

## INSIGHTS

# Banking on the Right Sort of Character

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“For the learning of every virtue there is an appropriate discipline...”  
– Bertrand Russell, “Philosophy for Laymen” (1946)

At JPMorganChase’s 2023 Investor Day, an analyst asked CEO Jamie Dimon what it took to be a good bank leader. “The most important strength is you’re trusted and respected by people, that you work your a-- off, that you give a s---t, that you know you don’t know everything,” he replied.<sup>1</sup> Trustworthiness, industriousness, commitment, intellectual humility. Perhaps not an exhaustive list, but these seem to be important virtues for leaders in finance, according to Mr. Dimon – and it’s hard to argue with him, given his iconic industry status. But how do we test for such personal qualities *before* bringing someone into the banking sector, let alone before they might manage to reach its pinnacle?

## Regulators want to know

Even before the financial crisis, banking sector overseers began trying to evaluate whether potential industry entrants and executives were rightly deemed “fit and proper” for their roles. In the UK, for instance, the 2000 Financial Services and Markets Act awarded the Financial Services Authority the power to disqualify persons from undertaking regulated activities if they were not of the right sort.<sup>2</sup>

In 2010, the Central Bank of Ireland (CBI) introduced its Fitness and Probity regime as a means to help rebuild trust in the financial sector post-Global Financial Crisis (GFC)<sup>3</sup>. The regime requires that firms ensure staff are fit to

1 JPMorgan Chase & Co. (2023). *2023 Investor Day transcript*. Online (accessed November 2024): <https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/investor-relations/documents/events/2023/jpmc-investor-day-2023/JPM-Investor-Day-2023-Final-Full-Transcript.pdf>

2 UK Government (2000). *Financial services and markets act 2000*. Online (accessed November 2024): <https://www.legislation.gov.uk/ukpga/2000/8/notes>

3 Central Bank of Ireland (2010). *Fitness and probity for regulated firms*. Online (accessed November 2024): <https://www.centralbank.ie/regulation/how-we-regulate/fitness-probity>

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work in the industry, to include conducting some assessment of their character. It establishes a process by which the CBI approves or denies candidates for senior management positions and removes those it deems unfit.

Other jurisdictions have followed suit, establishing fitness and probity regimes that emphasize character assessments and individual executive accountability for culture and conduct related outcomes:

- As a part of its 2016 Senior Managers and Certification Regime,<sup>4</sup> the UK Financial Conduct Authority (FCA) administers fitness and propriety tests for employees and senior personnel in financial firms;
- In 2021, the Monetary Authority of Singapore (MAS) introduced Guidelines on Individual Accountability and Conduct,<sup>5</sup> which insist that bankers be “fit and proper” for their roles;
- In January 2024, the NY Department of Financial Services (DFS) introduced Final Guidance on how firms should review the character and fitness of their officers and directors,<sup>6</sup> and, that same month,
- Canada’s Office of the Superintendent of Financial Institutions (OSFI) produced Integrity and Security guidelines,<sup>7</sup> which contemplate ensuring that “people are of good character.”

4 Financial Conduct Authority (2023). *Fitness and propriety*. Online (accessed November 2024): <https://www.fca.org.uk/firms/senior-managers-and-certification-regime/fitness-and-propriety-fp>

5 Monetary Authority of Singapore (2020). *Guidelines on individual accountability and conduct*. Online (accessed November 2024): <https://www.mas.gov.sg/-/media/MAS/MPI/Guidelines/Guidelines-on-Individual-Accountability-and-Conduct.pdf>

6 New York State Department of Financial Services (2024). *Superintendent Adrienne A. Harris releases final guidance on vetting key personnel for state-chartered banks and non-depository institutions*. Online (accessed November 2024): [https://www.dfs.ny.gov/reports\\_and\\_publications/press\\_releases/pr202401221](https://www.dfs.ny.gov/reports_and_publications/press_releases/pr202401221)

7 Government of Canada Office of the Superintendent of Financial Institutions (2024). *Integrity and security—guideline*. Online (accessed November 2024): <https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/integrity-security-guideline>

The character assessments these agencies administer typically focus on qualifications, experience, and personal ethics. But one may fairly ask whether these regimes, and the tests for character they apply, are themselves “fit and proper.” Many suggest that they are not.

### What is “Good” character?

The validity of the Irish regime was called into question earlier this year, for instance, after a candidate deemed unfit to serve on the board of an Irish fund manager appealed the CBI’s decision. In its highly critical judgment, the Irish Financial Appeals Tribunal found that the appellant had been “denied fair procedures at every stage of the process” and blasted the CBI for its “flawed” decision-making.<sup>8</sup>

On the heels of this public criticism, the CBI commissioned an independent review of events and, in July 2024, published the Final Report by Andrea Enria, the widely respected former head of supervision for the European Central Bank.<sup>9</sup> Mr. Enria highlights the importance of sound supervisory judgment in the CBI’s assessment of fitness, probity, and character. While Mr. Enria rightly argues that the CBI should assure its supervisory culture supports the production of the good judgment necessary, he does not descend into offering formulaic views as to how such good judgment is reached. The Irish case, and Mr. Enria’s sensible study, thus highlight the principal challenge confronting regulators who wish to test for character: it’s entirely unclear just how they hope to do so.

Consider, for example, guidance the NY DFS offered banks to shape their own character assessment methods.

8 Brennan, J. (2024). *Central bank to review fitness and probity process after ‘flawed’ decision*. The Irish Times, February 15, 2024. Online (accessed November 2024): <https://www.irishtimes.com/business/2024/02/15/central-bank-to-review-fitness-and-probiy-process-after-flawed-decision/>

9 Central Bank of Ireland (2024). *Review of the fitness and probity regime*. Online (accessed November 2024): <https://www.centralbank.ie/news/article/press-release-review-of-the-fitness-and-probiy-regime-11-july-2024>

The department suggests that firms examine things like: (1) how much debt an applicant holds, (2) whether they have a criminal record, and (3) whether they've missed child support payments. While such questions may offer some indicator of specific behaviors that might be expected of a potential hire, they hardly suffice to assess character in the full. Nor do they reflect an appreciation for the importance of motivation, or the interplay between character and the circumstances within which it manifests in observed behavior.

The decision to approve or deny someone's suitability for a role in the financial sector comes with economic and reputational consequences for both the individual and the industry. It is contrary to the principle of due process that a regulator might prohibit someone from participating in the industry on the basis of inscrutable supervisory judgment, exercised through an ill-defined process, that fails to evince a clear understanding of the very thing regulators seek to investigate. This is not to argue that supervisory judgment is unimportant. We agree entirely with Mr. Enria that it is critical. But we need also to establish some transparent means by which judgments relating to character are reached, in a manner that is fair, reliable, and consistently applied. It is thus entirely fit and proper that the industry, and society more broadly, insist that policymakers do better. As a starting point, perhaps we might clarify precisely what is meant by "good character."

### Character in context

Perhaps mythically, the idea of character in the context of financial services harkens back to some notional era when good old chaps set the norms for the industry – and its regulation – over port and cigars in exclusive dining clubs. To be "fit and proper" was simply to be viewed as such among "polite society." But to the extent that reality ever matched myth, those days are long gone, and it's no longer up to "the right sort" alone to decide who may be seated among them.

But in myth there is message: the idea that social disapproval results in ostracism rings true because it is, and always has been. What has changed is the manner in which these social forces operate, and who participates in the process. Rather than winning the approval of the privileged few, today, we expect moral judgments to be formed through an open, rigorous, and reliable process.

The academic study of character was catalyzed by the philosophical revival of Aristotelian ethics in the second half of the 20th century and has since grown into a modern science.<sup>10</sup> At the forefront of the field is University of Kansas professor Nancy Snow. In a formulation perhaps useful to regulators, Snow defines "character" as a constellation of lived virtues, to include qualities such as wisdom, courage, justice, humility, temperance, honesty, and integrity.<sup>11</sup> Such virtues are personal excellences developed over time – they are acquired by *deliberate practice* until they become habitual dispositions that guide a person's thinking, feeling, and action.

While character foregrounds personal agency, it isn't about individuals in isolation. Virtues of character, such as truthfulness and responsibility, are developed and manifested in social contexts beset by pressures, incentives, and expectations that either support or subvert their cultivation and expression. That is, there is a symbiotic relationship between personal *character* and social *context*. A person's actions are not simply a function of their character – they are also strongly influenced by the culture of the organization in which they work and the industry or space within which it operates.

Moreover, character and culture interact dynamically. Character is developed over time and, over time,

<sup>10</sup> See, for example, Snow, N. E. (2020). What is a science of virtue? *Journal of Moral Education* 51 (1), 9-23. <https://doi.org/10.1080/03057240.2020.1773777>

<sup>11</sup> Cole Wright, J., Warren, T. M., & Snow, N. E. (2020). *Understanding virtue: Theory and measurement*. Oxford University Press.

expectations, incentives, practices, and pressures shape a person's character. As Alison Cottrell, former CEO of the UK's Financial Services Culture Board put it: "The cultures we spend time in shape our character and our characters may in turn shape the culture."<sup>12</sup> Individual character is needed for people to navigate the supportive and subversive forces of culture, such that desired behavior follows, setting an example that others emulate. In leaders, virtues of character (personal excellences) enable them to discern, direct, and maintain a desired culture -- which can be thought of as a kind of corporate character.

That's all well and good, of course. But what does it tell us about assessing character through a "fitness and probity" regime?

### Fit and proper "Fit and Proper" tests

Firstly, since character is not unitary but a dynamic constellation of qualities, we need to be more specific. Rather than a general focus on character, such regimes should target specific character traits (virtues) that are most important for leaders in financial services, and they should spell out precisely *why* this is.

Humor, generosity, and gratitude are virtues that would be welcome in leaders, generally speaking, but essential to those working in finance is a specific focus on virtues that provide proven safeguards against misconduct – virtues such as integrity, humility, and justice, for instance.<sup>13</sup>

Recruiters should be required to stipulate the personal virtues required for roles in the financial sector – to include a clear statement of what each desired virtue looks like in practice, why it is important, and how

it will be evaluated in the recruitment and subsequent promotional processes.

Validated psychometric measures have been developed for specific virtues, which can be used as tools for personal reflection as well as in 360-degree feedback processes. A combination of survey- and interview-based assessment can be used to test for personal virtues that are well developed, to identify others that may need work, and to raise red flags where desired virtues appear to be absent.

Secondly, since virtues are cultivated over time through repeated practice, the idea of personal "fitness" should be taken seriously as a developmental term. If fitness assessments are to be meaningful, what needs to be identified is not evidence of some virtue in a candidate's past practice, but evidence of ongoing commitment to such practice. It's not enough to determine simply that a candidate appears to have been "fit" at some past time. Fitness declines quickly without consistent training, after all, in the physical as well as temperamental contexts alike. With this in view, if recruiters should be specific regarding the standards of character they seek, so should we ask applicants to be concrete in describing how they intend to maintain performance when it comes to the demonstration of virtues commensurate to the roles with which they hope to be entrusted.

Athletes no more achieve peak performance by reading Nike ads than we achieve enlightenment by downloading a mindfulness app. Accomplished athletes don't assume they will simply remain fit; they train for it, consistently, and we look for that discipline. It takes consistent practice to achieve the habits of excellence.<sup>14</sup> So, just as a candidate for a senior position might be asked how they will stay abreast of changes in regulation or new technologies, so too can they be asked to

<sup>12</sup> Cottrell, A. (2023). *Character, leadership and culture in UK business; some thoughts*. Speech given at the University of Oxford in June 2023.

<sup>13</sup> Meyer, M. (2024). Can good information prevent misconduct? The role of organizational epistemic virtues for ethical behavior. *Journal of Business Ethics* <https://doi.org/10.1007/s10551-024-05796-8>

<sup>14</sup> Sharp, L. (2021). *The habit of excellence: Why British Army leadership works*. Penguin.

detail their plan for ongoing character development in the context of a new role and organizational culture.

Lastly, since character is always developed and applied in relation to cultural context, we should emphasize that what we want are leaders who understand the dynamics of organizational culture and seek to drive virtuous behaviors in their organizations. Individual virtue is necessary but insufficient. Remember, it is the presence of shared virtues *across* an organization (through its culture) that is correlated with good conduct outcomes, not leadership virtues alone. We must therefore test for how a potential recruit will seek to promote desired virtues among peers and direct reports, and how they will test for their success in this direction over time.

### **Character, context and culture**

Policy and practice around character in banking needs to be informed by better thinking. The reality that assessment of character and culture requires critical evaluation rather than formulaic calculation does not give regulators a pass, and there is a burgeoning science of relevance to which they may appeal.

If regulators truly care about the character of individuals and the culture of firms in the banking indus-

try, then they should demonstrate this by convening a relevant dialogue that involves experts in character and culture theory, development, and measurement. Such a dialogue should specifically target the design of tools and evaluative frameworks that permit for the reliable assessment of individual character, corporate culture, and the interplay between the two.

If, instead, regulators continue to issue vague character requirements while leaving it to firms to devise a substantive means by which to demonstrate their observation of woolly mandates, then we can't leave character assessment to the regulators. Here again, the Irish case is illustrative: the CBI launched its character assessment initiative in the wake of public outcry and political insistence, and only studied its relevant practices closely after being confronted by public challenge and opprobrium.

We look to those entrusted with regulatory authority to demonstrate leadership and its associated character traits. Waiting for crisis to erupt before taking action is inconsistent with this expectation. Before regulators seek to assess the character of those in the banking sector, they might wish to demonstrate that they themselves are fit and proper to conduct such an exercise.

