

Backing market forces

Voluntary standards markets and the regulation of financial services

In seeking to build a more trusted, less risky financial services industry, policy-makers may have inadvertently created a business environment that is too costly. Yet with voluntary standards, the price need not outweigh the benefits

A VOLUNTARY STANDARDS market is a commercial system in which actual and potential buyers and suppliers of products and services rely on conformity assessments. Conformity assessments are carried out against standards and can consist of self-certification, second-party and third-party independent verification and certification. With respect to financial services, the CISI joined forces with the British Standards Institution to commission Z/Yen Group to explore the area further, looking at: the application of existing standards in the financial services sector; other areas in financial services to which standards markets may be applied; and who would be the potential users of new standards for areas of financial services.

The research team engaged with a cross-section of the financial services sector (including the accounting, legal,



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actuarial and trading professions, insurance, asset management, investment banking, derivatives, foreign exchange and commodity trading) as well as the financial regulatory community, industry bodies, emerging schemes and the accreditation and certification community.

Z/Yen held two events in London with representatives from financial and professional services, trade body associations and academia to discuss the role of voluntary standards markets and their potential in improving financial services regulation.

Researchers interviewed 75 representatives from, or with an interest in, financial services to ascertain how people felt about standards in financial services and in general. A questionnaire was sent to key stakeholders to inform the research on the level of awareness of voluntary standards markets within financial services.

The report finds that voluntary standards could play a greater role in rebuilding a safer and more trusted financial services sector. More specifically it uncovers that:

- Voluntary standards markets are already being used for and by financial services, whether around products (eg, ISO 6166 – International Securities Identification System), processes (eg, ISO 20022 – Universal Financial Industry Message Scheme, or BS 10500 – Anti-Bribery Management System) or people (eg, ISO 22222 – Certification for Personal Financial Planners).
- Financial services appears to be a relatively low user of voluntary standards markets compared with other sectors, and measured by published standards and standards under development at ISO level. ISO Technical Committee 68 for financial services has published more than 50 international standards and has a further 21 under development.
- Other international bodies (eg, the Financial Stability Board, the Organisation for Economic Co-operation and Development, the International Monetary Fund and the International Organization of Securities Commissions) are involved in setting standards for financial services that aim to improve the stability of the financial system nationally and internationally. This process of standards development appears distinct from the ISO standard development process and better integration should be encouraged on common areas of work.
- Financial services is already a heavily regulated sector and more regulation is to come. Such regulation is complex, involving different actors at industry, national and international levels, and carries a cost. Voluntary standards markets could play a greater role, especially in light of developments at the European level towards

regulation featuring voluntary standards. A corresponding new approach to regulation in the financial services sector could bring benefits in terms of industry participation, lower cost of regulation and increased confidence in the components of the financial system. Respondents indicated that they would welcome more voluntary standards markets in financial services, especially for people, product and process standards, on their own as well as in combination with government regulation.

- Proposals and discussions are underway

Voluntary standards could help foster a safer and more trusted financial services sector

to develop voluntary standards in new areas of financial services, including for anti-money laundering, capacity trading, central bank management, hedge funds, peer-to-peer insurance and lending.

The report also identifies how the industry, standard-setting bodies as well as policy-makers and regulators could foster a market for voluntary standards. It makes five recommendations:

1. A new approach for financial services regulation, featuring voluntary standards markets, should be promoted. Using voluntary standards markets to regulate financial services where and when possible could lead to added benefits including industry participation, evolution and flexibility of regulation, notwithstanding a lower regulatory cost burden. The first recommendation supports this by advocating the creation of a task force and of publicity programmes at industry, national and regional (EU) level to increase awareness of voluntary standards markets and seize opportunities for the use of voluntary standards as part of new regulatory initiatives.
2. Existing voluntary standards development efforts for the sector should be better co-ordinated and integrated. This second recommendation stems from the finding that several organisations at national and international levels are involved in voluntary standards development for financial services, including ISO, national standard bodies (eg, BSI) as well as the Financial Stability Board and other standard-setting bodies in the sector. Better co-ordination and integration of efforts on common areas of interest could bring additional benefits in terms of efficiency, but also future voluntary standards markets development.

3. More evidence of the benefits and costs of voluntary standards markets is needed. While there is awareness of voluntary standards markets, they need to be further understood, including their related risks and opportunities. Such evidence would also be useful to monitor the evolution of voluntary standards markets and document better their impact on the wider economy.
4. A strong financial services community should be established around voluntary standards markets. Voluntary standards markets cannot emerge without a community of stakeholders. This fourth recommendation is deemed necessary to build confidence in voluntary standards markets, to encourage participation and to improve the visibility and credibility of the industry. The community should also seek to promote dialogue between standard-setting bodies, trade associations and professional institutes, as well as with relevant government bodies and officials.
5. Efforts should also be devoted to integrate voluntary standards markets for financial services with wider policies of government to increase the attractiveness of standards, improve surveillance and cost reduction of accreditation and certification processes, and to increase dialogue on the promotion of competition and development of markets.

Initial findings of the research, presented on 14 October at the 'Long-Term and Sustainable Finance' conference, hosted by the CISI and the European Federation of Financial Analysts Societies, were warmly received. The final report, which was published in November at an event hosted by the City of London Corporation, is available at cisi.org/standards. Comments on the report are welcome – please send them to george.littlejohn@cisi.org. The launch event at London's Guildhall, 'Wake up and smell the standards,' is available to members on CISI TV. ■

Alderman Professor Michael Mainelli, Chartered FCSI is Executive Chairman of Z/Yen Group, the City of London's leading commercial think-tank



Chiara von Gunten is Z/Yen's Head of Business Development and Professional Services in Switzerland. Her interests include finance, sustainable development and macroeconomics

