HOW THE PRINCIPLES OF ETHICAL CONDUCT BENEFIT YOUR INSTITUTION AND THE INDUSTRY
Many financial institutions already have their own codes of ethics or conduct. For them, RMA’s Principles can serve as a barometer for measuring their own approaches. Those without codes of ethics or conduct should feel free to incorporate RMA’s Principles.

Having such a code for staff is part of an overall approach to organizational culture and conduct that takes in the entire employment life cycle. To start, institutions must hire people who have high character and integrity—and who fit the culture. More and more, financial institutions are building exercises and tests—even employing social scientists—to gauge a candidate’s character and how it might align with the overall cultural values. The best hires not only fit the culture, but act as culture carriers as well.

Once employees are in place, ethical lapses cannot be tolerated. There must be consequences, regardless of the culprit. That sounds straightforward enough, but in practice it can bring significant pain. Suppose it means suspending or firing a particularly lucrative rainmaker. That can cost an institution in forgone profits. On the other hand, failing to address misbehavior can cost an institution dearly in the long term. It can encourage more of the same (I learned at a recent West Point visit that a poor culture is the worst individual behavior people are willing to tolerate) and can result in fines and reputational damage.

When disciplinary action is taken, the organization should inform colleagues about that move and the reason for it. This transparency is one of the keys to discouraging unethical conduct. Another key is to ensure incentives are driving ethical behavior, and not the opposite.

Going forward, the goal is to promote perpetual ethical conduct, with each element of the cultural framework reinforcing the other and strengthening the culture over time.

It is difficult to change an entire industry’s reputation quickly. But with the increased focus on culture in the industry, I am confident we are moving in the right direction. RMA’s Principles of Ethical Conduct will help lead the way.

BY SPYRO KARETSOS

In issuing the Principles of Ethical Conduct, RMA is recognizing the value of these standards to financial services practitioners, their customers, and the industry.

For practitioners, the Principles are a reminder of the responsibility to always act in an ethical manner. They are words to live by.

For customers, knowing that financial institutions are dedicated to ethical behavior offers assurance that the work being done in their name is truly in their best interest. Codes of conduct have traditionally been part of licensing for other professions. Since the financial services industry generally does not have a similar process, RMA’s Principles fill a critical need.

For the industry, the focus on improving culture and conduct will boost a reputation that has been languishing for some time.

Since the Great Recession, our industry has been experiencing a crisis of reputation. According to the current Edelman Trust Barometer, which I look to each year to see how our industry’s reputation is faring, financial services remains mired at the bottom. Worldwide, we have the lowest trust rating of any industry. There was a slight uptick this year—to a rating of 57% from 55%—but there is still a long way to go.

Reputation is especially critical today. Technology makes it easy for customers to choose a competing institution almost instantaneously, whether it’s a long-established brand or a new fintech. Hearing of ethical lapses at a particular institution makes a customer’s decision to leave even easier. Safeguarding reputation by preventing misbehavior is a way to secure your institution’s client base and attract new customers.

To maintain viability in our new world, we must be known as a credible, safe, and trustworthy resource for customers hoping to achieve their dreams of homeownership, education, and business success. Financial institutions must be seen as guardians and stewards—and as having a symbiotic relationship with customers. Our goals are their goals.

Any relationship—personal or business—will flourish if there is trust. Customers value institutions that are trustworthy and there for them when needed, and they will reward them accordingly. The result will be improved volume, revenue, and market capitalization. Looked at that way, doing the right thing is profitable.

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