

## Culture of British Retail Banking Report

### Far from the Finish Line: Culture Change in Banks May Take a Generation

#### Headline Findings

- 1. Cost:** Poor culture has costs British retail banks and building societies at least **£38.5 billion in fines and redress** for customers over the last fifteen years. At least **£27 billion** was due to the mis-selling of **PPI**.
- 2. Complaints:** Poor culture also resulted in poor customer service. Banks have received **20.8 million complaints** between 2008 and the first half of 2014, and **25 million** between 2006 and the first half of 2014. The number of **complaints to the Financial Ombudsman has increased more than fivefold** from **75,000** in 2008/09 to **400,000** in 2013/14.
- 3. Aggressive Sales Cultures may take a generation to fix :** An aggressive sales culture took hold in retail banking over two decades, with staff in some branches receiving cash bonuses, ipods, or tickets to Wimbledon for hitting ambitious sales targets, whilst those that failed to do so were humiliated by having cabbages and other vegetables placed on their desks. At the current rate, **it may take a generation before the culture of banking is completely overhauled.**
- 4. Some Progress:** All banks seem to have acknowledged the toxicity of the aggressive sales culture and have put in place large-scale culture-change initiatives. However, when it comes to culture the smaller banks are out in front.

#### **The Most Reverend and Right Honourable Justin Welby Archbishop of Canterbury (New City Agenda Advisory Board Member) said**

“New City Agenda’s Culture of Banking report is a timely and important piece of work that puts culture change front and centre of the agenda for reforming our banking system.

It is clear that much more needs to be done by all stakeholders for trust to be restored in our financial institutions, and this report sets out clearly how banks are trying to do this and where improvements clearly still need to be made. The huge fines levied on a number of major banks on 12th November 2014 illustrate the length of the journey of culture change that still needs to be travelled

I commend this report and encourage all those who care about rebuilding trust in our banking system to read it, and act on its recommendations.”

#### **The Rt Hon David Davis MP said**

“It has become clear that having an aggressive sales culture, which ripped-off customers, has cost banks dearly. Scandals have cost retail banks and building societies an eye-watering £38.5 billion in

finances and redress for customers over the last fifteen years. Banks seem to be trying to change, and some organisational progress has been made. However, it has yet to deliver for high-street customers. A toxic culture which was decades in the making will take a generation to turn around. At this crucial juncture, Britain's biggest banks cannot afford to let the better treatment of customers become a second order priority."

**Lord McFall, former chairman of the Treasury Select Committee said:**

"The need for culture change has been recognised, but it has to be transmitted all the way from the top to the bottom of these huge organisations. In the past, the interests of customers was often totally disregarded. Some were brazenly exploited. In a week in which more allegations of wrongdoing have been made, and one bank has admitted to misleading Parliament, banks need to ensure they are straining every sinew to put customers back at the heart of retail banking. The Banking Standards Review Council has a unique opportunity to improve standards and professionalism in the sector. It should keep Parliament up to date with the sector's progress by presenting its findings to the Treasury Select Committee on an annual basis. It should also take all necessary steps, including those we recommend, to safeguard its independence and credibility."

**Professor Spicer (Cass Business School), the report's main author said:**

"A few years ago, it became clear Britain's banks were broken. A toxic sales culture had taken hold and public trust was at an all-time low. We wanted to find out how they were being repaired. We found that some progress has been made. Regulation has improved, and big banks have all implemented new programmes to improve their cultures. Smaller banks and challenger banks are beginning to offer the customer real choice, and often have healthier cultures.

Most people we spoke to told us that real change will take at least five years. There was some uncertainty as to how these changes were being translated into good practice at the customer coal face. Many culture change initiatives are fragile, and their success is not ensured. It's clear to us that much work still needs to be done."

**Lord Sharkey said:**

"In a climate in which hundreds of branches are being shut-down, and thousands of jobs lost, bank executives must work hard to ensure that frontline staff aren't being put under direct and indirect pressure to sell inappropriate products to customers. Not doing so puts at risk all the progress which has been made over the last couple of years."

### **Report Findings**

A new report from the think tank **New City Agenda** (recently founded by **Lord McFall, the Rt Hon David Davis MP** and **Lord Sharkey**) and **Cass Business School**, on the culture of British retail banking has come to the following conclusions:

- **Poor Culture has cost customers and banks dearly:** Scandals stemming from poor culture in retail banking have cost banks and building societies at least £38.5 billion in fines and redress. Banks have received 20.8 million complaints since the financial crisis, and Which?'s annual aggregated analysis of the results of customer satisfaction surveys - which ask consumers

from the general public about their providers - sees Britain's biggest four banks outranked by smaller, mutual banking providers.'

- **At the current rate, it will take the entire sector a generation to completely overhaul its culture and practices:** The sector is currently dominated by four big banks. Given the current rate of change, a radical overhaul will take a generation. An entire generation of staff have been raised, and some instances promoted, in an aggressive sales culture. Their outlooks must be changed. The 'tone from the top' is more positive, but many outside observers were sceptical that the 'tone from the top' has trickled down to branch level. There was concern about 'the message getting lost in the middle', and some staff reported the pressure to sell products persisted in subtler forms.
- **Banks are trying to change, with some progress made:** Most banks have implemented top-down culture change initiatives, with performance frameworks significantly altered. As a result, banks report that frontline staff are no longer incentivised purely on sales, and some major banks tell us they are training their staff to only sell products they'd be happy selling to their grandmothers. A lot of time has been spent on changing the outlooks and actions of senior executives. Numerous 'values' seminars have been arranged, some staff have attended 'truth and reconciliation' workshops, and others have been shown videos cataloguing their bank's failures.

### Recommendations

The report recommends

- **Banks** must ensure that culture change remains a top priority. The big banks can't afford a repeat of past scandals, nor can customers or the wider British economy. Consistency and continuity is needed for such initiatives to succeed. They also need to ensure that there is no pressure at branch-level on staff to aggressively sell products.
- **The Banking Standards Review Council** should survey frontline staff to make sure such pressure does not exist. Its annual reports on standards should be presented to the Treasury Select Committee, and the organisation must work to keep culture at the top of the agenda. It must also maintain its independence and credibility by ensuring there does not develop a revolving door between it and the banks, and by staffing many senior positions with people not seconded from the banks

### Quotes

### Media enquiries

**The Rt Hon David Davis MP and Lord McFall are available for comment.**

For this, and other queries relating to the content of this report, please contact:

Kawan Patel, Head of Public Policy and Projects, New City Agenda  
Tel: 07901 228568  
Email: [Kawan.patel@newcityagenda.co.uk](mailto:Kawan.patel@newcityagenda.co.uk)

**For interviews with the report author, Professor Andre Spicer, contact:**

Chris Johnson, Senior Communications Officer, Cass Business School  
 Tel: +44 (0)20 7040 5210  
 E-mail: chris.johnson.1@city.ac.uk

**Notes to Editors:**

1. **Report Launch:** This report will be launched at 8:45 in Committee Room 10 in the House of Commons on Wednesday the 26<sup>th</sup> of November. The session, chaired by the Rt David Davis, will feature the report’s main author, Professor Spicer, the new Chair of the Banking Standards Review Council, Dame Colette Bowe, and John Kay of the FT.
2. **Evidence Base:** This report into the culture of British retail banking is the first comprehensive review of progress in the entire sector since the financial crisis. Its findings are based on an in-depth analysis of independent bank ranking exercises and data, policy documents, academic literature, performance data, and interviews with 26 representatives from 11 retail banks, 12 frontline staff, and 16 other organisations.
3. **Fines and Redress Calculation:** The figure cited relating to fines and redress is based on identifiable provisions from bank and building society annual reports, press statements and information published by regulators. These figures cover retail banking scandals and exclude penalties in investment banks for misconduct such as LIBOR manipulation. They are not adjusted for inflation. See table 1.1 below.
4. **Aggressive Sales Culture:** For more info on aggressive sales culture in banks, including those listed above, see pages 20-22 of the report.
5. **New City Agenda and Corporate Partners:** New City Agenda is a not-for-profit financial services think tank and forum founded by Lord McFall, the Rt Hon David Davis MP, and Lord Sharkey. It receives support from Which?, Prudential, HSBC, Berenberg UK, London Stock Exchange Group and City of London Corporation.
6. **Cass Business School**, which is part of City University London, delivers innovative, relevant and forward-looking education, consultancy and research.

Table 1.1

**The cost of misconduct in UK retail bank operations, 2000-2014**

Type of Misconduct	Provisions (£ Billion)	Years provisions were incurred
PPI Mis-selling	27	2010-2014
Interest-rate Hedging Products Mis-selling	4.1	2012-2014
Unfair Unauthorised Overdraft Charges	0.5	2006-2007
Endowment Mortgage Mis-selling	1.8	2002-2006
Investment Advice/Products Mis-selling	0.6	2003-2014
Pensions Mis-selling	0.6	2000-2002
Consumer Credit Act Breaches	0.7	2013-2014
Other (Mortgages, ID Theft, Insurance, Misc redress)	3.3	2000-2014
<b>Total</b>	<b>38.5</b>	<b>2000-2014</b>

Table 1.2

**FSA/FCA reportable complaints - Banks**

	Number of complaints to banks
2006-H1	798,775
2006-H2	843,090
2007-H1	1,604,589
2007-H2	1,041,101
2008-H1	1,018,548
2008-H2	1,082,364
2009-H1	1,189,076
2009-H2	2,225,458
2010-H1	1,299,543
2010-H2	1,275,025
2011-H1	1,255,529
2011-H2	1,590,467
2012-H1	2,596,519
2012-H2	2,267,634
2013-H1	1,863,024
2013-H2	1,598,018
2014-H1	1,555,443
Total	25,104,203

**Table 1.3**

Financial Ombudsman – Total complaints about banks

	Banks proportion	Total new cases	Banks - Total new cases
2004/05	31%	110963	34399
2005/06	26%	112923	29360
2006/07	30%	94392	28318

2007/08	59%	123089	72623
2008/09	59%	127471	75208
2009/10	61%	163012	99437
2010/11	66%	206121	135009
2011/12	66%	264375	173166
2012/13	76%	508881	386750
2013/14	79%	512167	404612
Total	65%	2223394	1438880