Remarks by Dr. Tien-Mu Huang, Chairperson of the FSC at the 50th Business Liaison Meeting and recognition ceremony for the presidents of domestic banks

Vice Chairperson Hsu, Chief Secretary Chen,
Director-General Chiu, and all distinguished guests:

Thank you for taking the time to attend the 50th Business Liaison Meeting and recognition ceremony for the presidents of domestic banks. It is always a pleasure for me to be able to exchange ideas with financial veterans on occasions like this. In particular, this has been my first time presiding the meeting for presidents of domestic banks since I took office. As such, I attach great importance to today's meeting and would like to take this chance to share with you some of my supervisory philosophy. At the handover ceremony when I took office as the chairperson of the FSC, I mentioned that I anticipate our financial industry to achieve four important strategic objectives: be resilient, be innovative, develop sustainably and put financial inclusiveness into practice.

Today I would like to talk about the most important core value of managing a bank—a corporate ethical culture. Let me firstly share with you a 2018 movie called "Mary Poppins Returns." This film is the sequel to the 1964 Disney musical "Mary Poppins." The sequel portrays a family by name of Banks who lived on Cherry Lane, London in the 1930s during the Great Depression. The family was faced with awkward situation of a home foreclosure. The master of the house originally wanted to pay off the mortgage by stocks that his father had left to him in a trust at the bank, but the shareholders' roster had been torn up and burned by an unscrupulous banker named Wilkins. During the Depression, Wilkins used illicit methods to repossess lots of collateral from customers who could not keep up on their loan payments, and he had every intention of seizing the real estate and bank shares of the master of the house. It's hard to imagine that a Disney family movie would feature an once prestigious banker in the role of such a greedy villain, leaving children with a negative impression to bankers. It’s worth pondering whether the screenwriter's narrative of a banker in such a negative light was a matter of fortuitous, or a realistic reflection. At the end of the film, the old banker Dawes returns to the bank to fire Wilkins, whom he denounces furiously: "You make a profit by wringing it out of the customers' pockets. Their trust in us built the bank. You've squandered every last bit of their goodwill". I recommend that you watch this film if you have the chance.

Since the global financial tsunami of 2008, global financial reforms, for more than a decade, have mainly focused on the capital adequacy and liquidity of financial institutions, such as strengthening capital quality and structure, capping leverage ratios, increasing short-term liquidity coverage ratios and a long-term net stable funding ratio, establishing countercyclical capital buffers, etc.. All of those measures aim to make for sound financial institutions and form the backbone of a more resilient financial system. However, while strengthening financial resilience and pursuing the goal of maximum profitability, shouldn’t banks also endeavor to put more emphasis on corporate ethical culture?. Recently, we witnessed some misconducts in the international banking industry. As such, don’t we have to be cautious that the value of corporate integrity people tag to banks is diminishing even though the capital adequacy and profitability of banks have continued to improve?

The ancient Roman philosopher Cicero once famously said: "Where is there dignity unless there is honesty?" There are two licenses for operating a bank; one is issued by the supervisory authority, and the other is endowed by the public. Just like in "Mary Poppins Returns," audiences render a verdict of their own against the greedy banker in the film. By keeping itself in sound financial condition, a bank does indeed meet the supervisory requirements of the competent authority. However, the business of a bank is based on the trust of the public, so it must relentlessly pursue high ethical standards. Financial institutions should prove their true worth by establishing a corporate culture that values ethics, fulfilling their responsibilities to customers and society, and earning the respect and trust of customers.

Banks' economic capital can offset and absorb losses, while cultural capital can prevent misconduct and bank losses. Cultural capital takes longer to accumulate than economic capital, and is more important. The supervisory authorities of various countries began to think about and discuss the importance of cultural capital since 2013 to 2014. The Financial Conduct Authority (FCA) in UK, for example, includes corporate culture as a key focal point of its supervisory work. The FCA's assessment of the corporate culture of financial institutions is based on four items: setting meaningful goals and an inclusive environment; effective leadership methods; cultivating capable employees and providing appropriate reward systems; and corporate governance. In the US, Mr. Kevin Stiroh, executive vice president of the Federal Bank of New York, emphasized in the New York Fed Culture Roundtable Session with Business Schools and Financial Services Industry in December 2017 that cultural capital is an intangible asset that can affect the production and operation of enterprises. The role of the supervisory authority is to encourage financial institutions to invest in cultural capital to reduce market failure risk.

Corporate culture may vary from one bank to the next, but business ethics must always be their core value. It takes a lot of time and effort to maintain ethical conduct and establish a corporate culture characterized by true commitment to business ethics. It takes attention and support from the board of directors and senior management, and requires a sound system of corporate governance and compensation. Such corporate culture must be driven from the top. Directors and senior management must walk their words and make themselves a paradigm; then make sure that employees are aware of the sort of ethics, values, and behavior that board of directors expects them to demonstrate. Last year, the FSC instructed the Bankers Association to formulate the "Directions for the Use of Internal Control Operations by Banks to Prevent Embezzlement of Customer Funds by Wealth Managers" (the so-called "Ten Commandments for Wealth Managers"). In addition, the FSC last year launched an evaluation to see the implementation of the "Principles for Fair Treatment of Consumers." In taking this action, the FSC's goal is to spur financial institutions to implement a corporate culture in which "fair treatment of consumers" is taken as a core commitment. The second evaluation will take place this year. Banks should establish a deeply rooted culture of commitment to business ethics, financial consumer protection, and fair treatment of consumers, otherwise misconduct may still pose threats to soundness of financial institutions. I am delighted today having this opportunity to share with you my abovementioned idea. You are leaders in our financial industry working so hard to improve bank performance, and I appreciate your efforts and render my high recognition to you. Looking forward, I expect that investment in corporate culture will gain your attention. The FSC, for its part, will continue to attach importance to the establishment of an ethical corporate culture to ensure that our banks meet the highest expectations of society.

I would also like to take this opportunity to thank you all for supporting the development of the industry and the real economy, and for cooperating with the government's various relief and stimulus measures to help the economy recover from the Covid-19 pandemic as soon as possible. These efforts will drive financial growth and promote financial literacy. This is our hope that all banks demonstrate their commitment to business ethics, because ethics are indispensable to sustainable development of the banking industry. There are also several important policy issues on the agenda at this meeting. The FSC's Banking Bureau and the Department of Information Management are going to familiarize you with the issues at hand. We expect your support on those policy issues.

Last but not least, I would like to congratulate the institutions that have been singled out for recognition today, and thank all the distinguished guests here for coming. I wish you all good health, and the best of success in all your endeavors.