



ECRI Survey

Codes of conduct in the European banking sector

Maria Gerhardt

October 2008

The European Credit Research Institute (ECRI) is an independent research institution devoted to the study of banking and credit. We focus on institutional, economic and political aspects related to retail finance and credit reporting in Europe but also in non-European countries. ECRI provides expert analysis and academic research for a better understanding of the economic and social impact of credit. We monitor markets and regulatory changes as well as their impact nationally and internationally. The institute is a legal entity of the Centre for European Policy Studies (CEPS).

This Survey is produced by the European Credit Research Institute and can be downloaded from its website (www.ecri.eu).

**European Credit
Research Institute (ECRI)**

Place du Congrès 1
B-1000 Brussels, Belgium
Tel.: +32-2-2293936
Fax: +32-2-2194151
Email: info@ecri.be
Web: www.ecri.eu

© Copyright 2008, European Credit Research Institute

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means – electronic, mechanical, photocopying, recording or otherwise – without the prior permission of the European Credit Research Institute.

Codes of conduct in the European banking sector

Around the world, a growing number of associations in the banking and financial services industry are issuing codes of conduct. A code of conduct is a set of rules established to guide the behaviour, decisions and procedures of an organisation. This survey provides an overview of such codes in the banking industry in the European Union.

A diverse range of codes of conduct are directed at banks across the 27 member states of the European Union, dealing in general with different aspects of the bank-client relationship, e.g. credit contracts, housing loans, current accounts or switching account services. These codes of conduct typically address such issues as the provision of information to customers, transparency of procedures, customer support, treatment of data and dispute resolution. Our survey reveals additional differences between codes of conduct, depending upon the type of code and its legal status, the scope and objective, as well as the initiating organisation, which typically are either an industry association, e.g. the Finance and Leasing Association in the UK, or a public establishment, like the Financial Services Regulatory Authority in Ireland.

The legal status and binding character of codes

The first and probably most important distinction that can be made among the various codes of conduct is their legal status, which most likely follows from the originating body. Codes of conduct for the banking sector are typically published by national banking associations, and it is left to the member banks to voluntarily adopt the provisions. This type of code is a form of self-regulation by the industry, but that does not imply that the code – once adopted – is not legally binding. In Slovenia, for example, the banking code comes very close in practice to binding legislation, even though it is published by the Banking Association of Slovenia. Compliance with the banking code is compulsory for all Slovenian banks, regardless of whether or not they are members of the bankers association and whether or not they have officially adopted the code. A similar case are the ‘best-practice guidelines’ of the Slovakian banking association, which are binding for all member banks as well, and virtually every bank in Slovakia is member of the organisation. Nevertheless, it needs to be emphasised that the codes published by banking associations in most of the EU member states are not legally binding, even though they may designate clear penalties for non-compliance. The Hungarian code states that “norms undertaken on a voluntary basis cannot be enforced by law”, but failure to follow the code may result in a member’s expulsion from the association. Hence, even though the penalty procedures set up by a banking association may not be legally binding, they may be very effective in any event, as non-compliance might damage a bank’s reputation.

The second type of guideline is the statutory code of conduct, which is typically published by the national supervisory authority and is legally binding. A statutory code can be found in Austria, where the Financial Market Authority published a rather general standard compliance code, with the objective of preventing improper handling of information within the bank and general malpractice in the market. The Danish Financial Supervisory Authority has produced a set of executive orders to establish good business practices between banks and private/commercial customers. An example of a code that has a comparatively extensive focus

on consumers is the Consumer Protection Code issued by the Irish Financial Services Regulatory Authority, which is legally binding as well.

Areas, Scope and Objectives of Codes of Conduct

The most common banking codes of conduct in the 27 EU member states cover the following areas: a) general banking relations with customers and other banks, b) pre-contractual information for home loans and c) guidance on switching bank accounts.

The first type of code (a) on general banking has been drafted in most EU15 countries, with the exception of Austria, Germany, Spain and Sweden, where national legislation is considered by the banking associations to be very extensive, leaving little room for self-regulation. The majority of new member states also have banking best-practices in place, having typically published codes from the end of the 1990s onwards. Lithuania, Malta and Romania do not have a banking code of conduct; but the Romanian Banking Association plans to draft one. The scope and objective of the general banking codes of conduct vary within the EU as well. Most banking codes of conduct aim at increasing transparency and establishing clear principles for bank behaviour, which may then result in strengthened confidence of customers, mutual understanding and a better cooperation. General banking codes typically focus on the bank-client relationship, but a number of codes also focus on the interaction between banks and third parties. The objectives differ according to the scope.

The second category (b) on pre-contractual information for home loans usually entails the adoption of the European code of conduct on housing loans, published by the European Commission in March 2001. National banking associations have re-published or referred to the document for its members. The third group of codes (c) on guidance to switching bank accounts has the most recent history. Several banking associations, primarily in the EU15 countries, have published guidelines in the past five years on how to change banks. Moreover, more specialised codes operate in some member states, e.g. to regulate the advertisement of financial products, to advise on the treatment of bounced checks or to make other specific recommendations to banks.

Why adopt a code?

With the adoption of a code of conduct, an organisation commits itself to follow certain principles in its decisions and actions. By declaring its compliance with a standard of best practices, the organisation sends a message that it behaves in an ethical and socially responsible manner. Hence, a code of conduct works as a signal to customers and other business partners that a particular bank wishes to build a good reputation amongst its customers and to demonstrate that it is trustworthy because of its commitment to socially responsible standards. This is evidently in the interest of banks but also of customers, in order to establish a relationship based on trust and mutual understanding.

In order for this signal to be credible, there needs to be a control mechanism in place that monitors banks' behaviour and compliance. Many codes of conduct in the 27 EU member states include sections on complaint procedures for customers as well as rules on how and by whom the implementation of the guidelines is verified. The Polish banking association, for instance, has established a commission that monitors compliance with the code and reports to the board of directors, which may take further action. The British Banking Code Standards Board is an example of a very powerful monitoring body, because it works closely with other regulators,

particularly the Financial Services Authority and the Office of Fair Trading, and may take legal action against a bank in case of code infringement. Both the complaint and control procedures provide the means to ensure that the banks are complying with a best practice guideline.

Codes of conduct in EU documents

Codes of conduct are referred to in many official EU documents of great importance to the banking industry, covering inter alia mortgages, data protection, financial services and commercial practices. The European institutions generally encourage the drawing up of best practices that contribute to the implementation of legislation and to consumer protection. A prime example is the Green Paper on Mortgage Credit from 2005, which discusses the above-mentioned voluntary European code of conduct on housing loans (2001) and raises the question whether the Code should be replaced by binding legislation. The Directive on the protection of individuals with regard to the processing of personal data and on the free movement of such data (1995) dedicates one chapter to codes of conduct, stating that they are a useful instrument for providing guidance and may facilitate the application of legislation. Another example is the Directive on unfair business-to-consumer commercial practices (May 2005), which states that it is appropriate to encourage the drafting of codes of conduct with the aim of pursuing strong consumer protection. In general, the EU aims to take a leading role in setting global standards and establishing best practices by encouraging the drafting of codes of conduct.

The codes of conduct included in this survey were collected by ECRI in August 2008, depending on the availability of information from national financial associations and authorities. This list is not exhaustive and may be subject to change as new information becomes available.

A selection of codes of conduct in the European banking sector

Country	Title of the Code	Initiating organisation	Website
Bulgaria	Ethical Code	Association of Banks in Bulgaria	www.abanksb.bg
Cyprus	Code of Banking Conduct	Association of Cyprus Commercial Banks	www.accb.com.cy
	Code for Conduct between Banks and Small and Medium-sized Enterprises	Association of Cyprus Commercial Banks	www.accb.com.cy
	Voluntary Code of Conduct on Pre-contractual Information to be given to Consumers by Lenders offering Housing Credit	Association of Cyprus Commercial Banks	www.accb.com.cy
Finland	Good Banking Practice	Federation of Finnish Financial Services	www.fkl.fi
France	Monetary and Financial Code	Légifrance	www.legifrance.gouv.fr
	Code of conduct for serving small to medium-sized enterprise customers	French Banking Federation	www.fbf.fr
	The new system for switching accounts in France	French Banking Federation	www.fbf.fr
Germany	European Agreement on a Voluntary Code of Conduct on Pre-contractual Information for Home Loans	Verband deutscher Pfandbriefbanken	www.pfandbrief.de
Greece	Code of banking ethics	Hellenic Bank Association	www.hba.gr
	Code of Conduct regarding advertisement of financial products and services	Hellenic Bank Association	www.hba.gr
	European Agreement on a Voluntary Code of Conduct Pre-contractual Information for Home Loans	Hellenic Bank Association	www.hba.gr
Hungary	Code of Ethics	The Hungarian Banking Association	www.bankszovetseg.hu
Malta	Dishonoured Cheques Code of Conduct	Malta Bankers' Association	<i>no online presence</i>
United Kingdom	Banking Code - Setting standards for banks, building societies and other banking service providers -	British Bankers' Association	www.bba.org.uk
	Business Banking Code	British Bankers' Association	www.bba.org.uk
	Code of Conduct for the Advertising of Interest Bearing Accounts	British Bankers' Association	www.bba.org.uk
	Business Finance Code	Finance & Leasing Association	www.fla.org.uk
	Lending Code	Finance & Leasing Association	www.fla.org.uk



European Credit Research Institute

The European Credit Research Institute (ECRI) is an independent research institution devoted to the study of banking and credit. We focus on institutional, economic and political aspects related to retail finance and credit reporting in Europe but also in non-European countries. ECRI provides expert analysis and academic research for a better understanding of the economic and social impact of credit. We monitor markets and regulatory changes as well as their impact nationally and internationally. Research (CEPS). ECRI was founded in 1999 by the Centre for European Policy Studies (CEPS) together with a consortium of European credit institutions. The institute is a legal entity of CEPS. For further information, visit our website: www.ecri.eu

European Credit
Research Institute

Place du Congrès 1
B-1000 Brussels
Tel.: +32 2 229 39 36
Fax: +32 2 219 41 51
E-mail: info@ecri.be
www.ecri.eu

