our greatest inventions were created, our most important monuments erected, and our world connected in just that time frame. And besides, banks are not starting from scratch unlike many of our inventors."

Mills adds that all firms "should have reflected on what lessons they learnt in the run up to the first deadline [for open products], filled in the gaps and made sure closed products comply."

Sara Cody, Financial Regulation Counsel, Linklaters, says banks have "responded positively" to the Consumer Duty regime, adding: "Outcomes-focused regulation such as the Consumer Duty poses some unique challenges, but firms and industry bodies have worked together to meet these."

However, adherence to the Duty has not been universal and a progress report from the FCA in February 2024 says firms "could do better".

In particular banks are criticised for failing to focus on Consumer Duty at all levels of the business, and for wating to see if the regulator intervenes rather than tackling poor practices themselves.

Part of this less than proactive approach may be down to the FCA's pragmatic attitude to intervention. In a speech this March, FCA Chief Executive Nikhil Rathi said that the FCA was not aiming to 'trip firms up by going after technical breaches'.

Instead, the regulator is focusing on what they consider to be the greatest harms: the cash savings markets, both in the largest banks and on platforms, and insurance products such as premium finance and GAP insurance.

However, Cody says banks should not look lightly on their obligations under the rules.

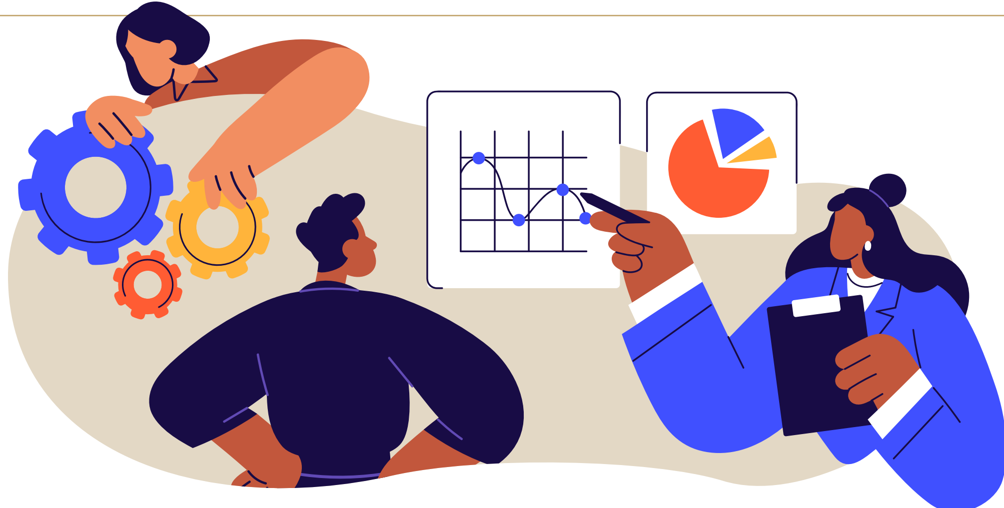
"All financial services firms understand that they must, and do, take the Duty very seriously. As the FCA has said, it is about 'doing the right thing' for consumers, not simply avoiding regulatory censure. The FCA has taken a pragmatic approach to implementation, recognising that the fundamental change it is looking for will take time. However, the Duty is structured in such a way that it will potentially make it easier for the FCA to take swifter and more decisive action where firms are found to be failing consumers."

Speaking the same language

Alongside the need to protect consumers, banks are also under pressure to improve operational efficiency. Notably, by 2025 banks will have to comply with ISO 20022 – the new standard for exchanging electronic financial messages that was launched by the International Organization for Standardization in 2004.

ISO 20022 is designed to create a common language for the FS sector, allowing for interoperability between FIs, market infrastructures and customers.

Simon Treacy, Financial Regulation Senior Associate, Linklaters, says: "The promise of ISO 20022 is that it provides a common dictionary for understanding payments-related data. After all, data is only informative if it is applied and understood consistently. By



moving to ISO 20022, banks and other payment service providers will be able to 'speak the same language' more easily."

But moving to a common payments language may be easier said than done. According to a global survey from SEEBURGER, which has worked on digital transformation projects with some of the world's biggest banks, just 18% of corporates polled were working towards the November 2025 deadline, while "a staggering" 42% of global corporates were making no plans for the migration at all or looking at alternate solutions.

Part of the delay comes, according to Treacy, with the cost of upgrading existing systems.

"Migration requires upfront technological resource [and] comes with upfront costs as banks have to make significant changes to their business processes and user-facing interfaces. There may also be other direct and indirect costs relating to the decommission of legacy messaging standards and associated operational changes."

Treacy adds that while the Bank of England has been driving forward take-up of ISO 20022 in the UK, last year it warned that many FIs have not yet made their core banking systems fully compatible with the standard.

"Disparity in adoption could hold the industry back from realising the full potential of ISO 20022 messaging," he warns.

That full potential includes realising benefits for everyone involved in the payments ecosystem.

Banks and other payment service providers stand to benefit from higher-quality and more structured payments data, which should make it quicker and easier to execute payment transactions, which would also benefit customers.

Tracey says: "Interoperability is a key advantage. Once a critical mass has moved to this globally recognised standard, it will be easier for firms to share data between payment systems, which should reduce friction for cross-border payments. At a time when operational resilience is a high priority for the industry, it is also hoped that greater interoperability will help build resilience by giving payment providers more options for withstanding disruption in one payment system by redirecting payment orders elsewhere."

He adds standardisation of payment data will open up other benefits including enabling banks to train AI models more efficiently to identify potentially fraudulent payments.

"This will benefit both customers who are less likely to become victims of fraud, and banks that are increasingly liable for reimbursing fraud victims."

A game-changing opportunity

J.P. Morgan is among the banks that have successfully transitioned to ISO 20022 in a move that Peter Zotos, Managing Director, Global Head Clearing Product Solutions Specialists, J.P. Morgan Payments, says will "unlock tremendous value for our clients and the broad payments experience".

He adds: "In the ever-evolving payments landscape, a game-changer is the industry's migration to the ISO 20022 standard. ISO migration is more than a technical project for tactical execution, unlocking potential for financial institutions to shift from passive to active payment processing.

"In other words, this is not just a standard with which banks must comply. It's a unique opportunity to capture rich data benefits and embrace data-driven innovation. The highly structured messaging format means machines can read messages better for faster automation and resolution."

Jesus De Lara, J.P. Morgan's Head of ISO Business Readiness & Commercialisation, urges both FIs and corporate clients to consider technical architecture changes and a workable scope.

"As a starting point, focus on the manageable external factors," he advises. "Create strong governance – with fluid channels of communications across stakeholders – to oversee the migration within your business. When implementing large-scale technology shifts, communication consistency and cost benchmarking are building blocks of a solid foundation for change."

Facing the future

The raft of regulations confronting banks this year – and into the next – are undoubtedly significant, but they are not insurmountable. Indeed, much of the FCA's focus is on improving outcomes for customers, and to create an environment for healthy competition and innovation based on high standards.

As the FCA's Mills says: "Those high standards – driving competitiveness overseas – protect our consumers and the integrity of our markets and should fuel greater confidence in our financial services and products, in turn growing our financial services sector."

At the same time, improving operational efficiency will go a long way towards enabling banks to be more effective in the long run, despite the initial upfront costs.

Whether the entire industry manages to keep pace with the new obligations remains to be seen, but for now it appears most firms are attempting to move in the right direction.

The PFA regulatory update is on page 63. CB

Vietnam: Full of Far Eastern promise

A mix of performance positives and negatives is driving a surge in M&A activity across Vietnam's banking sector. Foreign investors in particular are being tempted to enter this exotic and emerging market.

Analysing the recent performance of Vietnam's banking industry is not a black-and-white task. Despite record deposits growth in 2003, a subsequent first downturn in two years – combined with a number of weak credit institutions, slow credit growth and rising non-performing loans (NPLs) – means the sector faces plenty of challenges as well as opportunities.

In 2023, Vietnamese bank deposits surged – topping US$560tn for the first time and delivering a 14% uplift on the previous year. That also marked the fastest growth in the Vietnamese banking industry's history – driven by strong consumer confidence in the growing stability and security of the nation's banks.

But the mix of weak banks and a growing economy, and pressure on FIs to sustain deposit growth amid a relative downturn in the early part of 2024, has seen many local businesses struggle, and some placed under special measures.

The result of all of this is a surge in M&A activity as stronger market players look to snap up weaker rivals and wealthy foreign investors attempt to tap the country's favourable demographics via retail lending, particularly via digital channels.

What's driving this surge?

A major factor underpinning the sector's M&A activity is the mix of weak credit institutions in a high-growth economy.

According to Dezan Shira & Associates' latest Vietnam briefing, several of the country's domestic banks, including DongA Bank, CB Bank, and Ocean Bank, have faced negative equity and significant bad loans in recent times.

As a result, the State Bank of Vietnam (SBV) placed these market players under special administration in May 2023 and actively sought interested buyers and investors.

"To attract foreign investment, the SBV [even] proposed raising the foreign ownership cap in domestic banks from 30% to 49% for those taking over underperforming banks," the report states. "As part of this strategy, banks such as Vietcombank and Military Bank are set to acquire struggling institutions such as DongA Bank and Ocean Bank, respectively."

Dezan Shira & Associates' report also sets out how January corporate deposits fell by about 2.4% from the previous year's end across the industry – marking the first monthly decrease in more than two years and a significant dip on the previous year's growth.

The SBV has aimed for 15% credit growth this year, but by the end of March bank lending had increased only by 1.34% from December 2023. Although credit growth in Vietnam typically accelerates in the second half of the year when demand rises, that figure has sparked some movement in strategy around deposit interest rates.

Vietnam Technology and Commercial Joint Stock Bank raised its rates on all deposit terms by 0.1-0.4 percentage points in May 2024, according to a bank employee speaking to Channel News Asia. The adjustment brought short-term deposit rates to the range of 4.55% to 4.95%.

Dr Can Van Luc, a government adviser and economist at the Bank for Investment and Development of Vietnam, was cited in the Dezan Shira & Associates' report as saying that banks in the country are bolstering their deposits in anticipation of the usual increase in loan demand later in the year.

Meanwhile, Willie Tanoto, a senior director at Fitch Ratings, commented that the recent hikes in deposit interest rates by local banks "reflect tighter monetary conditions rather than an increase in systemic stress".

Diversification of financial products

A further driver behind the Vietnam banking industry's heightened M&A activity is the rapidly growing demand for diverse financial products, according to the Dezan Shira & Associates' report. Digital banking and e-wallets have significantly expanded the customer base of domestic banks, making them attractive acquisition targets for foreign investors seeking quick market entry.

Acquiring existing banks enables foreign investors to swiftly expand their range of financial products. This diversification can enhance profitability and customer satisfaction while offering more opportunities for upselling and cross-selling.

That view is also shared by S&P Global. In its country focus report on Vietnam's banking sector last year, it too set out that foreign investors could well be attracted to acquisition activity in return for future fruitful opportunities.

"Vietnam's banking sector is poised for an increase in M&As over the next two years, as lenders seek to bolster their capital while the country's economic growth attracts investors," it stated.

Ivan Tan, an analyst at S&P Global Ratings, added: "Acquiring a strategic stake in the Vietnam banks provides an opportunity for foreign investors to participate in the growth and tap the country's favourable demographics via retail lending, particularly via digital channels."

In return, overseas investors offer a source of much-needed capital for Vietnamese banks to boost their capital adequacy ratios, currently among the lowest in the region.

As such, foreign direct investment (FDI) in Vietnam surged in 2023, with disbursed FDI reaching around 3.5% more on the previous year. In the banking industry, notable FDI included Sumitomo Mitsui Banking Corporation's US$1.5bn investment in VPBank and AEON Group's acquisition of Postal Finance Company Limited for US$175m.

The rise of alternative lending and 'buy now, pay later'

A major element of that retail opportunity that is proving so attractive to foreign investors and other local banks circling for acquisitions is the rapid growth of the alternative lending market in Vietnam. It is expected to expand at a compound annual growth rate (CAGR) of 19.3%, from US$304.7m in 2022 to US$818.7m by 2027.

According to Dezan Shira & Associates, SMEs in Vietnam are increasingly turning to alternative lenders due to the challenges and costs associated with accessing traditional credit.

"For instance, Funding Societies, a Singapore-based financing platform, entered the Vietnamese market in 2022 and has since facilitated over US$70m in financing in Vietnam to SMEs across various industries, including agriculture, services, and construction," its analysis states. According to reports , Funding Societies provided SME financing worth US$3bn over more than five million transactions across Southeast Asia.

Additionally, the expanding buy now, pay later (BNPL) market is providing a boost by offering consumers flexible, short-term lending solutions.

BNPL payments in Vietnam are expected to reach US$3.33bn this year at an annual growth rate of 41.8%.

Seizing the moment

Of course, that success also depends on the ongoing positive performance of the country's wider economy.

In a recent economic update, Deputy Prime Minister Le Minh Khai noted the stability of the economy in the first four months of 2024, with inflation under control. Further, GDP growth in the first quarter reached 5.66%, the highest in three years, and the economy's scale reached US$430bn, "placing Vietnam among upper-middle-income countries".

According to Dezan Shira & Associates' report, the average consumer price index (CPI) also increased by 3.93% year on year, while realised foreign direct investment reached US$6.28bn, up 7.4%, marking the highest growth in five years.

With domestic banks seeking capital, a burgeoning consumer market, robust SME financing needs, and emerging challengers to traditional banking institutions, foreign investors will find ample scope for growth in the Vietnam market.

However, walking the regulatory tightrope and concerns over consistent performance may not be the only issues they need to take into account as they navigate their M&A routes. CB

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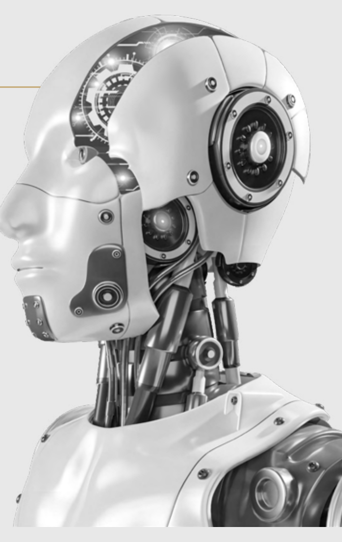

BANGOR BUSINESS SCHOOL

It's time we all joined the intelligence service

Dr Edward Thomas Jones, Senior Lecturer in Economics, Bangor Business School, outlines the development of AI from its arrival in banking 85 years ago to today's acceptance that the swiftly evolving technology is far from a fad – it is a strategic necessity.

What is artificial intelligence?

Artificial intelligence (AI) encompasses various definitions based on different perspectives and contexts. The late American cognitive and computer scientist Marvin Minsky defined the technology as the ability of machines to perform tasks typically carried out by human intelligence (Minsky, 1961).

This definition underscores the capability of machines to manifest intelligent behaviours, encompassing perception, reasoning, learning, communication, and the execution of actions within complex environments. AI aims to reduce the need for human intervention in daily activities by functioning as an autonomous and intelligent technical system.

AI's pre-war roots

The development of AI has employed four methodologies: symbolism, connectionism, behaviourism, and statisticalism. Using automation and statistics in banking has a long history. During the early 1930s, the banking industry was primarily male-dominated. However, the outbreak of the Second World War resulted in the departure of experienced loan officers to serve in the conflict. This led to banks seeking input from their less experienced loan officers to capture their lending decision rules of thumb. This, in turn, allowed for the development of simple credit scoring models – under these less-experienced loan officers – to enhance the lending process.

Subsequently, lenders integrated statistical techniques into the loan evaluation procedure, enabling them to assess credit risk and forecast loan outcomes. By the mid-1950s, Bill Fair and Earl Isaac had founded the firm Fair, Isaac and Company (now FICO) which enabled banks to gauge a potential borrower's creditworthiness. The arrival of credit cards, along with developments in computing power, contributed to significant growth in credit-scoring models. Banks have since used statistical methods in other aspects of their analysis. For example, they have been employed to understand the relationship between macroeconomic indicators and a bank's loan portfolio, which has allowed for the mitigation of economic fluctuations on loan portfolios and enhancing risk management practices (Fritz-Morgenthal et al., 2022).

Inclusion and empowerment

Ever since the early adoption of scorecards, the banking industry has witnessed an escalating prevalence of autonomous and intelligent technical systems, bringing about a revolution in multiple facets of the services provided (Caron, 2019).

AI presents new tools that enhance traditional statistical methods by leveraging its capacity to learn from vast datasets and generate predictions. It presents a wide range of advantages that extends beyond advanced credit risk assessments and enhanced risk management practices. Banking institutions are utilising AI to improve the accessibility of financial services, thereby reaching individuals traditionally under-served by traditional FIs.

This encompasses employing technology to provide a user-friendly and intuitive interface for those with limited technical expertise, as well as enabling customers to communicate in their preferred language. By implementing this approach, banks can enhance financial inclusion and empower all customers, irrespective of their background or requirements, to maximise their digital banking experience.

Further examples include the utilisation of an AI-powered virtual assistant to address and accurately resolve customer enquiries, the provision of personalised products and services to individual customers, or the swift analysis of vast amounts of financial transaction data through implementing a cutting-edge fraud-detection system (Northey et al., 2022).

The implementation of AI in the banking domain has exhibited encouraging outcomes in bolstering transaction efficiency, personalising services and ultimately augmenting customer satisfaction. AI is being increasingly recognised as a valuable weapon for FIs in their quest to enhance their customer-facing performance, optimise operational efficiency and generate positive effects on their bottom lines, among a plethora of advantages.

Without a doubt, the capability to utilise substantial amounts of diverse data, including text, image, video and code, in order to generate desired outcomes and potentially uncover vital insights, empowers banks to develop models for a multitude of functionalities that transcend previous boundaries (Manser Payne et al., 2021).

It's not all good news

Banks must give thoughtful consideration to the ethical and risk implications that accompany these advanced systems, given their escalating reliance on AI technologies. To some extent, AI in banking can be seen as an enhanced and more powerful form of existing statistical modelling techniques. Nevertheless, its extensive scale and range give rise to noteworthy prudential risks and limitations.

For example, consider the consequences of dealing with greater amounts of data, faster data flows and diverse data types. This increased type of activity can give rise to more significant data governance challenges, particularly to maintain data quality, relevance, security and confidentiality. Users may be unaware of the sources used for generating output or the method employed to assign weights, and a bank may not possess comprehensive understanding or control over the dataset being utilised. It is crucial to address fundamental questions surrounding data governance and ethics before heavily relying on these models.

AI models, like their traditional statistical counterparts, are susceptible to reflecting biases and inaccuracies present in the training data. Similar to humans, AI models are susceptible to bias in decision-making; however, they frequently lack the capability to be explained.

Stated differently, the reasons and mechanisms by which a model produces a particular output are not always well defined. This absence of explainability raises additional questions about AI models compared with those that already exist. For this reason, it is essential that banks and supervisors establish a satisfactory level of comfort and confidence regarding the durability of their potential implementation in vital banking services.

The present state of the AI landscape has the potential to increase banks' reliance on third parties and intensify concentration risks. A few providers develop most foundation AI models, which results in banks converging and relying on off-the-shelf or adapted models created by these providers. The deployment of AI commonly involves the utilisation of cloud technologies, further solidifying the network of interconnections, which might challenge the operational resilience of banks. These service providers may further magnify their role through the network-type effect and economies of scale, which can lead to increased risks of dependency for banks.

The benefit to humans

Up to this point, the predominant objective in the banking industry's utilisation of AI has revolved around optimising operations and reducing expenses. The industry is anticipated to undergo significant advancements and transformations due to the implementation of AI (Kalyani & Gupta, 2023).

The presence of AI technologies in the industry extends beyond a temporary fad. It is a strategic necessity that is reshaping the industry, driving innovation, enhancing operational efficiency and improving customer experiences. Using AI in banking extends beyond the mere improvement of risk evaluation and decision-making. It provides personalised services, eliminates the necessity of in-person branch visits and offers anthropomorphic financial services, thereby enhancing the intelligence and human-like nature of banking technology. CB

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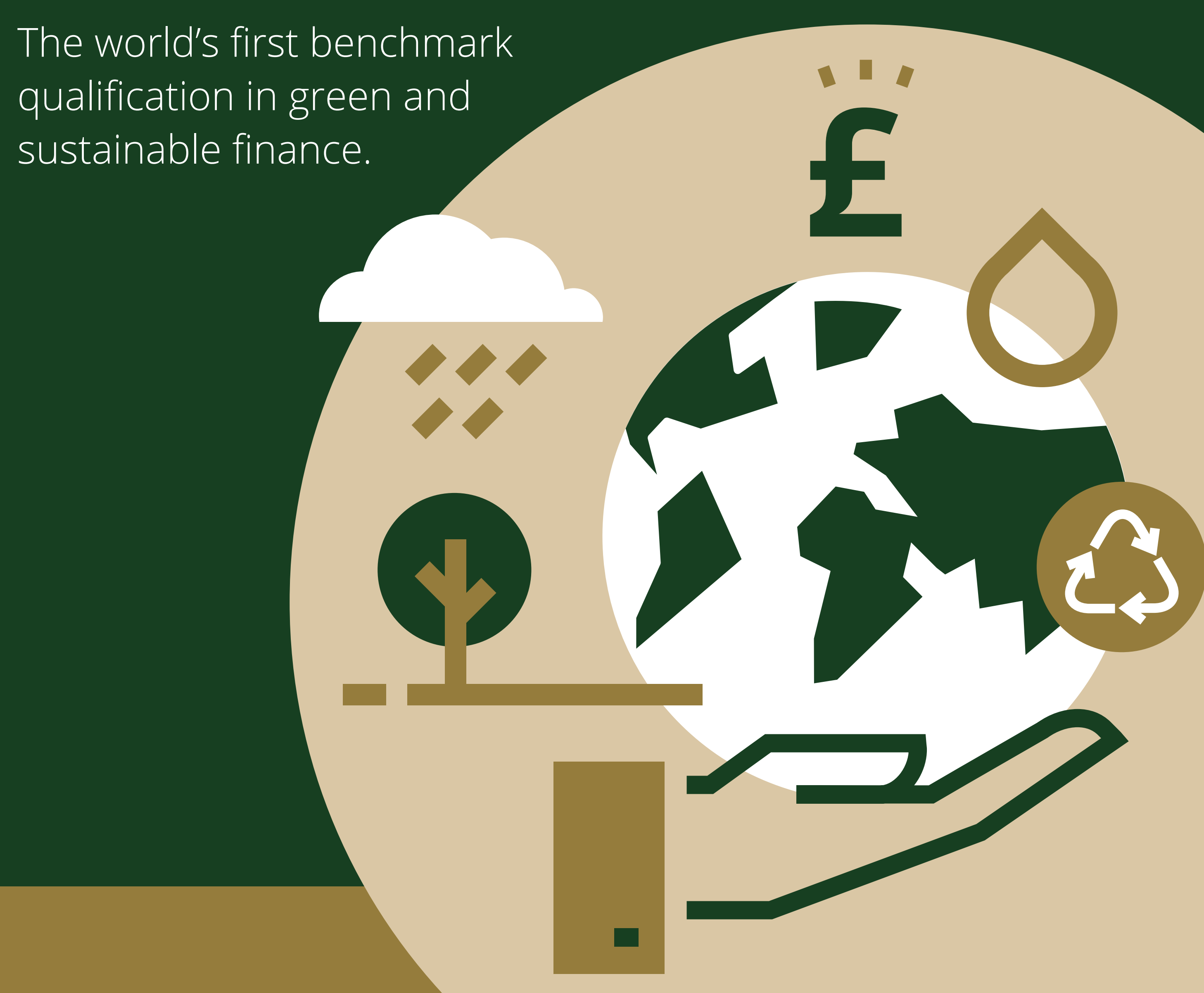

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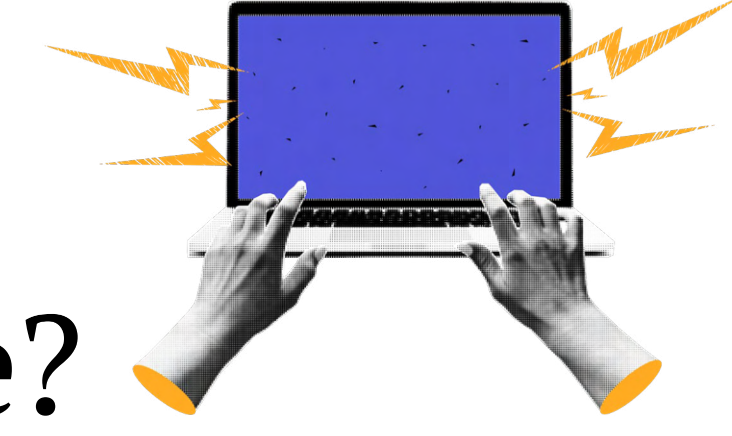
PERSONAL DEVELOPMENT

Who's in charge here?



It is 20 years since the comedy series Little Britain turned the catchphrase "the computer says no" into a household expression. Yet here we are, two decades later, still debating whether a human or technology should decide whether or not a mortgage or loan is offered. Here, Bob Souster adds another dimension to the discussion by examining how AI can affect an FI's ESG commitments.

The scenario

Having been appointed to the board of directors of Midtown Bank as a non-executive director three months ago, Jacqueline was invited to present a paper to the board setting down her vision of how the FI should develop its future business strategy. With her background in IT and her expertise running an advanced communications company, Jacqueline's views were eagerly awaited by her colleagues.

Her presentation explained how technology could have a radical impact on future business operations, and she urged the board to embrace developments in AI systems. She believed that these could enhance the bank's offerings to its customers in a manner that was consistent with its commitments to the UN Principles for Responsible Banking. She stressed that while state-of-the-art systems were vital to increase efficiency and greater cost-effectiveness, customers would increasingly be drawn to providers who were offering 'tech-savvy' solutions but in an ethical way.

Jacqueline proposed that the bank should invest more in core business systems, notably lending to SMEs and homebuyers. She noted that the bank had continued to be willing to lend to the former even after the 2008 financial crisis, when the risk appetite of many competitors had reduced significantly.

In order to do so, however, the bank had to employ teams of business lenders, many of whom operated from branches and call centres supported by back-office teams. Her view was that many of the processes associated with lending to SMEs could be automated and supported by AI, enabling the bank to reduce its employee head count.

Furthermore, she observed, AI would reduce the subjectivity that is often present in commercial lending decisions, making the process more consistent and arguably fairer. In the same way, the mortgage-lending process could be standardised, with assessment backed by sophisticated and objective decision-taking systems.

Turning to sustainability, Jacqueline felt that the bank had an obligation to offer its services in a way that was seen to be sensitive to environmental considerations. She argued that the current business model relied too heavily on employees and physical premises.

While applauding the bank's commitment to keeping branches open while competitors were closing theirs, she insisted that the longer-term trend in customer preferences would be to do business remotely, without the need to make journeys to physical locations.

Jacqueline also doubted that the bank could continue to offer telephone support through its call centres indefinitely. She believed the public now had a negative perception of dealing with call centres. Concluding this part of her presentation, Jacqueline stated that she felt that many of the new challenger banks and FinTechs were becoming much more competent at using technology to its best advantage and that banks would soon be forced to implement radical change.

> **"Should AI shift from 'decision support' to 'decision taking'?"**

In the discussion that followed, the directors accepted that the bank would have to give serious consideration as to how advanced technological solutions could be developed and implemented more effectively.

However, some directors questioned whether the implied necessity to reduce employee numbers sat comfortably with ESG objectives, or indeed whether all customers would welcome reduced access to dealing with humans.

One director stated that he felt quite uncomfortable with the notion that a decision to sanction or decline a mortgage application from a small entrepreneur "should be dependent on an algorithm that had no face and no name". To him, it suggested a lack of accountability.

Critically reflect on the ethical implications of Jacqueline's presentation in relation to the increased deployment of AI and the bank's commitment to sustainability. By contemplating this scenario before reading the next section, you may claim up to one hour towards the professionalism and ethics component of the Institute's CPD scheme.

PERSONAL DEVELOPMENT

The analysis

With the increased level of media and public attention given to AI in recent years, it would be easy to assume that some of the issues discussed in the case scenario are fresh. Yet, the debate among bankers regarding how much of a role AI should play in the future of banking is nothing new at all.

AI systems are already routinely used in many businesses for decision support, which is a similar role to that which credit-scoring systems fulfilled from the 1980s onwards. The introduction of personal computers in the middle of that decade provided the opportunity for many banking professionals to hone their skills at developing loan-assessment models. They used basic spreadsheets, some of which were developed later as highly sophisticated programmes that could be applied in commercial lending situations.

The more recent evolution in AI capability, however, has raised the level of debate, as well as prompting arguments about whether AI should shift from 'decision support' to 'decision taking'.

There are numerous ethical matters to consider arising from Jacqueline's presentation.

Jacqueline's view that AI systems are objective is incorrect, or at best only partially correct. AI relies on data and the data that can be accessed by any system may or may not be objective. Every AI system incorporates algorithms that are based on inputs, and over time those inputs change, reflecting the very nature of generative AI. Depending on the underpinning quality of data, algorithms may generate biases. However, this does imply a need for ongoing monitoring of system performance and either updating or redesigning as necessary.

An additional problem lies in the potential conflict between legal obligations and AI outputs. For example, all organisations have legal responsibilities under equality legislation, but what should the organisation do if the data suggests that people of a certain gender, ethnic backgrounds or other criteria pose a higher or lower lending risk?

This became an issue of debate some years ago when the European Union (rightly) made it compulsory to treat men and women equally. But in most European countries women live longer than men, suggesting that women should pay lower life assurance premiums, other things being equal.

Jacqueline's belief that AI can provide fair outcomes is reasonable provided the system is built appropriately. Fairness refers to treating everyone in an even-handed way, so if the same system incorporating the same criteria is used, it should be consistent.

However, in the context of lending to SMEs, and to some extent lending by way of mortgages, technological solutions are much more suited to dealing with hard financial information than the more qualitative non-financial information that inevitably accompanies applications for credit. The amount and quality of information varies by type of SME. Sole traders and unlimited partnerships in the UK have no legal obligation to produce full sets of accounts.

The board's concerns about the implications of downsizing are relevant, but prima facie, there is nothing unethical about 'right sizing' a business, provided that people are treated fairly. It is generally accepted that increased adoption of technology will result in companies having to reduce their staffing complements.

Jacqueline's view of the environmental credentials of AI is positive but misleading. Running AI systems demands continuous service that consumes significant levels of energy. For AI to be effective, data banks have to be substantial, so storage consumes power along with associated cooling costs.

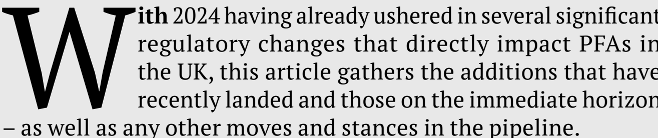
While some AI experts admit that AI is not sustainable at the moment, this may change as the use of solar power is increasing exponentially in many European countries (see in particular 'The exponential growth of solar power will change the world', *The Economist*, 20 June 2024). Hence the extent to which AI is sustainable will in future depend on the sources of energy used. CB

Bob Souster is a Module Director, Professional Ethics, Chartered Banker MBA, at Bangor University. Share your views on Bob's verdict about this ethical dilemma by joining the Chartered Banker LinkedIn discussion forum.

PROFESSIONAL FINANCIAL ADVICE

The winds of change

Chartered Banker offers a timely reminder of the regulatory updates and areas of focus for personal financial advisers (PFAs) – and what they mean for the professionals' day-to-day interactions with clients.



With 2024 having already ushered in several significant regulatory changes that directly impact PFAs in the UK, this article gathers the additions that have recently landed and those on the immediate horizon – as well as any other moves and stances in the pipeline.

1. **Consumer Duty Implementation:** The FCA's new Consumer Duty framework, which came into force on 31 July 2023, and aims to ensure FS firms provide fair value for money, and places the onus on them to demonstrate that they're doing so, has become a focal point for financial advisers too. FS firms must now design and build annual board reports that show compliance, with a strong emphasis on consumer outcomes testing and capturing evidence to provide a holistic view.

   For advisers, this means an enhanced need to understand the products and services they sell and to have distribution arrangements and strategies in place for them. Advisers must also provide relevant information to support product providers in achieving their compliance with the Duty, given their closeness to the end consumer. Advisers are expected to regularly review whether products have been sold to consumers in the target market.

2. **Sustainability Disclosure Requirements (SDR) and Anti-Greenwashing:** The FCA has introduced new rules and guidance on sustainability disclosures and investment labels. Since 31 May 2024, all FCA-regulated firms have had to adhere to anti-greenwashing rules. Additionally, from 31 July 2024, firms were able to begin using sustainability labels, enhancing transparency and accountability in ESG practices.

   While the majority of the SDR regime applies to fund managers, PFAs must be prepared for the new sustainable fund labels and disclosures as they emerge and ensure their own proposition and promotions meet the new anti-greenwashing rules and guidance. Any claims about the sustainability characteristics of products or services must be fair, clear and not misleading. In essence, the guidance on the anti-greenwashing underscores the importance of transparency, accuracy and integrity in marketing and promoting sustainable investment products.

3. **Digital Operational Resilience:** With the implementation of the European Union Digital Operational Resilience Act (DORA) by 17 January 2025, PFAs must enhance their operational resilience to mitigate risks arising from digital disruptions. This includes ensuring the resilience of critical third parties in the financial sector, reflecting the ongoing challenges and increased regulatory pressure.

   DORA aims to strengthen the IT security of financial entities such as banks, insurance companies and investment firms – and make sure that the FS sector in Europe remains resilient in the event of a severe operational disruption.

4. **Regulation of Buy Now, Pay Later (BNPL) Products:** The regulation of BNPL products is coming under increasing scrutiny. Last year, the outgoing UK government published draft legislation that would grant the FCA additional powers to regulate the sector BNPL sector, amid concerns over interest charges and repayment schedules. The proposed new regulation would require BNPL firms to conduct strict credit checks to ensure customers can afford the product, and included bringing certain BNPL agreements within the regulatory perimeter and establishing a temporary permissions regime for firms transitioning to the new regulatory framework. The matter was taken no further, with some citing concerns of an exodus of FinTech firms as the cause for a lack of further action. However, following the change of UK government on 4 July, there is now some speculation that the new Economic Secretary to the Treasury and City Minister, Tulip Siddiq, may again move towards stricter FinTech regulation. In her former role as Shadow City Minister, Siddiq repeatedly called for tighter regulation on financial services and in particular the BNPL sector.

PROFESSIONAL FINANCIAL ADVICE

5. **Focus on Financial Promotions:** The FCA says financial promotions on all advertising channels should be fair, clear, not misleading, and support consumer understanding. As a result, it is increasingly focusing on financial promotions, particularly given the rise of 'finfluencers' and potential consumer harm online. This is part of a broader strategy to ensure that retail customers, especially those in vulnerable circumstances, are treated fairly and protected from misleading promotions. As a result, PFAs must ensure any advertising materials, including on social channels, fall within FCA guidelines.

6. **Fraud Protection Measures:** Push payment fraud – also known as authorised push payment fraud (APP) – is a relatively new type of scam, but one that is growing quickly and has already affected many people in the UK, sometimes even when they've completed confirmation-of-payee checks and other safeguards that banks should be using to prevent fraud. According to Visa research published in January 2024, one in three UK consumers has fallen victim to APP, while 53% say it's becoming tougher to spot the signs of a scam. As a result, new measures are being introduced to protect potential fraud victims, particularly in relation to APP scams. These measures aim to improve compensation for customers and incentivise banks and payment providers to enhance their fraud prevention efforts. However, PFAs also have a responsibility to ensure clients passing through their systems are protected – by ensuring their systems are secure and that any data and personal information held in relation to clients are kept safe.

7. **Professional Standards for Advisers:** Of course, alongside these regulatory winds of change, the FCA continues to enforce high professional standards for PFAs, requiring them to maintain a statement of professional standing (SPS). PFAs must continue to meet qualifications, adhere to ethical standards and invest in their professional capacity through CPD.

These regulatory changes and areas of focus reflect a comprehensive effort by the FCA and other regulatory bodies to enhance consumer protection, improve transparency and ensure the resilience and integrity of the UK's financial advisory sector. For PFAs, they deliver a clear reminder of the role they can play in helping ensue the sector is robust, fair and secure.

There is a more detailed regulatory round-up on page 52. CB

VALEDICTORY COLUMN

Passing the torch

Simon Thompson, Former CEO

Former CEO Simon Thompson reflects on his 17-year tenure at the Chartered Banker Institute. From challenges and achievements to personal learnings and the trajectory of the Institute as it approaches its 150th anniversary, Simon recounts his experience at the helm of the oldest professional body of bankers in the world.

How we kept the lights on

When I was appointed CEO in 2007, the global professional body we know today as the Chartered Banker Institute was the Chartered Institute of Bankers in Scotland. The Institute's make-up was very different, and little did I know that, weeks after I joined, long queues would begin forming outside branches of Northern Rock, presaging the 2008 global financial crisis. (Not because of me, I hasten to add). The series of revelations and investigations on conduct and culture that followed paved the way for several tumultuous and transformational years for banks, bankers and the Institute.

Our 7,000 members and students in 2007 came from the three 'Scottish banks' – Bank of Scotland, Royal Bank of Scotland and Clydesdale Bank – all of which are unrecognisable today to the institutions they were. This had a knock-on effect at the Institute. We had to work extremely hard to keep the lights on, and thrived in adversity; plotting a path for the Institute based on historical foundations.

The need for strong ethical principles as the bedrock of banking is nothing new. In fact, I recall a quotation from Institute President Alexander Bogie in the very first issue of the Institute's journal, then called *Scottish Banker*, in April 1909:

"There has been no time in the history of banking more interesting than the present to the student of the great science of finance, no period more filled by problems theoretical and practical. It seems as if... we stand at a parting of the ways, when only the ethical principles, which made our Scottish banking system foremost at one time amongst those of civilised peoples, are to remain to us as the perpetual foundation on which new ideas and modes of practice are to be raised..."

It's interesting that the ethical principles we consider important and under threat in our recent past were as important and equally under threat during Victorian and Edwardian times.

Collective achievement through dedication, enthusiasm and efforts

Together we strove to focus on banking ethics and the professionalism of core banking skills, revitalising our approach and teaching, and enabling engagement between the banking profession and regulators and policymakers.

We worked on building confidence and trust in banking, raising standards of ethical professionalism, competence and conduct. Through this approach we enhanced the Institute's impact and influence, moving from a small, proud Scottish institute to a UK-wide and now international body that promotes the universal banking values of stewardship, thrift, prudence and professionalism – first codified here in Scotland by ourselves, the oldest institute of bankers in the world.

The most significant achievement has been that transformation – our growth and development from local to global, culminating in a new Royal Charter in 2018. Today, our 35,000 members have worldwide reach. All of this has been a collective achievement, based on the dedication, enthusiasm and efforts of many colleagues, Council Members and Trustees, Fellows and members, and Institute partners in the UK and overseas, past and present. It has been my great pleasure to work with them for almost two decades.

The banking profession has undergone profound change during my tenure. In the UK and further afield, we've seen the rise of FinTech, digital finance and now AI. There has also been a fundamental reshaping of the banking landscape in the UK and internationally; with mergers, the rise and fall of challenger banks and the closures of bank branches and business centres. Before the global financial crisis there were around 14,000 bank branches in the UK. Now there are perhaps 6,000. That has had a very significant impact on customers and also on our colleagues.

Sustainability and social responsibility in banking are also becoming increasingly important, which complement the Institute's message and ethos of socially purposeful ethical professionalism. Lastly, in recent years, we have had to navigate challenges around COVID-19 lockdowns and geopolitical and economic uncertainty.

We should also remember that the world of education has changed. The days of banking students receiving their books through the post, then attending small classes at the Institute, are long gone. Education has been reshaped by demographic change, digital technology and globalisation. Much in the same way, as banking has – and continues to be – shaped by these forces, not least by the emergence of AI.

To a great extent we have been able to take advantage of the opportunities these challenges have created. Our collective experience has helped us become a global provider of banking education. The Institute has played its part in helping shape the ever-shifting landscape rather than simply letting the changing world shape us.

VALEDICTORY COLUMN

Be agile and capable of continuous learning

Undoubtedly, we will continue to evolve as we have throughout our nearly 150-year history, however the pace of change is accelerating. As a progressively global Institute, there will be more opportunities to understand and meet the needs of an increasingly international and diverse membership. The growth of recent years has encouraged us to work with an ever-wider range of international partner institutes and other bodies to create a genuine global family of Chartered Bankers, not only united in their affiliation to our Institute but connected by a common bond of ethical professionalism.

Our focus throughout history has been enhancing and sustaining customer-focused ethical professionalism in banking. The commitment to the public interest, through education, training and qualification, membership, CPD, and digital and sustainable finance skills, will, hopefully, remain steadfast. I also think we will continue to see the rapid evolution of how the Institute delivers its services, while maintaining continuity of our core ethical principles and our focus on banking.

Our sector is at the forefront of yet more profound transformation, driven by the increasing development of AI technology and the importance of sustainability, which will create their own risks and opportunities. Banks, members and society more generally will be up against a whole host of geopolitical and socioeconomic headwinds too, including the cost-of-living crisis, not just in the UK but in many other countries.

My advice for aspiring bankers is to be agile and capable of continuous learning. We all need to be adept at navigating that delicate balance between innovation and risk management, between ethical professionalism and risk-taking. I know the Institute will continue to support its members in gaining and developing the knowledge and skills required to flourish in our rapidly changing world. Simply put, make the most of your membership and of all of the resources available.

Banking: a global force for good

One of the great privileges of holding one of the best roles in banking has been the opportunity for my own personal growth and development. I have learnt something new almost every day over the past 17 years. This has often been, through working with my colleagues and our members, about people; plus platforms, purpose and professionalism. I've had to develop resilience during difficult times, such as in the early years of my tenure and more recently during the pandemic, and lead colleagues, members and the Institute through these.

My main takeaway, which may seem surprising until you remember I wasn't a banker before I joined the Institute, is just how vital banking is, when it is done well, to people and our planet. When I joined the Institute back in 2007, at a time when the whole world seemed to be in 'banker-bashing' mode, I soon learnt how banking is so often a force for good, supporting individuals and families, growing businesses and our economy, and increasingly supporting the transition to a more sustainable, low-carbon world.

I will continue to be a strong advocate, personally and professionally, for a proud professional banking industry. As such, I'm honoured to remain a Fellow of the Institute, and to be able to maintain my relationship with other members and friends, albeit in a different capacity.

My predecessor, Professor Charles Munn OBE, instilled in me a sense of guardianship when I became CEO. Such a position of stewardship means you always want to leave the Institute in a better state than when you found it. Charles was careful not to offer me advice, but to let me forge my own path and make my own mistakes, most of which are now fortunately lost in the mists of time. Similarly, I wouldn't presume to offer my successor any particular advice, other than to reach out to me whenever needed. As CEO, I sought guidance from our nine Institute Presidents, and the many Board and Committee members I worked with and served, and was fortunate to benefit from their wisdom and experience whenever needed.

My successor will be able to take advantage of the sagacity and counsel of Paul Denton FCBI, our new President, our Vice-Presidents and Trustees, and more widely the advice of the Institute's ever-increasing membership. In a nod to The New Yorker writer James Surowiecki and his 2004 book, *The Wisdom of Crowds*, I would like to sign off by adding this: There is great wisdom in crowds, and great wisdom across the Chartered Banker Institute. CB

AGM MINUTES

149th Institute AGM Minutes

27 June 2024, 18:00
The Scotsman Hotel, 20 North Bridge, Edinburgh, EH11 1TR - and by Zoom

AGENDA ITEM	COMMENTARY
Minutes of the 148th Institute AGM	The Minutes of the 148th Annual General Meeting, which was held on 22 June 2023, were published in the Autumn 2023 edition of *Chartered Banker* and were taken as read.
President's Address	Extracts from Steve Pateman's address will be displayed on the Institute's website.
Submission of the Annual Report 2023-24	The draft 2023-24 Annual Report had been made available on the Institute's website in advance of the Meeting. **The adoption of the Annual Report 2023-24 was proposed by the President and approved by the Meeting.**
Submission of Accounts for the year to 29 February 2024 and the Auditor's Report	The Accounts to 29 February 2024 and the Auditor's Report had been made available on the Insititute's website in advance of the Meeting. **The adoption of the Financial Accounts to 29 February 2024 and the Auditor's Report were proposed by the President and approved by the Meeting.**
Appointment of Auditor for 2024-2025	**The President proposed the re-appointment of C&T as the Institute's auditor, and this was approved by the Meeting.**
Role Bearer Appointments	**6.a Appointment of President and Term of Office** • Recommendation – Appointment of Paul Denton FCBI until 2027 **The nomination for President had been considered and approved by the Nominations Committee. The President proposed the appointment of Paul Denton FCBI until 2027.** **The Meeting approved the appointment of Paul Denton FCBI as President and Chair for 2024-27.** **6.b Vice Presidents** • Nomination: Katherine Graham until 2027 • Nomination: Billy MacLeod until 2027 **The nominations for Vice-President had been considered and approved by the Nominations Committee. The President proposed the appointment of Katherine Graham and Billy MacLeod until 2027.** **The Meeting approved the appointment of Katherine Graham and Billy MacLeod as Vice-Presidents until 2027.** **6.c Appointment of new Members to the Board of Trustees** Following an open selection process, conducted in accordance with the Institute's Charter and Rules, the Nominations Committee recommended the following individual for appointment to the Board of Trustees. • Nomination: Eunice Chan Chun Hei 2024 until 2027 **The Meeting voted to approve the appointment of Eunice Chan Chun Hei to the Board of Trustees for the term noted.** **6.d Extension to Trustee Terms of Office** The following extensions to Trustee terms of office had been considered and recommended by the Nominations Committee. • Nomination: Elisa Moscolin 2024 until 2027 **The Meeting voted to approve the term of office extension for Elisa Moscolin for the term noted.**
New President's Address	Extracts from Paul Denton's address will be displayed on the Institute's website.
150th Anniversary Update	Details of all events will appear on the Institute's website.
Any Other Business	As there was no further business, the President concluded the formal business of the 149th Annual General Meeting of the Chartered Banker Institute and thanked Fellows and Members present for their attendance and support. Attendees to the Meeting were invited to join the Board of Trustees at the Fellowship Recognition event being held following the AGM.
Meeting Close	The Meeting closed.

CHARTERED BANKER INSTITUTE'S 150TH ANNIVERSARY

Blending our distinguished past with hopes for a glittering future

Next year's 150th anniversary promises to be filled with celebrations, friends both new and old and professional networking as well as innovation and forward-thinking as we propel our prestigious industry towards the future. Here, we showcase three events planned for 2025. We hope you can join us to celebrate.

ormally established at the end of 2016, the 2025 Foundation aims to identify and support talented young people who would benefit from financial and other support to pursue a career in banking.

The Foundation was set up in anticipation of the Chartered Banker Institute's 150th anniversary in 2025 and is aligned with the original aims of the Chartered Banker Institute: the promotion of education and development of young bankers entering the profession.

The Foundation's aim is to boost social mobility for young people and to offer the opportunity to pursue a career in banking to those who would not otherwise have this chance or indeed would have even considered entering the profession. Put simply, the Foundation's aim is to change lives.

As we prepare to commemorate our 150th anniversary next year, the Institute is in the process of planning a series of celebratory and fundraising events. These include:

25TH WORLD CONGRESS OF BANKING INSTITUTES 2025

- **Date:** Thursday, 18 September 2025
- **Venue:** NatWest Conference Centre, Gogarburn, Edinburgh, EH12 9BH
- **Numbers:** 150
- **Time:** TBC but expected to be 09:00-17.00

Celebrating 150 years of professional banking excellence: shaping the future together.

Join us in Edinburgh, Scotland, as we mark a historic milestone for the world's oldest banking institute. To commemorate this great achievement, we are honored to host the 2025 World Congress of Banking Institutes, bringing together banking leaders, visionaries, and educators to shape an ethical, professional and responsible future for banking and society.

Outline Conference Themes:

Sustainability and Responsible Banking: Exploring how the profession can create shared, sustainable prosperity for current and future generations, based on banking and finance that supports and protects people and planet.

AI and the Future of Education: Unveiling the transformative potential of AI in both banking and education, and the upskilling required for the digital era.

The Future of Work and Learning: Navigating the evolving landscape of work in the banking industry, and reimagining learning models that empower professionals to stay agile and thrive in dynamic global markets.

Global Standards and Collaboration: Working towards a harmonised global framework for banking education to ensure consistent professional excellence, integrity, and innovation across borders.

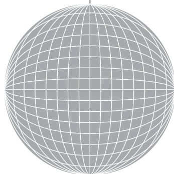
Building Bridges - Banking and Reconstruction: Delving into the role of banks, bankers and FIs in supporting post-conflict reconstruction and financial stability.

Diversity and Inclusion - Shaping the 2025 Foundation: Showcasing our commitment to fostering diverse talent, encouraging innovation within the industry, and unveiling the impactful initiatives of the Chartered Banker Institute's 2025 Foundation.

Why Attend?

Join us for this inspirational gathering of minds, where tradition meets innovation, and experience blends with vision. Celebrate our legacy, share insights, and chart a course for the next era of global banking professionalism.

Visit our events section to keep up to date. For inquiries and early registration contact info@charteredbanker.com.



150th anniversary

CELIDH/GALA

- **Date:** Thursday, 18 September 2025
- **Venue:** National Museum of Scotland, Chambers Street, Old Town, Edinburgh, EH1 1JF
- **Numbers:** 400/500
- **Entertainment:** Live ceilidh band and piper
- **Fundraising:** Raffles, auctions, donation drives, and sponsorships

Join us for an enchanting evening that combines the elegance of a gala dinner with the lively festivities of a traditional ceilidh. This event offers the perfect blend of formal dining and spirited Scottish dance, ensuring an unforgettable experience.

The evening will start with a formal reception, with welcome drinks and canapes giving guests time both relax and network. This will be followed by a sumptuous three-course gala dinner.

After dinner, guests will be invited join in with traditional Scottish dances, led by a skilled ceilidh band and an experienced caller. Whether you're a seasoned dancer or a novice, the ceilidh promises fun for everyone.

This event is a celebration of culture, cuisine, and community, offering a perfect opportunity to dress up, enjoy exquisite food, and dance the night away.

Tickets for this event will be available for purchase, starting with early bird tickets. You will have the option to buy either corporate tables or individual tickets with pricing tbc in due course.

Early-bird tickets at a discounted rate will be made available first. There will also be the options to buy corporate tables or individual tickets, with pricing to be confirmed in coming weeks.

CHARTERED BANKER YOUNG BANKER OF THE YEAR COMPETITION

- **Date:** Thursday, 11 December 2025
- **Venue:** Mansion House, London, EC4N 8BH
- **Numbers:** 250

The format of the Chartered Banker Young Banker of The Year Competition is currently undergoing enhancements to mark the Institute's 150th anniversary next year.

We look forward to sharing updates with you when we launch the 2025 competition. CB

Chartered Banker

Accessible online, anytime, anywhere

Our flexible, digital qualifications are designed with you in mind. Each level of study with the Institute will help you to enhance and sustain professional standards in banking. From starting your journey to Chartered Banker status, developing your knowledge of Green and Sustainable Finance principles to core banking knowledge – there is a route for everyone.

Institute qualifications are all delivered online, meaning learners can work at their own pace from anywhere.

Our assessment system enables students to take their exam anywhere in the world, at home, or in their office.

Visit: www.charteredbanker.com/qualifications and enrol today.