Speech by François Villeroy de Galhau,

Governor of the Banque de France, Chairman of the ACPR

The 6th "Ethics and Trust in Finance" Global Prize ceremony

Auditorium of the Banque de France – 15 January 2018

Ladies and Gentlemen,

It is with great pleasure that I welcome you all to the auditorium of the Banque de France for the 6th "Ethics and Trust in Finance" Global Prize ceremony. I would particularly like to welcome Angel Gurria, Secretary-General of the OECD, and Professor Paul Dembinski, the Co-chair of the prize.

The venue that you have been invited to today sends a message in itself: as the *Autorité de contrôle prudentiel et de résolution* is backed by the Banque de France, some might have a tendency to think that the bank and insurance supervisor, as the "guardian of the temple", would only be concerned with compliance with **prudential rules**, which are collective and compulsory. They might also think that the supervisor would consider that an **ethical approach** is too poorly defined to be inspected, as each financial institution – and even each professional – has their own perspective on it, and would also consider that an ethical approach leaves them free to look after the interests of their clients.

The philosophers among you will have recognised in this divergence between rules and ethics the classic contrast between Kant's "categorical imperative" and Aristotle's "practical wisdom". But I am thoroughly convinced that in practice, in the financial sector and in society in general, we must respect the rules **and** behave ethically – even when we are respecting the rules. A number of cases that have recently made the headlines have also shown that citizens and customers alike are becoming increasingly demanding in this regard. Adopting the same reasoning, Paul Dembinski likes to quote Ricoeur's broader definition of ethics as "a wish for a fulfilled life – with and for others – in just institutions".

I. **From this perspective, what is at stake is more than a simple contrast, but the sound balance and dynamic tension between compulsory rules and enduring, freely adopted ethics.**

There can be no doubt that the financial sector needs rules. This is not just a question of an activity that involves intermediation between different parties – each of which must be convinced that the rules are being properly applied – but it is also a question of managing risks, while protecting the interests of customers and policyholders. Financial instability also has substantial externalities on the economy, and on social cohesion through unemployment. The recent financial crises have brought the failings of the financial system into focus, not forgetting the impact of new technologies, such as high frequency trading, FinTechs, or crypto-assets.

But rules have their limitations. An ethical approach is needed if we are to respect the spirit of the rules – and not just the letter of the law – and if we are to make informed decisions when clear rules are not available. In addition to financial institutions' in-house ethical practices, the financial sector must now also consider how society – NGOs, the media, fellow citizens included – perceive its activities from an ethical standpoint.

Clearly, the 2007-09 crisis was partly created by an imbalance: too much trust had been placed in ethics, while the rules were insufficient. The weaknesses in the corporate culture of financial institutions were thrust into the spotlight; incentives to take risks were too powerful and governance was inappropriate.

Certain Anglo-Saxon expressions perfectly illustrate the period: "too big to fail" created a widespread moral hazard, "tick the box" encouraged overly lax self-regulation through a purely formal compliance with the rules... and in so doing, the "light touch" of the British FSA at the time clearly showed its limitations.

Since then, I am happy to say that we have significantly tightened up the rules. With the CRD IV Capital Requirements Directive and Basel III for banks and, at least in Europe, Solvency II for insurers, quantitative requirements have been reinforced to ensure greater resilience, governance of financial institutions has been improved and compensation policies for bankers have been reined in a little.

International regulation is our common good. It strengthens a sound financial system. But as we strengthen international regulation, we must not lower our guard in terms of ethics. Ten years later, this would generate the opposite imbalance to that of 2007-08. In other words, there's a risk that the pendulum could swing back the other way.

II. **Ethics must permeate the day-to-day practices and culture of financial institutions.** Over and above the good intentions, declarations and codes of conduct, which did nothing to prevent the excesses that caused the 2008 crisis, the challenge now is for all actors from the bottom to the top of these organisations to adopt an ethical approach.

As the "Banking Conduct and Culture" report of the Group of Thirty, which brought together private and central bankers and academics, asserted, **the "tone from the top" must have an "echo from the bottom"**. This begins with the Boards of Directors and the management teams, who must always be exemplary, and who need to realise that their behaviour is scrutinised at all times for indications of what is acceptable and what is not, irrespective of their declarations of intent. **Actions speak louder than words.**

It then requires employees to be trained and informed on ethical standards on a regular basis and not only on their first day on the job. Situations change; new developments can be an opportunity to reconsider existing practices; stakeholder expectations evolve. Ethics – just like technical issues – must be subject to constant communication and ongoing training. And this is no easy task. As ORSE's report on corporate ethics, responsibility and strategy[1] quite rightly reminds us, "Corporate ethics is not built on obedience, but on engagement and discernment". Employees must be able to identify ethical "grey areas" even when their manager or clear rules are not available.

If ethics are to permeate corporate practices, they must form an integral part of HR policies and structures. For example, during selection procedures for external recruitment or internal promotion, particularly for management positions, the integrity of candidates during their career should be seriously assessed and taken into account.

[1] "*Éthique, responsabilité et stratégie d'entreprise*", *Observatoire de la responsabilité sociétale des entreprises*, September 2017.

Ethics in themselves have value. Good performances can neither excuse nor compensate for questionable ethical behaviour. Results obtained at the expense of ethical standards should not be rewarded. On the contrary, they should be penalised in order to send the right message with regards to expected behaviour, including from the managers of the employees concerned.

Diversity within teams, and particularly management teams, should be encouraged. Experience shows that diversity – in terms of gender, social background, education, thinking – is a factor in risk prevention. An overly homogeneous group does not debate, loses critical thinking and as a result takes more risky decisions.

At a time when technical processes and compliance procedures are becoming increasingly complex and favour dialogue between human and machine, direct human contact should once more be given the importance it deserves. **Employees must be able to approach managers with their questions on ethics in just the same way as they can ask technical questions; with the same ease, the same freedom, the same legitimacy.** No-one should be afraid of raising ethical questions, being concerned about certain practices, or raising ethical concerns, which is now protected by law since the introduction in France of the Sapin II Act.

Alongside the approach offered by human resources, the permeation of ethics into corporate practices and cultures is achieved through their **integration into business strategy, and their monitoring and supervision by the three lines of defence** – first, management; second, ethics and compliance officers; and third, audit. Financial institutions must consider corporate culture as a key strategic element rather than a specific field only intended to provide a short-term response to regulatory requirements.

Personally, I am also convinced that in the long term, ethics pays, even if it does not always immediately pay in "cold, hard cash", as the Anglo-Saxons say. It is only by promoting ethics as a desirable value in themselves that we will obtain the right mix between ethical standards and the regulations necessary for a sound financial system.

And that is why the Prize being awarded today is no stranger to the Banque de France and the ACPR. I hope you all enjoy the ceremony.