Chapter 2. Trust and financial institutions

Population ageing, low returns on retirement savings, low growth, less stable employment careers, and insufficient pension coverage among some groups of workers: These trends have eroded the belief that pension systems are managed with workers' best interests in mind and that they will deliver on their promises, once workers reach retirement age. This chapter considers three policy objectives to win back trust in financial institutions: promoting prudent pension management and supporting pension funds' fiduciary duties; enhancing financial consumer protection; and addressing environmental and social risks.

2.1. Introduction

In the wake of the financial crisis of 2008, trust in financial institutions amongst consumers and society more broadly plummeted. In the United States, for example, trust in the financial sector dropped to 36% in 2009, from 69% in 2008 (Edelman, 2009). Globally, the financial services sector achieved an 11 percentage point increase in trust in the five years from 2012, but it is still one of the least trusted industries with just 54% of consumers reporting that they trusted the sector in 2017 (Edelman, 2017).

For consumers and society to have trust in institutions, those institutions must be competent and effective in delivering on their goals. They must also operate consistently with a set of values that reflect citizens' expectations of integrity and fairness.

This chapter focuses on ways in which policies can promote increased trust in financial institutions by ensuring the safety of assets, fair treatment of customers and meeting the expectations of society. Three specific elements are considered: policies that promote prudent pension management; policies designed to enhance financial consumer protection; and policies to address environmental and social risks.[1] It explains how such policies can help financial institutions in responding to the preferences of their beneficiaries and consumers, promote long term value creation and avoid potential negative commercial impacts associated with environmental and social risks.

Trust on pension systems delivering pensions, and trust on pension funds managing people's retirement savings in their best interest, is low. Population ageing, the financial and economic crisis, and the current environment of low growth and low returns is making people doubt whether pension systems and pension funds will deliver on their promises, whether they are run with their best interest in mind, and whether they will get adequate pensions.

There is also a low level of trust in pension fund management, which stems from a lack of appropriate governance, clearly stated missions, and adequate investment policies and risk management. International significant pension fund and policy makers are developing best practices which can help overcome some of these issues.

Policies to enhance financial consumer protection are important to promote and support trust and confidence in the financial system. While much attention has been paid to regulations relating to the conduct of financial institutions, by themselves they do not necessarily result in increased trust. In more recent times, attention has also been focused on issues relating to conflicts of interest, culture and the governance of financial products themselves.

Additionally, demand from clients and beneficiaries for financial institutions to consider environmental and social factors in their decision-making is growing. The role of financial institutions in avoiding negative impacts on society and the environment is also increasingly recognised as an important factor towards driving commercial performance, economic stability and global sustainability objectives.

The themes focused on in this chapter are selected from a constellation of possible approaches policy makers can consider to build trust in financial institutions. Governments' roles in supporting trust in both the financial sector and the economy, more broadly, are discussed in other chapters, including through promoting trust in financial markets (Chapter 1), trust in law enforcement (Chapter 3) and trust in online markets (Chapter 5).

2.2. Policy options to improve trust in pension institutions

People's trust in pension systems is lacking with many questioning whether they will get a pension when they retire and whether that pension will be adequate to maintain their standard of living. This loss of confidence applies to all types of pension arrangements, i.e. defined benefit (DB), pay-as-you-go (PAYG) or funded pensions. They also wonder whether defined contribution (DC) funded pensions will provide adequate pensions. In addition, people are concerned about whether the institutions managing their retirement savings (e.g. pension funds) are doing so in their best interest. They also question whether the fees that pension funds charge for managing their retirement saving are aligned with the actual cost of managing their retirement savings and they are not being overcharged. Finally, the growth of pension arrangements in which people need to make many decisions and bear most of the risks (e.g. investment and longevity risk), DC plans, means that people need guidance to make those decisions and address those risks. In this context, the design of DC plans need to improve accounting for behavioural biases and low financial knowledge that make people decision making a struggle. In addition, financial advisors may be exposed to conflict of interest. The section on consumer protection deals with the issues arising from conflict of interest of retirement financial advisors and discusses potential solutions.

The lack of trust stems from the challenges that pension systems and pension funds managing people's retirement savings face. Pension systems are are being forced to adjust to meet these challenges and people often fail to understand why changes are being proposed or implemented. An effort from the authorities and other stakeholders in improving communication and comprehension of those reforms is clearly necessary.

The fallout from the financial and economic crisis, population ageing and the current economic environment characterised by low growth, low wage growth, low returns and low long-term interest rates, pensions are changing the pension landscape. These circumstances mean that current contributions and current contribution periods can no longer adequately provide the type of pensions and security that people have come to expect.

The global financial crisis has led to a reduction in the capacity of governments to finance retirement promises. People's trust in public pensions is diminishing. People are also losing confidence in private pensions with the fall in the balances accumulated in their pension funds provoked by the crisis.

Pensions are also coming under pressure as the baby boom generations retire, improvements in mortality and life expectancy, and longevity risks linked to uncertainty around future improvements in life expectancy. Living a longer and healthier life is generally good but, if not properly taken into account, population ageing challenges the financial sustainability, solvency and adequacy of pension systems. Population ageing is leading both to an increase in the number of people in retirement relative to the size of the working age population and also, most importantly, to an increase in the number of years that people spend in retirement. This increase needs to be financed.

As a result of population ageing and, in particular, the continued improvements in mortality and life expectancy, PAYG pensions face financial sustainability problems, defined benefit funded pensions need to secure their continued solvency, and defined contribution (DC) pensions need to consider ways to ensure that individuals have an adequate income during retirement. Contributing more and for longer periods, especially by postponing retirement as life expectancy increases, is the best approach to face these challenges.

Pension funds and annuity providers are exposed to longevity risk owing to uncertainty about future improvements in mortality and life expectancy. To address the risk of unanticipated increases in liabilities, regulators and policy makers should ensure that pension funds and annuity providers use regularly updated mortality tables, which incorporate future improvements in mortality and life expectancy. The regulatory framework could also help ensure that capital markets offer additional capacity to mitigate longevity risk, by addressing the need for transparency, standardisation and liquidity. Index-based financial instruments and the publication of a longevity index to serve as a benchmark for the pricing and risk assessment of longevity hedges would be helpful in this regard. Furthermore, the regulatory framework should recognise the reduction in risk exposure these instruments offer.

The current economic environment of low returns, low interest rates, and low economic growth further compounds the problems of financial sustainability, solvency and adequacy. These factors may lead to lower resources than expected to finance retirement promises or simply lead to lower retirement income. Low returns reduce the expected future value of contributions as assets accumulated will grow at a lower rate than expected. Low interest rates may reduce the amount of pension income that a given amount of accumulated assets may be able to deliver, especially in defined contribution (DC) pensions. Additionally, low economic growth may reduce the overall resources available to finance pension promises.

In summary, population ageing, the fallout from the financial and economic crisis as well as the current environment of low growth and low interest rates may increase financial pressure on defined benefit (DB) pension arrangements, which include potential fiscal difficulties for pay-as-you-go (PAYG) financed public pension arrangements and solvency problems for funded DB pension arrangements. It may also create serious problems of retirement income adequacy for defined contribution (DC) pension arrangements in which individuals bear many of the risks of saving for retirement.

Policy makers, regulators and the pension industry have been responding to those challenges and thus addressing to some extent the potential sources of the mistrust on pensions. Policy reforms implemented in the last decade have make pension systems more robust and better placed to deliver pensions (OECD, 2018b). In particular, reforms implemented in PAYG DB public pension arrangements have made them more fiscally sustainable. Improvements in the design of DC pension plans taking into account behavioural biases and low financial knowledge is improving retirement outcomes. Additionally, recent reforms have laid the foundations for people to regain trust that pension funds will manage their retirement savings in their best interest. These reforms include more robust regulatory and supervisory frameworks, stronger governance, investment policies and strategies, investment risk management, and a more solid focus on the best interest of members, including the consideration in their investment policies of sustainable investment opportunities.

Countries have accelerated the pace of pension reforms stabilising public pension expenditure while addressing concerns about whether pensions will be adequate in ageing societies. A majority of countries have implemented reforms that have partially addressed the problems of fiscal sustainability. They have introduced automatic mechanisms to adjust pension benefits to economic and demographic realities, such as planned increases in the statutory age of retirement, and linking benefits, retirement age and/or maximum contribution periods to future improvements in life expectancy. This coupled with the strengthening of safety nets to improve poverty relief in old age, and some progress on

adequacy, especially for low income socio-economic groups, have gone a long way in making public pensions sounder, but substantial gaps remain.

Pension arrangements in which assets back pension benefits, and in particular those with a direct and straightforward link between contributions and benefits, DC plans, have grown in importance. These pension plans require individuals to make many more decisions regarding their retirement. Moreover, individuals bear more risks, such as investment and longevity. This has highlighted the importance of improving the design of DC pensions taking into account behavioural biases and low financial knowledge (OECD, 2018b, Ch.5).

Box 2.1. The role of financial literacy in improving trust in pensions

Higher levels of financial literacy can contribute to trust by ensuring that people have a general understanding of the purpose of saving for retirement, the approaches that can be taken and the practicalities of putting a plan into action from the first contributions to the final stages of decumulation. Such education empowers individuals to take informed decisions, whilst also helping them to recognise the benefits of seeking professional advice when necessary and learning how, and when to trust the products and services on offer.

At the most basic level, people will not trust pension institutions if they do not readily understand that they are safeguarding their income during a potentially long period of retirement. Evidence from the United Kingdom and the United States, highlights that many people have a tendency to underestimate their expected lifespan with respect to population life tables, and that women are generally more likely than men to underestimate their likely longevity (O'Connell, 2010). If, on top of this, people do not know how to calculate their likely income needs in retirement or understand the benefit of saving from a young age, it is very likely that the industry will be poorly perceived, even when they attempt to encourage beneficial behaviours.

Depending on the structure of each pension system, financial literacy is most important in helping people to manage: i) private pensions than for public pensions; ii) personal pension plans than for occupational plans; and iii) defined-contribution (or notional defined-contribution) schemes than for defined-benefit schemes, since the latter require only limited engagement from the individual (OECD, 2016c).

Evidence suggests that knowledge of concepts necessary to perform saving calculations, such as compound interest rates, the time value of money, the difference between real and nominal values, and the principle of risk diversification, should not be taken for granted in the population at large (Atkinson and Messy, 2012]); Lusardi and Mitchell, 2011). Furthermore, surveys in various countries have shown that many savers do not know which type of private pension they have and possess limited knowledge of important characteristics of their own pension arrangements (Banks and Oldfield, 2007; Barrett, Mosca and Whelan, 2013; ILC-UK, 2015; Money and Pensions Panel, 2013). Several studies – mainly from the United States – suggest that workers are poorly informed about their private pension plans (Mitchell, 1988; Gustman and Steinmeier, 1989; Gustman and Steinmeier, 2004; Gustman, Steinmeier and Tabatabai, 2008; Dushi and Iams, 2010). Information, guidance and improved awareness campaigns would improve levels of engagement and trust in such populations.

Automatic features, default options, simple information and choice, higher level of financial literacy, and financial incentives lead to better retirement outcomes. As a result of low levels of financial knowledge and behavioural biases, people make inappropriate decisions regarding their retirement. For example, mechanisms such as automatic enrolment and escalation of contributions can harness inertia to help people participate and save more for retirement. Default options assist people unable, or unwilling, to choose a contribution rate, a pension provider, an investment strategy or a post-retirement product, to end in place that may be in their best interest. Other tools to help with decision making, include web applications, limiting options and making comparisons easier, pension statements conveying key information simply, and financial literacy seminars and financial advice to help people understand the information. Box 2.1 discusses the role of financial literacy in improving trust in pensions. Finally, financial incentives do provide an incentive to people to participate and save more. Evidence suggest that they do, and the fiscal cost may not be large, however, it needs planning to account for the fiscal room available in each country, and to focus those incentives in the different subpopulations according to their saving needs and policy objectives (OECD, 2018a).

The OECD and pension regulators have strengthened the regulatory framework of funded private pensions in response to the diminished trust of the public in private pensions. The OECD Core Principles of Private Pension Regulation (OECD, 2016d) cover all types of funded pension arrangements and strengthen the regulatory framework to make sure that funded pension arrangements work in the best interest of members, both for current retirees and for those currently saving for retirement. These principles argue that pension funds must always act in the best interest of members. This fiduciary duty should always be guaranteed in the law and in the regulatory framework.

Strengthening governance requires having regulatory and legal frameworks for pension funds at arm's length from government. Pension funds should have clearly stated missions to guide investment policy. They should have an oversight board that is accountable to the competent authorities as well as to members. The boards of pension funds should be transparent about their governance arrangements and their investment and risk management to keep them accountable to different stakeholders.

Pension funds and their boards should express their performance objectives in terms of their mission and should monitor performance against their long-term goal of providing retirement income with security and manage the funds in the best interest of members, rather than against a market benchmark. Target date and lifecycle funds tend to be the preferred investment strategies for pension funds with individual accounts (OECD, 2012a). Long-term return strategies may offer better returns, but at a higher risk that insufficient funds will be available to members at retirement. Large pension funds take into account ESG investment opportunities, but always in the context of their fiduciary duty to members.

Finally, to rebuild trust pension funds should consider aligning their fees and charges levied on employers and members with the actual cost of providing funded pension arrangements. Providing pension services involves costs such as administration and investment activities. These costs can greatly affect the ultimate value of accumulated retirement savings. Some pension arrangements can be also more expensive, such as those providing more choice. The potential impact of these charges on the ultimate value of retirement savings can be large. For example, charges of 1.5% of assets, reduces the final pot at retirement by nearly 30% as compared with a situation without charges. Charges of just 0.5% reduce retirement income by more than 11%.

Therefore, it is important that policy makers and regulators make sure that the charges paid for those services reflect the actual cost to providers. Unfortunately, market mechanisms have often been insufficient to align charges with the actual cost to providers due to market failures, such as asymmetric information or behavioural biases.

Measures to improve transparency are essential, but are not enough to align costs and charges. They work best when supported by pricing regulations (e.g. caps on fees, default investment strategies) and structural solutions (e.g. tender mechanisms and default options). To maximise net returns, policy makers and regulators can also use measures such as benchmarking and tying investment expenses more closely to portfolio performance.

Pension funds, to gain people's trust, should also consider sustainable and environmental, social and governance (ESG) investment opportunities are part of pension of their duties and investment policies. Pension funds should assess sustainable and ESG investment opportunities as any other investment opportunity by examining their risk and maintaining their mandate to manage people's retirement savings in their best interest. They should, in this context, aim at incorporating in their investment policy investment opportunities that provide in the long-term the best risk-adjusted net of costs real returns. Saving for retirement is long-term in nature, but timing of disbursement also bring in short-term liquidity considerations. Pension funds should consider all investment opportunities, including ESG opportunities, as part of their investment objective, their investment policy and risk management approaches.

The regulatory framework does not prohibit nor encourages pension funds from integrating in their investment policy and risk management ESG investment opportunities (OECD, 2017). Investors' interpretation and lack of clarity on the rules by the regulator may discourage ESG integration. The main barriers for ESG integration are practical. Lack of standardised and harmonise disclosure and of data, as well lack of models, indicators and metrics to appropriately assess ESG investment opportunities are the real problem facing pension funds to integrate ESG factors and risks in their investment policy. The section 4 of this chapter will deal further with this issue.

2.3. Financial consumer protection

Empowering and protecting consumers is also a key aspect of trust building. Financial consumer protection policies seek to promote disclosure of all information including cost and a competitive marketplace with good quality and value-for-money products. They also aim to ensure that customers receive fair treatment, are not misled or subject to misconduct, and can access to redress and compensation mechanisms when things go wrong.

The G20/OECD High Level Principles on Financial Consumer Protection (OECD, 2011a) is a well-established policy instrument setting out ten principles for a comprehensive policy framework for financial consumer protection, including in relation to responsible business conduct. While the notion of responsible business conduct covers a broad range of actions and behaviours by a financial institution, its employees and representative, at the core of the Principle is the requirement that financial services providers and authorised agents should have as an objective to work in the best interest of their customers. The Principle also relates to matters such as remuneration and incentives, avoiding conflicts and suitability.

Jurisdictions have implemented a wide range of laws and regulations governing the conduct of financial institutions, overseen by authorities with responsibility for regulating and supervising market conduct in the interests of protecting financial consumers.

Conduct risk is generally the risk of conduct occurring which does not meet applicable standards or requirements. Those standards or requirements may be those set out in laws or regulations, professional standards or unwritten standards of conduct expected by the community in which the financial institution operates. Such conduct can include inappropriate, unethical or unlawful behaviour on the part of an organisation's management or employees and is damaging to consumers' trust in the organisation. That conduct can be caused by deliberate actions or may be inadvertent, because of inadequacies in an organisation's practices or systems.

The amount of financial services regulation governing conduct has increased significantly since the global financial crisis. However, it is not clear that alone this is sufficient to rebuild public trust. For example, according to a study by PwC into the relationship between the UK financial services sector and its customers, while 49% of people believe regulation had been strengthened since the financial crisis, 57% did not believe that the reforms were sufficient to prevent history from repeating itself (PwC, 2014).

Not surprisingly, more recently, there has been an increased focus by policy makers, regulators and supervisors responsible for conduct on the culture within financial institutions and the quality of financial products being sold to financial consumers, complementary to the focus on market conduct. While appropriate rules and regulations governing conduct are important, in order for them to be properly effective and adhered to in the appropriate sprit, it is vital that the institutions subject to them are operating under a healthy culture where conflicts of interest are managed and the needs of their customers are prioritised, supported by the financial products on offer.

The OECD, via the G20/OECD Task Force on Financial Consumer Protection, is monitoring developments, from a financial consumer protection perspective, relating to culture within financial institutions and financial product governance. In this regard, it is supporting a project being conducted by the International Network on Financial Consumer Protection (FinCoNet) in collaboration the G20/OECD Task Force on Financial Consumer Protection, to understand policy and supervisory approaches to financial product governance and culture in jurisdictions around the globe. The results of this work will inform the development of international good practices. In the meantime, the following sections outline how managing conflicts of interest, culture and product governance support responsible conduct and therefore the protection of financial consumers.

2.3.1. Trust and financial advice – managing conflicts of interest

Financial advisors often serve as intermediaries between financial institutions and individuals, and thereby can directly influence the level of trust that individuals have towards these institutions. For investment advice, human interaction is highly valued, and credentialed financial advisors are viewed as the most trusted source of financial information (Edelman, 2018). At the same time, unwanted selling and the lack of transparency in the cost of financial products and services are two leading factors that lead to lower trust in financial institutions (Edelman, 2018). Therefore, it is crucial in order to maintain consumer trust in financial institutions, to ensure that financial advice is appropriate and that the cost of this advice is transparent and clear.

A key factor behind mis-selling and poor financial advice is the conflicts of interest that financial advisors face when recommending financial products to their clients. These conflicts of interest most often relate to how the advisors are compensated for providing the advice. For example, if advisors are paid through sales commissions, they have a direct

incentive to recommend to their clients the product paying the highest commission, even if it may not be the best product for the client's needs.

In order to improve the quality of financial advice that individuals receive, policy makers have sought to implement measures to mitigate the conflicts of interest that financial advisors face. Three main tools are used to do this: disclosure requirements, duty of care standards, and limits on how financial advisors are remunerated (OECD, 2016).

Disclosure alone has not been effective in ensuring the best outcomes for financial consumers. Many jurisdictions require that advisors clearly disclose the cost of their advice, the nature of their remuneration, and/or any conflicts of interest that they face. However, these disclosures have historically been difficult for consumers to understand, and individuals do not necessarily think through the implications that conflicts may have for the advice they receive. Even when consumers pay attention to such disclosures, they can backfire and potentially result in worse outcomes. In some cases, consumers seem to place too much weight on this information, leading them to disregard the advice, and in others, they may feel more pressure to follow the advice (Chater, Huck and Inderst, 2010) (Sah, Loewenstein and Cain, 2013). However, there may still be value in requiring the disclosure of conflicts, as this can encourage advisors to avoid them altogether (Sah and Loewenstein, 2014).

Duty of care standards, which impose ethical requirements for the financial advisors to provide financial advice that is at least suitable for the client - if not requiring that it be in their best interest - are often implemented to complement disclosure requirements. These standards also typically require that the advisor take actions to minimise the conflicts they face or avoid them completely, and explain why their recommendation is appropriate. However, such requirements have sometimes proven difficult to enforce, in part because the advisors themselves are often not consciously aware that they are providing biased recommendations in their own interest (Moore, Tanlu and Bazerman, 2010). Having professional norms and a firm culture that avoids conflicts of interest may help to promote the provision of financial advice in the best interests of clients (OECD, 2016).

Where disclosure and duty of care standards have not adequately improved consumer outcomes from financial advice, policy makers have targeted the source of conflicts of interest and imposed direct limits on how financial advisors are remunerated. Several jurisdictions have banned the payment of commissions to independent financial advisors. Such measures have been shown to affect the advice provided (OECD, 2016).

Nevertheless, making the cost of advice more transparent to consumers may also lead fewer consumers receiving financial advice. Advisors may become unwilling to serve less profitable market segments, whether due to higher regulatory compliance costs or lower fees from less wealthy clients. Increased transparency may also lead to fewer consumers who are willing to pay for it. As such, efforts still need to be made to ensure that access to basic financial advice and products can be simple and affordable for financial consumers, and to educate them about the value of good quality financial advice, in order to maintain their trust in financial institutions.

Technology-based advice, such as robo-advice, has the potential to help close this advice gap and provide accessible and affordable financial advice for those who need it. Nevertheless, regulators need to ensure that the appropriate consumer protections are in place. These advice channels should not be held to lower standards than human advisors, and the appropriate risk controls and governance processes (including in relation to the underlying algorithms to ensure they are unbiased and resilient) must be

in place to make sure that consumers will receive financial advice that is suitable for their needs (OECD, 2017e).

2.3.2. A spotlight on culture

Culture is closely linked to the issue of conduct. According to the fifth annual survey of conduct and culture published by Thomson Reuters in 2018, "culture, ethics and integrity" has been ranked by survey respondent as the top component of conduct risk, followed by "corporate governance, tone from the top" and "conflicts of interest". These components have consistently ranked as the top three over the last five years of the survey (Thomson Reuters, 2018).

Without seeking to attempt a definition, culture can generally be taken to cover the prevailing values, norms and behaviours that exist in any particular group. All groups, including financial institutions, have their own unique culture, reflecting a wide range of drivers relating to their size, nature and business model.

The drivers of culture in any financial institution comprise formal and informal drivers. According to an approach to measuring culture in financial services firms developed by Grant Thornton, in seeking to determine alignment with a firm's cultural value, positive or negative behavioural indicators might relate to drivers such a firms' control systems, organisational structure and power structure (formal) as well as rituals and routines, symbols and stories (informal) (Grant Thornton, 2016).

The role of compensation practices in financial institutions, in particular incentive-linked remuneration, as a driver of culture, has also been recognised as a contributing factor to the global financial crisis. At an international level, in 2009, the Financial Stability Board (FSB) developed the Principles for Sound Compensation Practices and their Implementation Standards to align compensation with prudent risk-taking particularly by significant financial institutions while not prescribing particular designs or levels of individual compensation (Financial Stability Forum, 2009).

The Principles require compensation practices in the financial industry to align employees' incentives with the long-term profitability of the firm. The Principles call for effective governance of compensation, and for compensation to be adjusted for all types of risk, to be symmetric with risk outcomes, and to be sensitive to the time horizon of risks. The Principles are intended to apply to all significant financial institutions but are especially critical for large, systemically important firms. The FSB undertakes regular monitoring of the implementation of the Principles.

In 2018, the FSB published supplementary guidance to the FSB Principles following public consultation (Financial Stability Board, 2018). The guidance provides firms and supervisors with a framework to consider how compensation practices and tools, such as in-year bonus adjustments, malus or clawback, can be used to reduce misconduct risk and address misconduct incidents.

In terms of developments in different jurisdictions, for example, the UK Financial Conduct Authority (FCA) has made culture a major priority in its supervision approach. The FCA has identified four key area of focus relating to culture: a firm's purpose, leadership, approach to rewarding and managing people and governance arrangements.

In addition to the introduction of remuneration reforms alluded to above, a key aspect of the FCA's overall approach to culture is the Senior Manager and Certification Regime, the aim of which is reduce harm to consumers and strengthen market integrity by making

individuals more accountable for their conduct and competence. The Senior Manager Regime, which replaced the previous Approved Person Regime, was introduced for deposit taking institution and some investment firms in March 2016, and extended to insurance companies in December 2018.

In Australia, issues relating to remuneration, culture and governance have been at the centre of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, established in November 2017 to look into alleged misconduct of Australian banks and other financial services entities. In announcing the Royal Commission, it was noted by the then Prime Minister and Treasurer that "trust in a well-functioning banking and financial services industry promotes financial system stability, growth, efficiency and innovation over the long term" (Department of the Treasury Australia, 2017).

Measures relating to the culture within financial institutions have formed the basis of a number of recommendations to Government set out in the final report of the Royal Commission, included the extension of the Banking Executive Accountability Regime beyond banks to other regulated entities such as superannuation and insurance companies. This regime, which was introduced in September 2017, establishes accountability obligations on directors and senior executives of financial institutions, as well as deferred remuneration and notification obligations. At the same time, Australian financial services regulators have signalled they are stepping up their focus on culture.

In April 2018, the Monetary Authority of Singapore (MAS) proposed new guidelines to strengthen the individual accountability of senior managers and raise conduct within financial institution. The guidelines are a key part of MAS' broader efforts to foster a culture of ethical conduct and responsible risk-taking in the financial services industry. Similar to the emphasis in other jurisdictions, MAS has clearly highlighted the link between culture and conduct. In a speech given in March 2017, Mr Lee Boon Ngiap, Assistant Managing Director, MAS, identified the following key drivers of a positive culture within financial institutions: strong and clear tone from the top; people management and incentives; escalation policies; recruitment and training; and self-policing (Monetary Authority of Singapore, 2017). Once again, the role of incentive and culture is made clear.

In Hong Kong, China broadly similar requirements have been introduced via the Manager-in-Charge regime implemented in October 2017. Licensed corporations are expected to designate fit and proper individuals to be Managers-In-Charge of each of these functions. The Manager-in-Charge regime is part of reinforcing a culture of accountability within financial institution and ensuring clarity about who has responsibility for what. Banks conducting regulated activities, i.e. registered institutions, are also expected to identify at least one individual (expected to be Chief Executives including Alternate Chief Executives, directors approved or managers appointed under the Banking Ordinance) as principally responsible for the overall management of the institution, to the extent that these individuals are involved in the management of the business constituting any regulated activity for which the registered institution is registered.

In 2017, the Hong Kong Monetary Authority (HKMA) initiated a Bank Culture Reform through promoting the adoption of a holistic and effective framework for fostering a sound culture within authorized institutions (AIs), with particular attention given to three pillars, namely governance, incentive systems, and assessment and feedback mechanisms. Practical guidance on these three pillars was also provided to all AIs and, following consultation with the industry and drawing upon the experience from overseas practices,

the HKMA announced its supervisory measures for bank culture (namely, self-assessment, focused reviews and culture dialogues) in December 2018.

Other jurisdictions around the world have also increased the focus of their attention on the responsibilities of senior staff within financial institutions in a bid to promote a culture of accountability and responsibility.

2.3.3. Quality financial products

One of the drivers (and also a consequence) of poor conduct and culture in a financial institution is an environment where financial products are not designed and distributed to meet the needs of the customers to whom they are sold, but rather financial and other incentives for selling the product are prioritised without due regard to the suitability of the product.

As noted in a 2018 speech given by James Shipton, the Chairman of the Australian Securities and Investments Commission on the topic of rebuilding trust, the first of six components of a good financial system is "financial products [that] do what they say they will do. Meaning that the design of products does not take advantage of asymmetric information, consumer biases or lack of knowledge about the product. This also means these providers have sufficient training and experience in relation to the product or service – this goes to their competence" (ASIC, 2018).

Financial consumer protection frameworks have traditionally included requirements relating to the disclosure of relevant information about financial products and services. As already noted, it is increasingly recognised that, by itself, disclosure may not provide a sufficient degree of financial consumer protection supporting good outcomes for financial consumers from the products or services they pay for. While there may be scope to enhance the effectiveness of disclosure through behavioural research or use of different channels or formats (e.g. use of digital), this reflects both the low level of engagement of many consumers with traditional disclosure documents, and the tendency of some financial service providers to disclose information in an opaque or legalistic way, designed to protect the provider rather than the customer.

This recognition has, among other things, led to a focus in a number of jurisdictions on the governance of financial products themselves, in terms of enhanced obligations relating to the manufacture and distribution of financial products. These sorts of obligations supplement requirements relating to disclosure, marketing and selling of financial products, and are focussed on the design of the product and its suitability for the target market for whom it is intended.

For example, in the European Union, MiFID II, which came into force in January 2018, introduced extensive product governance requirements on both manufacturers and distributors of investment products. Under the Directive, financial institutions that manufacture investment products are required to identify, and take reasonable steps to distribute to a target market of end clients. Distributors need to have sufficient understanding of manufacturers' products and product approval process in order to identify and sell to their own identified target market. In addition, financial institutions must ensure that staff remuneration and performance assessments are not organised in a way that goes against clients' interests. For instance, this may happen when remuneration or performance targets provide an incentive for staff to recommend a particular financial product instead of another that would better meet clients' needs.

Also in the EU, the European Banking Authority introduced Guidelines on Product Oversight & Governance in January 2017. The Guidelines deal with the establishment of product governance and oversight arrangements for both manufacturers and distributors as an integral part of the general organisational requirements linked to internal control systems of firms. They refer to internal processes, functions and strategies aimed at designing products, bringing them to the market, and reviewing them over their life cycle. They also establish procedures relevant for ensuring the interests, objectives and characteristics of the target market are met. Competent authorities across the EU are required to incorporate the Guidelines in their national frameworks or practices.

Relatedly, a review of product governance in small and medium sized bank conducted by the UK FCA identified examples of good practice, including that the most effective product governance frameworks focused on delivering good customer outcomes during all stages of the product lifecycle, from design to review. Another element of good practice was that senior management provided a positive “tone from the top”. Good practice also included being active in seeking customer feedback, both for existing products and services and for new communications, via traditional means, such as customer surveys, dedicated customer panels and focus groups.

Another example is that of Australia, where new laws are proposed to introduce requirements relating to the design and distribution of financial products to ensure that products are targeted at the right people, and a temporary product intervention power for the market conduct regulator (the Australian Securities and Investments Commission) to intervene when there is a risk of significant consumer detriment. Among other things, the proposed new laws are intended to increase the accountability of product issuers and distributors, reduce the likelihood of consumers acquiring (or being mis-sold) products without fully understanding the associated risks and that are misaligned with their financial situation, objectives and needs, and, in this way, promote greater consumer confidence and trust in the system (Department of the Treasury Australia, 2016).

In the United States, the Consumer Financial Protection Bureau (CFPB) has power to intervene where conduct or practices are ‘unfair, deceptive or abusive’. This can involve administrative action through cease and desist orders and legislative action through rule-making powers.

2.4. Enhancing trust in institutional investors through responsible business conduct

Edelman has identified 16 drivers of trust across business. Among these over a quarter are directly related to responsible business conduct (RBC).[2] These include: having ethical business practices; putting customers above profit, working to protect and improve the environment; addressing society’s needs in its everyday business; and partnering with NGOs, government and third parties to address societal issues (Edelman, 2012).

RBC-related drivers have historically received less attention in the financial sector than in industries with more direct social and environmental footprints. However, the role of RBC for trust building in financial institutions, and particularly for institutional investors has become increasingly important in recent years.

2.4.1. Why is RBC important in driving trust of institutional investors?

Clients and beneficiaries or institutional investors are also increasingly calling on institutional investors to take environmental, social and governance (ESG) factors into account in their decision making. In the United States, 80% of asset managers cited

increasing client demand as their motivation for pursuing sustainability strategies (Calvert Investments, 2015). Likewise, a study conducted amongst members of the Dutch DB pension fund found that 66.7% of participants favoured investing their pension savings in a responsible manner (Bauer, R. et al., 2018). Demand for responsible investment is especially strong amongst millennials. For example, an EY survey suggests that millennial investors are twice as likely as others to invest in companies with ESG practices. As the investment share of millennials continues to increase, demand for responsible investment can likewise be expected to continue to grow. (EY, 2017)

Furthermore a growing body of empirical evidence suggests that investments which take ESG factors into account can add value and lead to higher risk-adjusted returns net of expenses. ESG factors appear to have, at best a positive relationship with corporate financial performance and at worst a neutral relationship. (OECD, 2017a). For example, a recent study by PRI found that, in the world portfolio, ESG momentum strategies (i.e. portfolios with improving ESG scores) and tilt strategies (i.e. portfolios with high ESG scores) outperformed the MSCI World Index by 16.8% and 11.2% respectively in active cumulative returns over a 10-year period. (PRI, 2018) Similarly, a 2017 study by BofA Merrill Lynch Global Research found that stocks that ranked within the top third by ESG scores outperformed stocks in the bottom third by 18 percentage points in the 2005 to 2015 period. It also found that ESG was a better signal of future earnings volatility, relative to other fundamental factors. (PRI, 2018)

Further research would be valuable in determining whether these trends reflect short-term results or a more general, sustained pattern, as investing in new asset classes or investment opportunities where demand significantly outpaces supply can create gains that may disappear as markets converge to equilibrium overtime. In this regard strategies which take into account ESG factors should also be evaluated to assess whether they deliver better risk-adjusted returns net of costs than other investment opportunities.

Additionally, the introduction of global sustainability agendas has likely played a role in enhancing expectations of institutional investors with respect to RBC. In 2015, the Paris Agreement and the Sustainable Development Goals (SDGs) were adopted. The role of the financial sector is explicitly referenced in the Paris Agreement, which states as one of its primary objectives "[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." (United Nations, 2015) Governments are also increasingly inclined to exploit the scale of assets and leverage of financial institutions to support these global sustainability objectives. In this respect G20 leaders have highlighted the need to align financial flows (from both public and private institutions) to promote environmental goals and achieve the objectives of the SDGs. (G20, 2017).

Do current practices of institutional investors go far enough?

As the importance of RBC for trust in institutional investors is becoming increasingly significant, investors are responding to this demand. Morgan Stanley (2018) finds that 84% of surveyed asset owners are pursuing or considering pursuing ESG integration in their investment process, and 60% of them only began doing so in the last four years.

Box 2.2. Responsible investment strategies

A variety of approaches exist with respect to responsible investment. While there is no formal definition of these different approaches the below terminology has been associated with the described strategies.

Responsible Investing- often used as a catch all term that may encompass various strategies which take into account environmental and social issues in the context of investment decision making.

Environmental, Social, Governance (ESG) Integration - defined by the Principles for Responsible Investment (PRI) as "the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions." ESG criteria may be used primarily to identify financial risks posed by real or potential ESG impacts.

Impact investment - products or strategies that seek to generate positive social or environmental impacts alongside a financial return.

Ethical investment – products or strategies that are dictated by certain ethical or moral considerations. For example, exclusionary or screening processes which exclude investment in certain industries (e.g. tobacco).

As a result the market for responsible investment is growing. For example, US money managers' assets under management that have incorporated ESG issues has risen from less than USD 325 billion trillion in 2008 to over USD 11 trillion last year. While the majority of this investing is from asset management entities, market-based product development for institutional and retail clients is also growing through ESG oriented mutual funds and exchange traded funds (ETFs). The market for responsible investment is currently worth approximately USD 23 trillion. (JP Morgan, 2018)

However, current strategies for responsible investment vary widely in terms of objectives, scope of application as well as prevalence of use amongst institutional investors. For example, a survey by the Alternative Investment Management Association (AIMA) of 582 institutional investors worldwide showed that out of those who reported implementing an "ESG strategy", 47% use exclusionary strategies, while only 21% practice full integration of ESG risk factors (AIMA, 2018). Moreover, many financial institutions do not have any meaningful strategy in place for responding to significant ESG risks. In this respect, a recent study of the world's 100 largest pension funds found that 60% of funds have little or no approach to environmental risks. (ShareAction, 2018)

Financial institutions continue to point to several challenges hindering their ability to meaningfully pursue responsible investment strategies. Among these challenges are: understanding and design of existing governance frameworks (OECD 2017a), poor understanding of ESG risks and lack of standardised approaches to ESG risk management (State Street Global Advisors, 2018), and lack of quality data and comparative metrics on ESG issues (Morgan Stanley, 2018).

2.4.2. How can policy makers support responsible investment to drive trust?

Policy-makers can play an instrumental role in responding to some of the above mentioned challenges, thereby facilitating responsible investment and enhancing trust.

Integrating consideration of ESG factors into governance frameworks

Research by the OECD has found that while current regulatory frameworks on investment governance do not represent a de facto barrier to responsible investment strategies many institutional investors continue to interpret them as such (OECD 2017a). This is because some investors continue to see a conflict between their responsibility to protect the financial interests of their beneficiaries and the consideration of ESG factors. It is also because most investment governance regulatory frameworks and risk-based controls generally do not explicitly refer to ESG factors, which has meant that investors and other financial institutions have had to interpret for themselves the extent to which responsible investment strategies are possible or permitted (OECD, 2017a).

Furthermore, there is currently a perceived tension between ESG objectives, which are viewed as important to long-term value creation and investment horizons which seek to maximize shareholder value in the short term. In a survey by State Street, 47% of asset owners and 43% of asset managers indicated that they believe that the proper timeframe for expecting responsible investment strategies to deliver outperformance is five years or more, but only 10%-20% use these time frames for evaluating performance. Investment performance is still generally measured and reported on 1-, 3- and 5-year time horizons. (Michael T. Cappucci, 2017) The importance of long-term oriented strategies for building trust and stability has been emphasised by the CEO of Blackrock, the world's largest asset manager, in his letters to CEOs of companies invested in by Blackrock. (Fink, 2018 and 2019)

In recent years, policy makers have taken steps through regulation and other instruments to explicitly recognise the importance of taking into account long-term value drivers such as environmental and social risks in investment governance (Sullivan, R. et al., 2015).

For example, in several countries, investors are being asked to consider ESG factors as part of investor stewardship activities. In the UK, the Financial Reporting Council (FRC) will update in 2019 the Stewardship Code which already refers to ESG factors (Financial Reporting Council, 2019). In Japan, a Council of Experts revised in 2017 the Stewardship Code (2014), with explicit references to risks arising from ESG factors (Financial Services Agency, 2019). Likewise, the Code for Responsible Investment in South Africa provides guidelines for institutional investors on integrating ESG factors in investment processes.

Some countries have included duties related to sustainability in corporate governance codes. For example, the 2015 German Corporate Governance Code was amended in 2017 to include a reference to sustainability for institutional investors noting "[i]nstitutional investors […] are expected to exercise their ownership rights actively and responsibly, in accordance with transparent principles that also respect the concept of sustainability" (Regierungskommission, 2017). Clarifying duties with respect to environmental and social issues is also a key action point under the EU Sustainable Finance Action Plan, which notes that "[…] the Commission will table a legislative proposal to clarify institutional investors' and asset managers' duties in relation to sustainability considerations […]. The proposal will aim to (i) explicitly require institutional investors and asset managers to integrate sustainability considerations in the investment decision-making process […].". (EU, 2018)

Introducing clear mandates for inclusion of ESG factors into decision making of financial institutions through policy or regulation will be helpful to encouraging financial institutions to do so. However, policy makers should also develop coherent investor governance frameworks, performance reporting and investment planning which is compatible with ESG objectives.

Promoting common and widespread expectations

A lack of common expectations is also an obstacle to more widespread adoption of responsible investment strategies by institutional investors. A survey conducted in 2016-2017 with investment executives at 475 institutions found that over half of institutional investors implementing some form of responsible investment strategy felt there was a lack of clarity around standards and terminology (State Street Global Advisors, 2018). A lack of standardisation allows investors broad flexibility to design and implement their own approaches. However, this ambiguity also creates challenges to benchmarking performance with respect to environmental and social factors and heightens the risk of "green-washing", which can diminish the credibility of responsible investment strategies and their potential for trust-building.

Developing and recognising common standards with respect to responsible investment can promote quality processes and enhance its potential for trust building. It could also provide a common reference point or baseline of expectations for institutional investors and mitigate the risk of a multiplication of varying expectations across jurisdictions and initiatives.

In this respect the OECD due diligence framework may serve as reference points for policy makers. In 2017, the OECD articulated key considerations for institutional investors in carrying out due diligence to identify and respond to environmental and social risks, within their portfolios. This publication was developed with the support of leading asset owners and investment managers and has been formally endorsed by 48 governments (OECD, 2017). The European Union recently reached agreement on an EU Regulation for Sustainable Investor Disclosure. Once implemented, this regulation will call on financial market participants and financial advisors to integrate consideration of ESG risks and opportunities in their processes and to report on their due diligence policies. The regulation also encourages financial market participants to take into account due diligence guidance for responsible business conduct developed by the OECD (OECD, 2018e).

By promoting common expectations on responsible investment, policy makers can help to level the playing field and encourage industry laggards to perform better. In this respect, policy makers can build on and promote existing recognised standards to foster a common understanding of responsible investment.

Improving disclosure and generating data quality

A lack of quality data has been raised as a central challenge by institutional investors in both pursuing responsible investment strategies and measuring the financial performance of such strategies. For example, 68% of asset owners surveyed in a Morgan Stanley study noted that a lack of availability of quality ESG data is the leading challenge to responsible investment. (Morgan Stanley, 2018)

Challenges associated with data are based both on availability of information and quality of data. For example, a 2014 report by the Sustainable Stock Exchange Initiative estimates that only 5 000-10 000 out of the 80 000 multinational companies in the world publish environmental and social performance reports. (Sustainable Stock Exchange Initative, 2014)

In an effort to respond to this gap, increased regulation on sustainability reporting has been on the rise. A 2015 study by KPMG estimates that 41% of countries examined had some form of mandatory social reporting (KPMG, 2015). At the EU level, a non-financial disclosure directive was introduced in 2014 which requires reporting on environmental impacts and human rights as well as due diligence processes, for large, publically listed companies, including financial institutions (EU, 2014). France has introduced reporting

requirement specific to investors. Article 173-VI of the Energy Transition Act for Green Growth requires asset owners and investment managers to disclose climate-related financial risks and report on how ESG criteria are considered in their investment decisions (Legifrance, 2015).

While efforts to encourage sustainability reporting are accelerating, reporting requirements are usually voluntary ("comply or explain") and are not prescriptive on the methods or metrics to be used in measuring or reporting on ESG issues. As a result the reported information may not be useful for end users. For example, an EY analysis of reports filed in response to Article 173-VI of the Energy Transition Act found that while "investors disclosed metrics linking investees' GHG emissions to key financial indicators and assessing alignment of these emissions with a 2°C scenario …[m]ethodological limitations make any comparison of these metrics impossible" (EY, 2017).

Challenges with data quality and reporting are even greater when it comes to tracking and reporting social issues. One primary challenge is translating qualitative indicators normally associated with social risks into quantitative metrics. Another is the lack of standardised social benchmarks. For example, research by the NYU Stern school finds no consistent set of standards defining the "S" in ESG frameworks and that most frameworks measure social issues vaguely or with respect to just a small set of labour concerns (O'Connor C. and Labowitz, S., 2017).

Policy makers can play an important role in promoting higher quality reporting and data through scaling up efforts for reporting standardisation and impact measurements. As part of its implementation of the Sustainable Finance Action Plan, the EU has emphasised the importance of facilitating quality data and benchmarking. For example, key components of the Action Plan include: establishing an EU classification system for sustainable activities (Action 1); creating standards and labels for green financial products (Action 2) developing and harmonising sustainability benchmarks related to carbon (Action 5) and strengthening sustainability disclosure and accounting rule-making (Action 9). As part of the Action Plan, the EU is currently developing a taxonomy to reflect commonly agreed principles and metrics for assessing whether economic activities can be considered environmentally sustainable for investment purposes.

Expanding such initiatives beyond environmental risks and ensuring coherence across jurisdiction will be important to responding to existing gaps in ESG data for institutional investors.

2.5. Conclusion

In the wake of the financial crisis, significant reforms were introduced to prevent against future crises as well as rebuild trust in the financial sector. While these initiatives have been helpful in regaining public trust, additional work is necessary to respond to new and ongoing challenges as well as increasing expectations of beneficiaries and society more broadly of the financial sector.

This chapter addresses three areas essential to understanding and strengthening people's lack of trust in financial institutions. The section on pensions highlights the importance of pension governance and transparency, financial literacy, the alignment of fees and costs, and ESG investment to improve trust in pensions. The section on financial consumer protection focuses on managing potential conflicts of interest, culture and quality of products. The section on responsible business conduct concentrates on governance,

standard setting, data and disclosure. More work is required in all three areas to improve people's trust in financial institutions.

With respect to pensions and pension funds, several activities could be useful in enhancing trust including:

- Better communication regarding the features of the pension system, the purpose of different reforms, and adjustments to the system.
- Further improvements in the design of DC pension plans accounting for behavioural biases and low financial knowledge.

Additionally, the regulatory framework needs to be strengthened further by making sure that pension funds work in the best interest of members. In this respect:

- The independence and, the internal and external, oversight of pension funds' governing body need further strengthening in many jurisdictions.
- The supervision and monitoring of pension funds also needs to improve further, as well as data disclosure and standardisation, especially on the costs of providing services to members.
- There is still a lot to do on the fees charged by pension funds making sure that they are aligned with the actual costs for pension funds of managing people's retirement. Some of the ideas are discussed in the chapter and in other OECD reports (OECD, 2018b).

In terms of promoting trust and confidence via financial consumer protection policies, the application of robust conduct regulation, disclosure and other activities, needs to be reinforced by considering more qualitative factors such as:

- Ensuring financial institutions have the appropriate culture in terms of safeguarding and prioritising customers' interests and ensuring the quality and value of the financial products and services on offer.

The role of RBC in trust building for institutional investors can only be expected to become more significant in the coming years as millennials' share of global investment grows and the impacts (both financial and real) of environmental risks and irresponsible business practices are felt more acutely. While there has been increased interest and efforts by institutional investors to take environmental and social issues into account in their activities, to date the level of ambition and approaches of institutional investors have varied considerably but have largely been limited in scope.

As investors seek to respond to increasing demand for responsible investment they will have to enhance existing approaches. Policy makers can facilitate institutional investors in this respect in several ways:

- Supporting investment governance frameworks that are compatible with and support ESG objectives.
- Fostering common and widespread expectations with respect to responsible investment, for example due diligence processes for responsible business conduct.
- Supporting efforts to promote quality ESG data and disclosures.

Some governments have already initiated such efforts. Scaling up these efforts and ensuring coherence across approaches will be important to enhancing trust in this sector amongst consumers, beneficiaries and society more broadly.

Notes

[1] For the purposes of this chapter, financial institutions refer to private, commercial institutions involved in investment, advisory, insurance, finance, or retail banking services for clients. Public institutions such as central banks, development finance institutions or government-run export credit agencies and intermediary service providers such as credit risk agencies and market research providers are not included.

[2] The OECD defines responsible business conduct (RBC) as: a) making a positive contribution to economic, environmental and social progress with a view to achieving sustainable development; and b) avoiding and addressing adverse impacts related to an enterprise's direct and indirect operations, products or services. The OECD articulates what constitutes RBC through the OECD Guidelines for Multinational Enterprises (OECD, 2011b), a comprehensive set of government-backed recommendations on RBC.

References

Act no. 2017-399 of 27 March 2017 published in OJ no. 0074 of 28 March 2017 www.legifrance.gouv.fr/eli/loi/2017/3/27/2017-399/jo/texte.

AIMA (2018), "ESG Integration on the Rise: And how to implement it in your portfolio", www.aima.org/journal/aima-journal-edition-114/article/esg-integration-on-the-rise-and-how-to-implement-it-in-your-portfolio.html.

Atkinson, A. and F. Messy (2012), "Measuring Financial Literacy: Results of the OECD / International Network on Financial Education (INFE) Pilot Study", *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 15, OECD Publishing, Paris, https://dx.doi.org/10.1787/5k9csfs90fr4-en.

ACSI (2018), *Australian Asset Owner Stewardship Code*, Australian Council of Superannuation Investors, www.acsi.org.au/publications-1/australian-asset-owner-stewarship-code.html.

Australian Securities and Investments Commission (2018), "Rebuilding trust: A conduct regulator's perspective", Regulatory address by James Shipton, Chair, Australian Securities and Investments Commission, https://download.asic.gov.au/media/4691647/james-shipton-afr-banking-and-wealth-summit-speech-5-april-2018.pdf.

Bank of America Corporation (2018), *U.S. Trust Insights on Wealth and Worth*, https://newsroom.bankofamerica.com/system/files/2018_US_Trust_Insights_on_Wealth_and_Worth_Overview.pdf.

Banks, J. and Z. Oldfield (2007), "Understanding pensions: Cognitive function, numerical ability and retirement saving", *Fiscal Studies*, Vol. 28, No. 2, pp. 143-170.

Barrett, A., I. Mosca and B.J. Whelan (2013), "(Lack of) pension knowledge", IZA Discussion Paper, No. 7596, August 2013, www.iza.org/en/webcontent/publications/papers/viewAbstract?dp_id=7596.

Bauer, R. and T. Ruof, and P. Smeets (2018), *Get Real! Individuals Prefer More Sustainable Investments*, available at http://dx.doi.org/10.2139/ssrn.3287430.

Business and Human Rights Centre (2017), *Netherlands: Parliament adopts child labour due diligence law for companies; Senate approval pending*, www.business-humanrights.org/en/netherlands-parliament-adopts-child-labour-due-diligence-law-for-companies-senate-approval-pending.

Calvert Investments (2015), *Perspectives on ESG Integration in Equity Investing: An opportunity to enhance long-term, risk-adjusted investment performance*, www.sustainablefinance.ch/upload/cms/user/201507_Calvert_PerspectivesOnESGIntegrationInEquityInvesting.pdf.

Cappucci, M. T. (2017), "The ESG Integration Paradox", Harvard Management Company, https://corpgov.law.harvard.edu/2017/07/26/the-esg-integration-paradox/.

Chater, N., S. Huck and R. Inderst (2010), "Consumer Decision-Making in Retail Investment Services: A Behavioural Economics Perspective – Final Report".

Consumers International (2017), *Building a Digital World Consumers Can Trust,* www.consumersinternational.org/media/1822/ci-summary_english_updated.pdf.

Department of the Treasury Australia (2017), *Royal Commission – Banks and Financial Services*, http://sjm.ministers.treasury.gov.au/media-release/124-2017/.

Department of the Treasury Australia (2016), *Design and distribution obligations and product intervention power*, https://treasury.gov.au/consultation/design-and-distribution-obligations-and-product-intervention-power.

Dushi, I. and H.M. Iams (2010), "The impact of response error on participation rates and contributions to defined contribution pension plans", *Social Security Bulletin*, Vol. 70, No. 1, www.socialsecurity.gov/policy/docs/ssb/v70n1/v70n1p45.pdf

Edelman (2018), *2018 Edelman Trust Barometer*, www.edelman.com/research/2018-edelman-trust-barometer.

Edelman (2017), *Trust Barometer – Financial Services Results*, www.slideshare.net/EdelmanInsights/2017-edelman-trust-barometer-financial-services-results

Edelman (2015), *2015 Edelman Trust Barometer – Global Results*, www.slideshare.net/EdelmanInsights/2015-edelman-trust-barometer-global-results/31-BUILDINGTRUST.

Edelman (2012), *2012 Edelman Trust Barometer*, www.edelman.com/research/2012-edelman-trust-barometer.

Edelman (2009), *2009 Edelman Trust Barometer,* www.edelman.com/sites/g/files/aatuss191/files/2018-10/2009-Trust-Barometer-Global-Deck.pdf.

Equator Principles (2019), *EP Association Members & Reporting*, https://equator-principles.com/members-reporting/ (accessed 14 January 2019).

Equator Principles (2013), *The Equator Principles*, https://equator-principles.com/wp-content/uploads/2017/03/equator_principles_III.pdf.

European Banking Authority, *Guidelines on product oversight and governance arrangements for retail banking products,* https://eba.europa.eu/documents/10180/1141044/EBA-GL-2015-18+Guidelines+on+product+oversight+and+governance.pdf.

EU (2018), Communication from the Commission to the European Parliament, the European Council, The Council, The European Central Bank, The European Economic and Social Committee and the

Committee of the Regions Action Plan: Financing Sustainable Growth, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097.

EU (2014), Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, http://data.europa.eu/eli/dir/2014/95/oj.

EY (2017a), *Sustainable Investing: the millennial investor*, www.ey.com/Publication/vwLUAssets/ey-sustainable-investing-the-millennial-investor-gl/$FILE/ey-sustainable-investing-the-millennial-investor.pdf.

EY (2017b), *How have investors met their ESG and climate reporting requirements under Article 173-VI?,* www.ey.com/Publication/vwLUAssets/ey-how-have-investors-met-their-esg-and-climate-reporting-requirements-under-article-173-vi/$FILE/ey-how-have-investors-met-their-esg-and-climate-reporting-requirements-under-article-173-vi.pdf.

Federal Government (2017), *National Action Plan Implementation of the UN Guiding Principles on Business and Human Rights*, www.auswaertiges-amt.de/blob/610714/fb740510e8c2fa83dc507afad0b2d7ad/nap-wirtschaft-menschenrechte-engl-data.pdf.

Financial Conduct Authority (2018), "Retail banking: product governance review", www.fca.org.uk/publications/multi-firm-reviews/retail-banking-product-governance-review (accessed 22 January 2019).

Financial Reporting Council (2019), *UK Stewardship Code*, www.frc.org.uk/investors/uk-stewardship-code (accessed 14 January 2019).

Financial Services Agency (2019), *The Council of Experts on the Stewardship Code*, www.fsa.go.jp/en/refer/councils/stewardship/index.html (accessed 14 January 2019).

Financial Stability Forum (2009), *FSF Principles for Sound Compensation Practices*, https://www.fsb.org/wp-content/uploads/r_0904b.pdf.

Financial Stability Board (2018), *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices*, www.fsb.org/2018/03/supplementary-guidance-to-the-fsb-principles-and-standards-on-sound-compensation-practices-2/.

Fink, L. (2019), 2019 Letter to CEOs: Purpose & Profit, www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.

Fink, L. (2018), 2018 Letter to CEOs: A Sense of Purpose, www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter.

Fredericks, F. C. et al. (2018), *Social Cost and Material Loss: The Dakota Access Pipeline*, www.colorado.edu/project/fpiep/sites/default/files/attached-files/social_cost_and_material_loss.pdf.

Friede, G., T. Buschi and Bassen, A. (2015), "ESG and financial performance: aggregated evidence from more than 2000 empirical studies," Journal of Sustainable Finance & Investment, 5:4, 210-233, DOI: https://doi.org/10.1080/20430795.2015.1118917.

G20 (2017), *G20 Hamburg Climate and Energy Action Plan for Growth*, http://unepinquiry.org/wp-content/uploads/2017/07/Climate_and_Energy_Action_Plan_for_Growth.pdf.

G20 Global Partnership on Financial Inclusion (2016), *G20 High-Level Principles for Digital Financial Inclusion,* www.gpfi.org/publications/g20-high-level-principles-digital-financial-inclusion.

Grahovar, M. (2010), *The Role of Corporate social disclosure -Trust, reputation or fashion tool?*, https://gupea.ub.gu.se/handle/2077/30501.

Grant Thornton (2016), *Measurement of culture in financial services firms*, www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/measuring-culture-in-financial-services.pdf.

Gustman, A. and T. Steinmeier (2004), "What people don't know about their pensions and social security", in W. Gale, J. Shoven and M. Warshawsky (eds.), Private Pensions and Public Policies, Brookings Institution, Washington, DC, pp. 57-125.

Gustman, A. and T. Steinmeier (1989), "An analysis of pension benefit formulas, pension wealth and incentives from pensions", Research in Labor Economics, Vol. 10, pp. 53-106.

Gustman, A., T. Steinmeier and N. Tabatabai (2008), "Do workers know about their pensions? Comparing workers' and employers' pension information," in A. Lusardi (ed.), Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs, University of Chicago Press, Chicago, IL.

ILC-UK (2015), Making the system fit for purpose. London, UK, www.ilcuk.org.uk/index.php/publications/publication_details/making_the_system_fit_for_purpose.

Initiative Parlementaire 17.498 of 13 November 2017, Contre-projet indirect à l'initiative populaire "Entreprises responsables-pour protéger l'être humain et l'environnement" www.parlament.ch/en/ratsbetrieb/suche-curia-vista/geschaeft?AffairId=20170498.

Ipsos MORI (2014), *Poll Conducted for EIRIS – Ethical Finance*, www.ipsos.com/sites/default/files/migrations/en-uk/files/Assets/Docs/EIRIS%20Ethical%20Finance%20%20Investment%20toplines.pdf.

JP Morgan (2018), Sustainable Investment is Moving, https://www.jpmorgan.com/global/research/esg.

KPMG (2015), Carrots and Sticks: Global Trends in Sustainability Regulation and Policy, https://home.kpmg/content/dam/kpmg/pdf/2015/12/KPMG-survey-of-CR-reporting-2015.pdf.

Legifrance (2015), Legislative text of article 173-VI,, www.legifrance.gouv.fr/eli/loi/2015/8/17/DEVX1413992L/jo/article_173/.

Lusardi, A. and O. Mitchell (2014), "The Economic Importance of Financial Literacy: Theory and Evidence", *Journal of Economic Literature*, Vol. 52/1, http://dx.doi.org/10.1257/jel.52.1.5.

Lusardi A. and O.S. Mitchell (2011), "Financial literacy and planning: Implications for retirement wellbeing", *National Bureau of Economic Research Working Paper*, No. 17078, Cambridge, MA, www.nber.org/papers/w17078.pdf.

Mitchell, O. (1988), "Worker knowledge of pensions provisions", *Journal of Labor Economics*, Vol. 6, pp. 21-39.

Monetary Authority of Singapore (2017), *Culture and Conduct - A Regulatory Perspective - Speech by Mr Lee Boon Ngiap*, www.mas.gov.sg/News-and-Publications/Speeches-and-Monetary-Policy-Statements/Speeches/2017/Culture-and-Conduct.aspx.

Money and Pensions Panel (2013), "Basic pension: The default option for labour-market pensions", Report by the Committee of the Money and Pension Panel, www.raadtilpenge.dk/~/media/PPP/Pensionsrapport/Basic%20pension_full%20report.ashx.

Moore, D., L. Tanlu and M. Bazerman (2010), "Conflict of interest and the intrusion of bias", *Judgment and Decision Making*, Vol. 5/1, pp. 37-53.

Morgan Stanley (2018), *Sustainable Signals*, www.morganstanley.com/assets/pdfs/sustainable-signals-asset-owners-2018-survey.pdf.

O'Connell, A. (2010), "How long do we expect to live? A review of the evidence", *Journal of Population Ageing*, Vol. 4, pp. 185-201, http://link.springer.com/article/10.1007%2Fs12062-011-9049-1

O'Connor C. and S. Labowitz, (2017), *Putting the "S" in ESG: Measuring Human Rights Performance for Investors*, https://static1.squarespace.com/static/547df270e4b0ba184dfc490e/t/58cad912e58c6274180b58b6/1489688854754/Metrics-Report-final-1.pdf.

OECD (2018a), *Financial Incentives and Retirement Savings*, OECD Publishing, Paris, https://doi.org/10.1787/9789264306929-en.

OECD (2018b), *OECD Pensions Outlook 2018*, OECD Publishing, Paris, https://doi.org/10.1787/pens_outlook-2018-en.

OECD (2018c), *G20/OECD Policy Guidance on Digitalisation and Financial Literacy,* www.oecd.org/finance/G20-OECD-INFE-Policy-Guidance-Digitalisation-Financial-Literacy-2018.pdf.

OECD (2018d), *G20/OECD Policy Guidance Financial Consumer Protection Approaches in the Digital Age,* www.oecd.org/finance/G20-OECD-Policy-Guidance-Financial-Consumer-Protection-Digital-Age-2018.pdf.

OECD (2018e), OECD Due Diligence Guidance for Responsible Business Conduct, http://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm.

OECD (2017a), *Investment Governance and the Integration of Environmental, Social and Governance Factors*, www.oecd.org/finance/Investment-Governance-Integration-ESG-Factors.pdf.

OECD (2017b), *OECD Guidelines on Measuring Trust*, OECD Publishing, Paris, https://doi.org/10.1787/9789264278219-en.

OECD (2017c), *Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises*, https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf.

OECD (2017d), *Investing in Climate: Investing in Growth,* OECD Publishing, Paris, www.oecd.org/environment/investing-in-climate-investing-in-growth-9789264273528-en.htm.

OECD (2017e), *Robo-advice for Pensions,* www.oecd.org/pensions/Robo-Advice-for-Pensions-2017.pdf.

OECD (2016a), *OECD Pensions Outlook 2016*, OECD Publishing, Paris, https://doi.org/10.1787/23137649.

OECD (2016b), "Policy measures to improve the quality of financial advice for retirement", in *OECD Pensions Outlook 2016*, OECD Publishing, Paris, https://doi.org/10.1787/pens_outlook-2016-6-en.

OECD (2016c), "The role of financial education in supporting decision-making for retirement", in *OECD Pensions Outlook 2016*, OECD Publishing, Paris, https://doi.org/10.1787/pens_outlook-2016-8-en.

OECD (2016d), OECD Core Principles of Private Pension Regulation, www.oecd.org/pensions/principles-private-pension-regulation.htm.

OECD (2015), *G20/OECD Principles of Corporate Governance*, OECD Publishing, Paris, https://doi.org/10.1787/9789264236882-en.

OECD (2012a), OECD roadmap for the good design of defined contribution pension plans, www.oecd.org/daf/fin/private-pensions/50582753.pdf.

OECD (2012b), OECD/INFE High Level Principles on National Strategies for Financial Education, www.oecd.org/finance/financial-education/OECD-INFE-Principles-National-Strategies-Financial-Education.pdf.

OECD (2011a), G20 High Level Principles on Financial Consumer Protection, www.oecd.org/finance/financial-markets/48892010.pdf.

OECD (2011b), *OECD Guidelines for Multinational Enterprises*, http://dx.doi.org/10.1787/9789264115415-en.

PRI (2018), *Financial Performance of ESG Integration in US Investing,* www.unpri.org/download?ac=4218.

PRI (2019), *What are the Principles for Responsible Investment?*, www.unpri.org/pri/what-are-the-principles-for-responsible-investment.

PwC (2014), *How financial services lost its mojo – and how it can get it back*, https://pwc.blogs.com/files/how-financial-services-lost-its-mojo---and-how-it-can-get-it-back_full-report.pdf.

Regierundskommission (2017), German Corporate Governance Code, www.dcgk.de/files/dcgk/usercontent/en/download/code/170214_Code_markup.pdf.

Sah, S. and G. Loewenstein (2014), "Nothing to Declare: Mandatory and Voluntary Disclosure Leads Advisors to Avoid Conflicts of Interest", Psychological Science, Vol. 25/2, pp. 575-584, http://dx.doi.org/10.1177/0956797613511824.

Sah, S., G. Loewenstein and D. Cain (2013), "The burden of disclosure: Increased compliance with distrusted advice", *Journal of Personality and Social Psychology*, Vol. 104/2, pp. 289-304, http://dx.doi.org/10.1037/a0030527.

ShareAction (2018), "Pensions in a Changing Climate", https://aodproject.net/wp-content/uploads/2019/01/AODP-PensionsChangingClimate.pdf.

Sustainable Stock Exchange Initiative (2018), Progress report 2018, www.sseinitiative.org/wp-content/uploads/2018/10/SSE_On_Progress_Report_FINAL.pdf.

Sustainable Stock Exchange Initiative (2014), Progress Report 2014.

State Street Global Advisors (2018), *ESG Institutional Investor Survey*, www.ssga.com/investment-topics/environmental-social-governance/2018/04/esg-institutional-investor-survey.pdf.

Sullivan, R. et al. (2015), "Fiduciary Duty in the 21st Century", www.unpri.org/download?ac=1378.

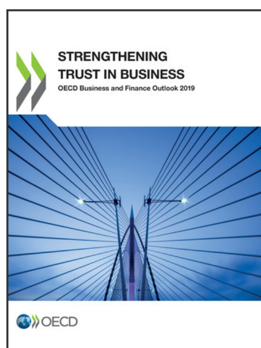
TCFD (2017), "Recommendations of the Task Force on Climate-related Financial Disclosures", www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf.

Thomson Reuters (2018), *Culture and Conduct Risk 2018*, https://legal.thomsonreuters.com/en/insights/reports/culture-and-conduct-risk-2018.

United Nations (2015), Paris Agreement, https://unfccc.int/sites/default/files/english_paris_agreement.pdf.

UN General Assembly (2018), *Working Group on the issue of human rights and transnational corporations and other business enterprises*, A/73/163, https://documents-dds-ny.un.org/doc/UNDOC/GEN/N18/224/87/PDF/N1822487.pdf?OpenElement.

UNEP FI (2018), *Principles for Responsible Banking*, www.unepfi.org/banking/bankingprinciples/.



From:
OECD Business and Finance Outlook 2019
Strengthening Trust in Business

Access the complete publication at:
https://doi.org/10.1787/af784794-en

Please cite this chapter as:

OECD (2019), "Trust and financial institutions", in *OECD Business and Finance Outlook 2019: Strengthening Trust in Business*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/325acbe4-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.

OECD