Making Innovation in Finance Ethical

Ethics in Finance, Robin Cosgrove Prize Global edition 2014-2015

Second Prize

Anne Godbold
United Kingdom
Management Consulting Analyst,
Accenture, London*

* The views expressed herein are those of the author and do not necessarily reflect those of the Organization she is affiliated to.

"Inventing and innovating are the most exciting and risky activities in business and absolutely necessary if companies are to thrive"

Financial Times, 2014

As established banking firms see their return on equity fall due to increased competition and regulatory pressures, they are finding themselves motivated to innovate to deliver their strategic growth objectives.

Competition in the UK financial services market has been low. The market has been dominated by the "Big 4" banks for personal banking. Further, many investment banks made being a "*one stop shop*" for investors' banking needs their core business strategy (Financial Times, 2015). The finance industry is seeing massive change in the form of the rise of virtual currencies including Bitcoin, the emergence of peer-to-peer lending (which in 2014 in Britain was worth £1.7bn (The Guardian, 2015a) and the evolution of mobile payment solutions. The market has been disrupted by new entrants bringing innovative products. These firms include Nutmeg, MarketInvoice, GoHenry, and Crowdfunder who have become well-known names. Technology companies have also joined in with the best known offerings being Google Wallet and ApplePay.

The market is changing due to a series of disruptors. These include:

- Technological developments increasing possibilities in both digital and social media capabilities.
- Customer dissatisfaction and lack of trust in providers.

Les établissements bancaires les plus en vue sont poussés à innover afin d'atteindre leurs objectifs stratégiques de croissance stratégique.

Le marché de produits de services financiers est en train de changer substantiellement. C'est la conséquence d'une série de facteurs qui incluent des capacités technologiques croissantes, les goûts des consommateurs, les comportements et les changements démographiques.

Le La plupart des entreprises gardent le souci éthique présent à l'esprit et sont désireuses de mettre fin aux accusations médiatiques des dernières années et à leurs effets préjudiciables.

- Change in customers' tastes:
  - o Rise of the "millennial" consumers who are digital and social media savvy.
  - o Increasing power of the "grey pound", as the ageing population who have experienced low interest rates are looking to ensure their pensions are not eroded.
- Regulatory changes include competition enquiries into current account markets and the investment banking market as well as the senior manager's regime regulation which holds senior managers accountable for what happens within their firms.

The Financial brand (2014) found 24% of senior bankers put product innovation as their investment priority). Firms are re-considering their business models and looking to create ethical products. However, innovation poses ethical risks that have not previously been seen, considered or managed.

This essay will explain what is driving change, the ethical challenges posed by innovations and how firms can ensure that they make the correct ethical evaluation by only putting products to market that have the customers' interests at their heart.

Most Firms Have Ethics at the Forefront of Their Minds

We have been bombarded with negative news headlines relating to banking conduct (including Libor, FX and Gold-fixing scandals, and numerous money laundering and sanctions fines). These stories have damaged both the industry's reputation and customer confidence in finance.

Several negative news stories related to unethical financial products have come into the public eye. The best known is PPI (Payment Protection Insurance) where banks have paid £22bn compensation to customers (British Broadcasting Corporation, 2015a). Millions of customers were mis-sold insurance policies to protect themselves against falling ill or job losses. Many did not need these policies and/or were unaware they were paying for them.

Another example relates to Credit Suisse and Yorkshire Building Society who were fined by the Financial Conduct Authority (FCA) (Financial Conduct Authority, 2014e) for selling an investment product where there was no chance the customer could receive the highest return listed in the promotion material.

Interest rate hedging products, "swaps", is another example of an ethically dubious product. They were designed to protect consumers from changing interest rates on their debts. However, the hedge exposed the consumer to risk of rate movements. Many small businesses purchased these thinking they were reducing their risk. Following FCA intervention, 17,000 redress determinations have been sent to customers culminating in £1.8 billion redress payments (Financial Conduct Authority, 2013a).

A final example to highlight is Payday Loans. This lending product received a huge amount of negative news with MP's even questioning the service in parliament. Many questioned the ethics of such an expensive product that was used by vulnerable individuals who were bamboozled by the maths and desperate for immediate cash.

Following the financial crisis the UK parliament requested a review of banking standards and culture. On publication of this report by the Parliamentary Commission on Banking Standards ("PCBS") the Chair stated that *"Recent scandals, not least the fixing of the LIBOR rate … have exposed shocking and widespread malpractice"* (Parliamentary Commission, 2013).

Mark Carney, Governor of the Bank of England, summed it up thus: *"In the run-up to the crisis, banking became about banks not businesses; transactions not relations; counterparties not clients…When bankers become detached from end-users, their only reward becomes money"* (Bank of England 2014a).

La question qui se pose est la suivante : lorsque l'on développe des produits innovants comment peut-on être sûr qu'on le fait de manière éthique et que l'on place l'intérêt du client au-dessus des profits de l'entreprise ? Lorsque le client n'a pas de visage comment peut-il prévaloir dans les décisions et comment le produit peut-il véritablement répondre à ses besoins?

What is ethics?

So the question emerges: when developing new and innovative products how do you ensure you are behaving ethically and putting the customers' interest above the firm's need for profit? When the customer is faceless, how do you put them at the forefront of your decisions and understand what they need from a product?

Ethics are the moral principles that guide our behaviour combined with the legal rights and duties that are acceptable in society (Steare, R, 2006, pp. 22 and Oxford Dictionaries, 2015). It is not surprising that true innovation, which disrupts the status quo, can lead to numerous ethical challenges. This is because there can be many conflicting interests amongst the many stakeholder groups which include shareholders, employees, customers, board members and regulators . What is in the best interest of shareholders and employees may, at least at first, appear different to what is in the best interest of the customer. Ethics is about managing the conflicting personal desires and interests of the stakeholder groups (Steare, 2006 pp. 55-58).

Historically, financial services have relied on "Duty-Based Ethics" with individuals following prescribed rules which focus on the action and its intention rather than the consequence (British Broadcasting Corporation, 2015b and Steare, 2006, pp. 28).

Many believe that this approach led to individuals failing to consider the effect of their actions. As firms try to move away from the past they are aiming to adopt a new approach. Martin Wheatley, Chief Executive of the FCA, references Steare's book, arguing for *"a more sophisticated interpretation of integrity in business. One that is not simply defined by the ethics of obedience, but actually looks towards the ethics of care and the ethics of reason"* (Financial Conduct Authority, 2014d).

De nombreux facteurs sont des moteurs du changement. Il est important de les identifier puisque ce sont eux qui les façonnent en dernière analyse. Si l'on souhaite que le produit final soit éthique, il faut comprendre ce qui peut empêcher qu'il en soit ainsi.

To put this in terms of ethical innovation: in financial markets prices change and the final return is not guaranteed . However, what matters is that the product achieves advertised returns in normal markets. It should be suitable for its prescribed target market. The customer should understand the risks. The product must offer value to the customers. At all stages of the transaction and throughout the product's life the firms should be able to demonstrate it has the customers' interest at heart.

"The goal of innovation is to upset current beliefs, behaviours, relationships and technologies…" Business Roundtable for Corporate Ethics Innovation, 2008.

Innovation has the power to totally change a market and even make a market completely disappear and another appear. It may involve the development of a product, the consolidation of several existing ideas or the release of a new format for sale. Innovation can be driven by a number of factors including a new idea, a customer challenge, a new technological development or a regulation.

What are the drivers for innovation in Finance?

There are multiple factors driving change. It is important to understand these drivers because they shape the ultimate change. If we want the final product to be ethical, we need to understand what factors might prevent that happening.

Banking Strategy and pressure to drive profit

Recently banks have struggled to make a good return on equity. Low interest rates and increased regulation have eroded margins. Many banks have outlined future growth strategies to shareholders and to achieve this they will need to ensure they innovate.

Technology

Technology has driven innovation as new capabilities have allowed products to be developed using new platforms, tools and networks. For example, increased smartphone and tablet ownership (predicted to reach 3.4 devices per person by the end of 2015 (The Telegraph, 2015) has led to the development of payment services such as Barclays Pingit (which allows customers to move money via their mobile). Other technological developments include robo-advising, virtual currencies and payment solutions such as Apple Pay and Google Wallet.

Customers embrace new technology and firms can use it to personalise their service. For example:

- UK banks text customers when they are approaching their current account limit.
- Asset managers often have internet-only products.
- Firms utilise social media to run promotion campaigns.

Depuis la crise financière, la régulation a été l'outil de choix pour éviter d'autres scandales et crises. La responsabilité personnelle que les régulateurs ont en point de mire et la concurrence pourraient avoir une grande influence pour changer la culture et augmenter la part des produits conçus de façon éthique. Toutefois, même si la réglementation a un pouvoir fort sur l'innovation, elle n'est pas suffisante.

Customers: "The Millennials" and the "Grey Pound"

Evolving customer tastes and preferences are forcing innovation. The "Millennials", the next generation, are disillusioned by banks, no longer trust their services and are demanding change. This generation does not fear the internet, having grown up using it. Whilst data privacy is important to them, access to funds, speed and ease of transactions is critical. They have embraced social media and technology to suits their lifestyles.

The aging population and purchasing power of pensioners (and those looking to save in their pension) is also causing changes in the market. Low interest rates are causing people to look for innovative ways to prevent their funds being eroded.

Regulation

The finance market is closely regulaThe finance market is closely regulated. New regulations can lead to products being banned or altered which in turn necessitates the development of new products to replace them. The FCA's financial penalties have increased considerably: *"in the two and a half years to 30 September 2014, the FCA and FSA imposed more than £1 billion in fines"* (Grant Thornton, 2015). However, the reputational damage, from regulatory censure can be even more costly, often leading to a sharp decline in customer confidence. This is helping to reduce ethically risky ideas coming into fruition.

The Competition and Markets Authority (CMA)

Competition is a significant driver to improving conduct. Where a market has many competitors, with no entity controlling the market and where customers can easily switch provider, the firm's reputation can differentiate it from its competitors. Potential customers consider the firm's treatment of its existing customers and this encourages firms to put ethics at the heart of their business.

Historically, competition has been low in financial services. As the PCBS report stated, *"[t]his lack of competition… is an important reason why banks can sustain poor standards of conduct and do not seem to feel the same pressure to respond to reputational damage as would be the case in many other industries"* (Parliamentary Commission, 2013b).

The CMA promotes competition with the aim of making markets work well for consumers, businesses and the economy. It has substantial powers to enforce change based on its investigations. The CMA is investigating personal and small business banking accounts. Despite systems in place which make switching account easier, few have done this. The results of this investigation could drive innovation in current accounts and force firms to reconsider how they differentiate their products

Les quantités de données disponibles grâce aux canaux numériques confrontent les entreprises avec des opportunités, mais aussi avec des dilemmes éthiques. Elles doivent évaluer ce qu'elles peuvent utiliser pour aider le client et quelles données ne devraient pas être consultées. Cela peut paraître facile, mais ne l'est pas, car il faut prendre en considération tous les scénarios possibles.

Personal Accountability and the Senior Managers Regime

"[I]f you want ethical cultures, then you need ethical leaders." (Steare, 2006).

The FCA regulation intends to hold senior individuals responsible for what happens within their firm. Mark Carney explained *"Businesses do not make decisions; individuals do"* (Bank of England, 2014b). This regulation is expected to cause a large cultural shift among leaders, moving away from a rule-based approach to a more sophisticated ethical approach. This change should help ensure that innovations are rigorously evaluated, risks assessed and ethically dubious products prevented from entering the market as, if not, there could be severe penalties.

Whilst regulation is a powerful force in ethical innovation, it is in not enough. This is something even the regulator is aware of. Wheatley stated *"Governments tend to respond to scandal with regulations, without considering that it's this 'obedience culture' that often fails in the first place."* (Financial Conduct Authority, 2014d).

Ethical challenges from new technology innovations

New technologies present new conundrums and potential conflicts of interest which need to be considered and managed. One such situation is explained by Lewis (2014) who sets out allegations explaining how fibre cables changed how traders and hedge funds did business. The importance of speed was (allegedly) exploited by high frequency traders to front-run client transactions. The lack of transparency made it difficult for anyone to understand what was going on. It is unclear whether firms had considered the ethics of the new technology and the effect it would have on their customers and the market.

Ethical challenges from data

An example of data privacy ethics relates to new products like Osper (2015) and Go Henry. They offer a Prepaid Debit Card for young people and parents. They allow parents to know what their child is spending their money on. These products could prevent situations such as children using debit cards online to buy cigarettes and drugs (The Guardian, 2008). However, there is a question surrounding whether children (especially if over 16 years old) should or should not be entitled to any data privacy?

Ethics of new communication tools

Social media allows firms to interact with their customers in new ways. The use of Facebook, LinkedIn and YouTube presents ethical conundrums as the customers' interests and the firm's interest may initially appear to mismatch, especially when considering how the firm uses already visible data, such as relation-

Les commissions sont un domaine très sensible pour toute entreprise. Comprendre ce qui crée de la valeur pour le client est compliqué, mais certains pensent que toutes les entreprises doivent être capables de le faire et de décider en connaissance de cause. Un tel exercice met en lumière les services pour lesquels les clients sont prêts à payer alors que certaines entreprises seraient tentées de les fournir gratuitement.

ship status, private photos etc, and how can firms use these platforms to sell products?

An example in practice relates to peer-to-peer lending sites. The FCA released a warning about the online marketing practices of such sites. Peer-to-peer lenders connect savers with parties that want to borrow. Both parties benefit from better rates than they would receive from a bank. Providers include Funding Circle (allowed 7,000 businesses to borrow £490m (The Guardian, 2015a), Zopa and RateSetter (The Guardian, 2015c). There are also investment-based crowdfunding products where people invest in unlisted shares or debt securities issued by business. The FCA has concerns that some lenders are mis-selling their products: *"Benefits are emphasised without a prominent indication of risks"* and information is *"insufficient, omitted or … cherry-pick[ed]"*.

Ethics of new fee structures

New products can solve a real customer problem and initially appear to improve the market. But careful consideration needs to be given to the whole offering.

Take the example of Osper and Go Henry who charge multiple fees for different services (data consolidated from The Guardian (2014).

Osper:

- Free for the first year and then after £10 a year per child.
- Charge £5 to close the account.
- Charge £3 for a replacement card.

GoHenry:

- After a month's free trial, monthly membership costs £1.97 per child.
- Charge 50p per load from a debit card.
- Charge £5 for a replacement card.

I highlight these fees to illustrate the question: how does a firm ensure it is delivering value for the customer – integral to ethical business practice? Assuming everyone knows the charges in advance does that make it ethical? These are fees for services that most UK banks do not charge. Fees are challenging for new products and need to be carefully considered with putting together new offerings.

Ethics of increased complexity

AAs customers look to manage risk and ensure a good return on their money, this desire, partnered with increasing technological developments, has led to the development of ever increasing complex products such as UCIS and CFDs. These are hard for customers to understand. They struggle to interpret the product features and evaluate the risks involved. An FCA behavioural economics paper found that consumers use rules of thumb that lead to errors in their expectations of the value of complex products (Financial Conduct Authority, 2013b).

L'innovation respectueuse de l'éthique place les besoins du client au cœur du projet. On peut faciliter ceci et faire en sorte que le produit aide le client à résoudre un problème réel. Les entreprises doivent alors prendre en compte des produits qui ont un impact pour le client. Il en va ainsi d'un accès facilité aux services financiers, d'une culture centrée sur le client et de la mise en avant de l'éthique, de l'assistance au client pour l'aider à faire de bons choix, de la diminution du nombre d'intervenants dans une procédure et du travail en toute transparence.

A follow-up paper found that firms cannot rely on customers to understand complex products and make good decisions about them (Financial Conduct Authority 2014c). It set out that investors have unrealistically high expectations of product return and are unable to evaluate and compare complex products and alternatives. This means consumers may be making bad choices (Financial Conduct Authority, 2014c).

Use of Third Parties

Utilising third parties to make sales or provide services such as client introductions means that the customer is not close to the entity that designed the product. The distance can make it harder for the product manufacturer to understand the customer's needs and vital information can be lost. It can also make it harder to ensure that the person selling the product understands all the features and risks of the product. This is crucial to ensuring the customer can make effective decisions. This increases the risk of mis-selling and the customer purchasing an unsuitable product.

Due to the nature of the services they provide, third parties such as those who assist financial services in winning or retaining business from clients pose a risk of bribery and corruption. In the majority of FCPA enforcement actions the cause has been a third party making a corrupt payment, another ethical risk for firms to consider.

What does good ethical innovation look like?

Products and services that are ethical have the customers' needs at the heart of their design. Good ethical innovation often includes some of the following:

Increased access to banking services

Lack of financial inclusion is a huge problem for many would-be users of financial services. Having access to financial services reduces income inequality, boosts economies, and helps the poor manage risk (World Bank Development Research Group, 2014). Bill Gates states that access *"help[s] the poor radically transform their lives"* (The Verge, 2015).

Further, the World Bank Development Research Group (2014a) found that digital payments can promote women's economic empowerment, thus reducing inequality. Innovations such as the mobile banking services from M-Pesa and bKash enable individuals in countries where access to banking is limited (*i.e.* Bangladesh, Kenya) to make transactions via phone. More than two thirds of the Kenyan adult population use M-Pesa (The Economist, 2014).

These mobile payment services have helped to reduce petty corruption; that is, the everyday abuse of power by low and mid-level public officials interacting with citizens in their everyday life (Transparency In-

Les innovations telles que la possibilité de faire des paiements à partir des téléphones portables sont révolutionnaires et ont permis aux gens d'accéder à de nouveaux services bancaires. Si ces modalités ont pu diminuer la corruption dans certains pays, dans d'autres elles ont facilité des activités occultes, par exemple le paiement des pots-de-vin. Cela montre que des innovations peuvent avoir des conséquences imprévisibles.

ternational, 2015). To illustrate, in 2009 the Afghanistan government switched to mobile transfers to make salary payments direct to the police. Many recipients received a 30% pay increase (Foreign Affairs, 2014). They had removed the corrupt middlemen from the chain.

However, whilst mobile payments have the potential to reduce corruption by increasing transparency and reducing middlemen – it is not always straight forward. Foreign Affairs (2014) cautions that firms need to consider all impacts. For example, it appears that in Kenya mobile payments are being used to bribe police (Foreign Affairs, 2014). Further, mobile payments could facilitate *"smurfing"*, (criminals dividing illegal transactions into numerous small transactions to avoid detection).

Firms that value ethics

Firms that appreciate the value of being an ethical firm and see it as a competitive edge are likely to innovate to solve customers' problems and not seek to exploit them financially. Timothy Hudson, Global Head of Conduct Risk at UBS, states UBS *"place a very high value on our reputation: it can be a huge competitive advantage"* (Ethical Corporation, 2014).

Customer-Centric Culture

When innovating, a firm's culture is crucial to ensure a good outcome for all. An innovation that puts a customer first, solves a challenge they have been facing and/or seeks to improve a service is likely to lead to an ethical outcome.

Ensuring this culture is in place can be challenging, especially because individuals employed in financial services are often motivated to maximise their financial rewards.

However, one firm that has succeeded is a subsidiary of the German Volksbanker Raiffeisenbanken (VR) Group (Loch, Sting, Huchzermerier, and Decker, 2012). For example, they developed an innovative consumer credit product "easyCredit". Loch, et al (2012) found it was unique because the entire proposition was based on fairness (unknown in the consumer credit market). Further, the firm provided extensive training to all staff to ensure they understand the firm's core value *"We are an honourable merchant"* and expected this to be reflected in all activities. All new products undergo testing in credit shops to ensure fairness. They listen to customers' needs and respond for example, by including a 30-day customer retraction period. All products have indebtedness protection built into them to protect the customer (unique in the market) as they believed it in the customers' best interest (Loch et al, 2012).

Helping the Customer Make the Right Choice

Customers often make the wrong decisions about products though inertia, lack of understanding and lack of time. Firms can design pro-

Les entreprises ont besoin de savoir comment les clients pensent et de quelle façon ils prennent leurs décisions d'achat. Ils ne se comportent pas toujours de façon rationnelle et les entreprises doivent les aider à prendre leurs décisions. Le fait d'avoir une culture d'entreprise adéquate où les besoins du client sont au centre peut faciliter la réalisation de cet objectif.

ducts with this knowledge and help the customer make the right choice. Thaler, R. & Sunstein, C. (2009, pp112) found that firms can "nudge" people to make them wealthier. Firms should consider how they set default options for products. To illustrate: firms could show product options by level of risk or lifestyle portfolio which could allow a customer to easily select the product which suited them the most (Thaler & Sunstein, 2009, pp136-137).

Shorten chain (i.e. not broking)

Transactions that shorten the chain, engendering a more direct customer-firm relationship are likely to lead to ethical outcomes. This is because the ultimate firm is more likely to understand the customer, and the customer the product they are selling. It also limits the additional commission payments and so reduces the cost to the consumer. An example includes CurrencyFair, a peer-to-peer market for foreign exchange. They match buyers and sellers allowing them to swap currency. The CEO explains they created it as *"transferring money abroad was not the way it could (and should) be: simple, fast, and above all, cheap!"* (CurrencyFair, 2015). Customers can exchange currency without paying expensive bank fees. The rates on CurrencyFair are much lower than those of the market leading banks. They estimate that their share on a transaction equates to only 9% of the average bank fee on the equivalent transaction (The Wall Street Journal Blog, 2014).

Transparency

Transparency helps ensure ethical outcomes. When a consumer understands the fees, and what parties are earning on transactions, they are more likely to be treated fairly and to make good decisions.

This is illustrated by Thaler & Sunstein (2009, pp138) who set out that people struggle to translate abstract concepts such as return and volatilities in their lifestyle when they are old. As many companies move to online communication to advise customers and advertise their services this issue needs to be considered in the product design. Web-only offerings, such as Nutmeg, have digitalisation and changed how advice and investment management is delivered (Financial Times Advisor, 2015). They set out risk thresholds and communicate to customers in readily understandable language. They use visual displays for maximum clarity, disclosing fees and translating difficult concepts into values that consumers understand:

> *"If you invest £36,500*
> *Your fee will be 0.9% per year*
> *That's just £6.32 per week*
> *Which could be worth an*
> *additional +£2,552 after 10 years"*

Finally, transparency can reduce the financial crime risks, preventing tax evasion and money laundering. To illustrate: one global bank is working with market sellers to help them take payments from customers via a mobile service rather than by cash. This means the seller is no longer

Il y a de nombreux moteurs de changement. Certains promeuvent l'agenda éthique et d'autres le bloquent. Le développement de nouveaux produits est risqué d'un point de vue éthique. A l'échelle de l'entreprise, il y a de nombreuses actions que les institutions et les individus devraient mener pour s'assurer que l'innovation est éthique. Cependant, Thomson Reuters (2014) a trouvé que seules 43 % des sociétés financières prenaient en considération les risques de manquement au code de conduite lors de l'élaboration de leur stratégie.

Au niveau de l'entreprise, la première mesure pour s'assurer que les nouveaux produits sont éthiques est de fixer un cadre pour l'innovation et de vérifier qu'il est effectivement respecté.

handling large amounts of cash and all payments can be traced back. The temptation to not declare revenues is removed and the risk of the trader being used to launder cash reduced. Traders benefit as well as they are not losing sales due to customers not carrying cash and they spend less time managing cash floats and cashing in at the end of the day.

Accountability

Innovation which has strong personal accountability at its core leads to ethical outcomes. This is common in small entities where any adverse media or regulatory decision could make them quickly insolvent.

Effective regulation

One of the FCA's objectives is to ensure that the relevant markets function well (Financial Conduct Authority 2014a). The regulator believes innovation is key to achieving this as a powerful driver of effective competition. They set up Project Innovate (Financial Conduct Authority, 2014b) to support innovation that benefits consumers. They allow firms to consult with them and they support them with authorisation process.

How Can You Ensure Future Innovation is Ethical?

It has been highlighted that many finance firms hold product innovation high on their agenda. There are many factors driving change. Some drivers push the ethical agenda and some have the potential to lead firms away from this. Developing products is ethically risky. Innovation poses scenarios and risks not previously experienced but ethical innovations are possible and can help both individuals and firms to succeed.

There are many things on a micro-, firm-wide level that entities and individuals should do to ensure ethical innovation. However, Thomson Reuters (2014) found only 43% of finance firms consider conduct risk factors when discussing business strategy and so with this consideration I also set out some macro, broader considerations to ensure firms do this.

Micro Factors

At a firm level, firms can ensure that new products are ethical. An innovation framework for the business to work within should help ensure strong ethical outcomes. This framework should encompass the following elements:

Strategy/Objectives: Firms should set out their innovation strategy and objectives. This should include putting the customer first. This message must be shared with all staff.

Risk Aware Culture: Firms should ensure the firm is risk aware and puts customers' interests first. Innovators need to be aware where ethical dilemmas lie. Firms that make ethics a competitive edge are likely to deliver ethical products.

Performance Incentives: Employees need be incentivised to solve real

Au niveau du pays ou de la région, certaines structures facilitent l'innovation de produits éthiques. Les gouvernements devraient veiller à ce que le marché soit compétitif, à utiliser la réglementation pour encourager la mise en œuvre des changements de culture, de la responsabilité personnelle, et de la transparence chaque fois que cela est nécessaire pour aider le client à prendre ses décisions.

Il y a eu un changement dans l'appétit du consommateur pour les produits financiers. Dans un environnement de concurrence croissante, les entreprises commencent à chercher dans l'éthique un avantage compétitif. Elles tiennent alors à s'assurer que l'éthique est au cœur de toutes les transactions, tout

customer problems rather than to maximise profits. Incentives should also encourage testing and collaboration across the firm.

Governance: Senior managers need to understand the customers' needs and ensure that the characteristics and objectives of the target customers are considered. They need strong oversight and ensure rigorous challenge based on evidence . They need to consider what are the conflicts of interest between stakeholder groups and whether these have been effectively managed. Ensuring firm-wide collaboration, that is, considering a wide spectrum of opinions and views will help ensure the product is designed effectively.

Processes:

- Know your customer: Firms need to identify who is going to use the product – this includes understanding their objectives, financial needs, ability to take risk and financial understanding. They should identify when the product will be used. Firms should use data available to understand customer behaviour (this includes internal and external data such as FCA customer types). Firms should collaborate with customers throughout the innovation process and allow them to feedback and test all new products.

- Know your distributor: Firms should consider how the product will be sold. They should consider if they really need to use third parties or if this function can be taken in house to ensure the sales chain is short. This allows the firm control and makes two-way information from both the customer to the firm and back easier.

Risk Assessment: Firms must rigorously assess what the risks are and consider all the features of the product they are looking to launch. Key questions include:

- Is this product going to help the customer with a real problem?
- Is the product delivering customer value?
- What risks could the product pose to the customer?
- Systems: Firms must stress test and model products using historic data, projected future data and dummy customer scenarios to ensure they understand the product and how the customer will respond to stress situations (job loss/change in interest rates etc).

Macro Factors

Some drivers for innovation are larger than can be managed at an entity level. These macro factors encourage firms to put the micro factors into place:

Competition: Regulators should actively encourage and support competition within financial services. This may mean working with new entities to help them deal with the regulatory burden and ensure that they can reach the market in a timely fashion. It might mean considering action when firms dominate markets.

Regulation: Smart regulation should encourage individual responsibility and be backed up with enfor-

au long du cycle de vie du produit.
Faire le bon produit, s'assurer d'emblée qu'il corresponde à l'intérêt du client, débouchera sur les changements nécessaires

cement action with strong penalties when ethical failure occurs and customers are not put at the forefront innovation.

Transparency: Regulators should help firms understand what the risks are, what customer problems they are aware of, and help supply any data that firms could use to shape solutions (innovations). They should also ensure rules and expectations of firms are clear.

Recession reduced interest rates, reduced expenditure, caused individuals to consider their borrowing, and how to ensure their savings were not eroded. The constant "bad news" stories have damaged confidence in established banking firms and led to customers looking beyond conventional products for solutions. These changes, combined with the increasing technological capacity and individuals' competence in using it caused a change in appetite for financial products.

There has been a significant shake up in the market and firms are starting to make ethics a competitive differentiator and ensure it is the heart of all transactions, throughout the product lifecycle.

Getting the product right, ensuring it is in the customers' interest right from its conception will make it easier to deliver the change required.

References

Bank of England (2014a). Speech by Mark Carney: Inclusive capitalism: creating a sense of the systemic. Retrieved from www.bankofengland.co.uk/publications/Documents/speeches/2014/speech731.pdf

Bank of England (2014b) Panel remarks given by Mark Carney at the IMF Annual Meeting Seminar on The Future of Finance, Washington on 12 October. Retrieved from www.bankofengland.co.uk/publications/Pages/speeches/2014/766.aspx

British Broadcasting Corporation (BBC) (2015a) Years before PPI scandal is over, says Financial Ombudsman. Retrieved from www.bbc.co.uk/news/business-30695720

British Broadcasting Corporation (BBC) (2015b) Duty-based ethics. Retrieved from www.bbc.co.uk/ethics/introduction/duty_1.shtml

Business Roundtable for Corporate Ethics Innovation (2008) Ethics, and Business. Retrieved from http://www.corporate-ethics.org/pdf/innovation_ethics.pdf

CurrencyFair (2015) About Us. Retrieved from www.currencyfair.com/about-us/

Ethical Corporation (2014) Banks briefing: Conduct risk management. Retrieved from 3.amazonaws.com/cms_assets/accounts/690b848f-131d-4af6-a319-824db8c89e5b/site-50109/cms-assets/documents/193600-480789.final-version-v2.pdf

Financial Conduct Authority (2013a) Interest Rate Hedging Products. Retrieved from www.fca.org.uk/consumers/financial-services-products/banking/interest-rate-hedging-products

Financial Conduct Authority (2013b).Occasional Paper No 1: Applying behavioural economics at the Financial Conduct Authority. Retrieved from www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-1

Financial Conduct Authority (2014a). Retrieved from http://www.fca.org.uk/about/why-we-do-it/statutory-objectives

Financial Conduct Authority (2014b) Project Innovate – Call for Input. Retrieved from www.fca.org.uk/

Financial Conduct Authority (2014c) Occasional Paper No 9: Two plus two makes five? Survey evidence that investors overvalue structured deposits. Retrieved from www.fca.org.uk/static/documents/occasional-papers/occasional-paper-9.pdf

Financial Conduct Authority (2014d) Speech by Martin Wheatley titled Ethics and Economics. Retrieved from www.fca.org.uk/news/speeches/ethics-and-economics

Financial Conduct Authority (2014e) FCA Fines Credit Suisse and Yorkshire Building Society for Financial Promotions Failures. Retrieved from www.fca.org.uk/news/fca-fines-credit-suisse-and-yorkshire-building-society-for-financial-promotions-failures

Financial Times (2014) Thirteen traits of a truly innovative organisation. Retrieved from www.ft.com

Financial Times (2015) UK investment banks face competition prove. Retrieved from www.ft.com

Financial Times Advisor (2015) Getting financial promotions right. Retrieved from www.ftadviser.com/2015/01/21/ifa-industry/your-business/getting-financial-promotions-right-gEW6eyaeRVt6H1aapktoSJ/article-0.html

Foreign Affairs (2014) Don‘t Bank On It. Retrieved from www.foreignaffairs.com/articles/141493/marisa-l-porges/dont-bank-on-it

Government UK (2015) Commercial use of consumer data. Retrieved from www.gov.uk/cma-cases/commercial-use-of-consumer-data

Grant Thornton (2015) Six issues facing the financial services industry in 2015. Retrieved from http://www.grant-thornton.co.uk/en/Thinking/Six-issues-facing-the-financial-services-industry-in-2015/#sthash.7Gy47H30.tmkNdYdg.dpuf

Lewis, M (2014) *Flashboys Cracking The Money Code Great Britain: Allen Lane*

Loch, C., Sting, F., Huchzermerier, A., and Decker C. (2012) Finding the Profit in *Fairness Harvard Business Review*

Osper (2015) Stories. Retrieved from osper.com/stories

Oxford Dictionaries (2015) Ethics. Retrieved from www.oxforddictionaries.com/definition/english/ethics

Parliamentary Commission (2013) Changing banking for good. Retrieved from www.parliament.uk/business/committees/committees-a-z/joint-select/professional-standards-in-the-banking-industry/news/changing-banking-for-good-report/

Parliamentary Commission (2013b) Changing banking for good : Conclusions and Recommendations.

Retrieved from www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/2704.htm

Steare, R (2006) Ethicability (n) how to decide what's right and find the courage to do it. Great Britain: Roger Steare Consulting Limited 2006

Thaler, R. and Sunstein, C. (2009) *Nudge* Great Britain: Allen Lane: Penguin

The Financial Brand (2014) Bigger Challenges & New Priorities Face Banking Industry. Retrieved from thefinancialbrand.com/42559/challenges-priorities-banking-industry-study/

The Economist (2014) The Check is in the tweet. Retrieved from www.economist.com/news/finance-and-economics/21633884-sending-and-receiving-money-your-smartphone-getting-easier-cheque

The Guardian (2008) Is your 15-year-old buying Viagra? Retrieved from www.theguardian.com/money/2008/jun/28/banks.consumeraffairs

The Guardian (2014) Retrieved from Debit card firms cash in on digital pocket money for kids. Retrieved from www.theguardian.com/money/2014/jul/03/debit-card-firms-digital-pocket-money

The Guardian (2015a) RBS to suggest peer-to-peer lending to rejected business loan applicants Retrieved from www.theguardian.com/business/2015/jan/22/rbs-business-loans-peer-to-peer-lending

The Guardian (2015b) RBS to suggest peer-to-peer lending to rejected business loan applicants. Retrieved from www.theguardian.com/business/2015/jan/22/rbs-business-loans-peer-to-peer-lending

The Guardian (2015c) Is peer-to-peer lending too good to be true? Retrieved from www.theguardian.com/money/2014/feb/15/peer-to-peer-lending-nicola-horlick

The Telegraph (2015) Getting it Right: Shaping Solutions that fit the digital market for customers. Retrieved from www.telegraph.co.uk/sponsored/business/business-reporter/11432122/cgi-shaping-solutions-digital-market-customers.html

The Verge (2015) Technology will build a better, safer, healthier work by 2030. Retrieved from www.theverge.com/2015/1/22/7870497/bill-gates-interview-future-verge-guest-editor

The Wall Street Journal Blogs (2014) CurrencyFair Finds a Lucrative Online-Transfer Niche. Retrieved from blogs.wsj.com/digits/2014/03/06/currencyfair-finds-a-lucrative-online-transfer-niche/

Thomson Reuters (2014) Conduct Risk Report 2014/2015. Retrieved from images.info.accelus.thomsonreuters.biz/Web/ThomsonReutersGRC/%7B47d5b745-eb26-4da5-9574-9234ab0aa83e%7D_Conduct_Risk_Report_Jan2015.pdf

Transparency International (2015) FAQS on Corruption. Retrieved from www.transparency.org/whoweare/organisation/faqs_on_corruption/2/

World Bank Development Research Group, the Better Than Cash Alliance, and the Bill & Melinda Gates Foundation to the G20 Global Partnership for Financial Inclusion (2014) The Opportunities of Digitizing Payments. Retrieved from docs.gatesfoundation.org/documents/G20%20Report_Final.pdf