

# Banking culture – supervisory culture: two issues for the joint European supervisors

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Bad news about banking culture is rife these days. The crisis doesn't seem to have changed a lot in the financial sector, except for an avalanche of new rules and job opportunities for compliance officers. [Recent large fines for banks engaged in forex trading rigging](#), and last week's news about [research on cheating among bankers](#) seem to suggest that the banks' culture is still in need of fundamental change.

The recent research is reported to conclude that “the prevailing culture in the banking industry weakens and undermines the honesty norm, implying that measures to re-establish an honest culture are very important”. Back in 2009, Britain's then top supervisor [Adair Turner wished for a return to normal economic circumstances but not to the previous banking culture](#). Turner's wish to see banks focus on client interests has not yet been fulfilled.

Other supervisors have emphasised the need for ethics in finance, most recently during the [IMF annual meeting's forum on ethics](#). For client-centred, sustainable banking to become prevalent, supervisors may well have to nudge banks in that direction.

This means that culture should be high on the list of issues deserving the supervisor's attention. The European Central Bank, which has just assumed

pivotal powers in supervision, is fostering a homogenous supervisory culture in Europe. Its approach is promising. Employing Joint Supervisory Teams (JSTs) drawn from various Member States, with a non-national in charge of supervising a bank from a certain jurisdiction, means that, e.g., a Polish or Spanish supervisor will lead the team for a Dutch bank.

Supervision will be tough and fair, so [Danièle Nouy and Sabine Lautenschläger](#), in charge of banking supervision in the Euro Area, have [promised](#) at last week's event marking the inauguration of the ECB's new supervisory responsibilities. Understandably, the focus will be on convergence, at a high level, of supervisory culture.

Strong supervision beyond national prejudices and preferences is on the agenda in Frankfurt. (Disclosure: in the new supervisory structure, I am an alternate member of a panel for independent administrative review of ECB supervisory decisions.)

For the ECB and the National Competent Authorities in the Single Supervisory Mechanism, the challenges don't end there. Fostering culture change among the supervised is a second challenge.

This means addressing banking culture, beyond supervisory culture. Risk assessment and proper corporate governance are important elements that the ECB already [identified](#) as focal points of the SSM's supervisory outlook, beyond figures and data that banks report. Delving deeper in the banker's psyche may be required to nudge banks to put clients central again and to uphold ethical norms.

Banks that lend for sustainable growth and provide pivotal services for today's economy serve society. This 'serving attitude' will have to be fostered by supervisors who, themselves, serve society by preventing losses for depositors and shielding the economy from systemic risk and financial instability. It is a promising sign that ethics in finance is becoming an issue that supervisors publicly take to heart.

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