Instilling Trust through Transparency

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ABP BIZ PSYCH CUP

NatWest

Background

Deficit in trust is a problem that usually coexists with deficit in public understanding, suggesting that bank's messages don't reach a sufficiently wide audience (Haldane & McMahon, 2018). Building transparency, by utilizing newly developed ways of reporting standards, can increase trust, by providing information to stakeholders that otherwise might not have access to it (Pirson, et al., 2018).

Integrity will be most accountable when its key stakeholders can see how well (and how often) it conducts its most important business. This is because the organization's assets and actions can be easily "audited" by anyone at any time, because it does so much of its most important collective work in an open and inclusive way (Leveille,2005).

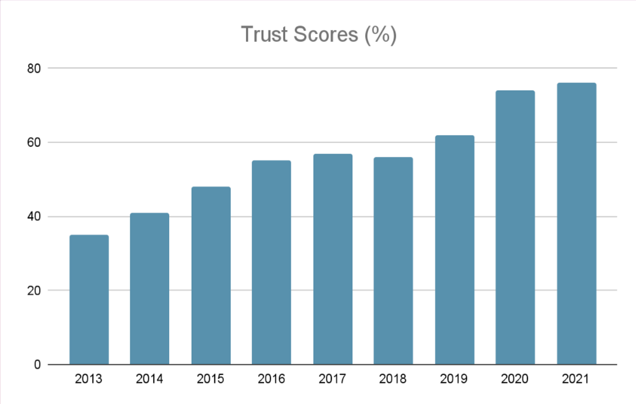

Figure 1. Trust Scores for Natwest from 2013 to 2021 using quarter 4 data from NatWest's annual reports 2013-1021.

Transparency

Transparency is defined as public disclosure of reliable and timely information that enables users of that information to make an accurate assessment of a bank's financial condition and performance, business activities, risk profile and risk management practices. This definition recognises that disclosure alone does not necessarily result in transparency. To achieve transparency, a bank must provide timely, accurate, relevant and sufficient disclosures of qualitative and quantitative information that enables users to make proper assessment of the institution's activities and risk profile. It is also crucial that the information disclosed is based on sound measurement principles and that the principles are properly applied.

The Basle Committee considers transparency to be a key element of an effectively supervised, safe and sound banking system. It recognises that minimum standards or guidelines for public disclosure do not necessarily assure a sufficient level of transparency in the markets for all institutions. Therefore, banks are encouraged to go beyond the guidelines to ensure that sufficient and meaningful information is provided to the markets, taking account of market developments and the complexity of their own operations.

Recommendation

NatWest should take steps to make their performances more public and to be more transparent about how they run their business (Leveille,2005).

NatWest should address the following in clear terms and appropriate detail to help achieve a satisfactory level of bank transparency (Kraus, 1998):

- Financial performance
- Financial position (including capital, solvency and liquidity);
- Risk management strategies and practices;
- Risk exposures (including credit risk, market risk, Liquidity risk, and operational, legal and other risks);
- Accounting policies;
- Basic business, management and corporate governance information.

Following the example of the Bank of England, traditional communication, including formal reports, policies or other documents, need to be published in simple language, alongside the established formal format. That way, the bank communicates what is necessary to a wider audience. This method has been proven to increase understanding for both specialist and non-specialist audiences (Haldane & McMahon, 2018). Furthermore, the success of that method can be tested using surveys that measure the audience's understanding of the two formats of the documents.

Another way that NatWest can ensure that all customers can access the information they provide is by utilising their social media (Laroche et al. 2013). By providing the information on social media, they will be able to access a larger proportion of their customer base.

References:

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