

Banknote Ethics Initiative: a Collective Action between Suppliers and Central Banks

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When the Banknote Ethics Initiative (BnEI) was launched at the Currency Conference in Athens in 2013, it had just finalised its major building blocks – the Code of Ethical Business Practice and the Audit Framework – and agreed on its governance structure as a not-for-profit association under Belgian law. Four years on, with 10 accredited companies and 35 central banks expressing their support for the BnEI's objectives, it is evident that a collective action, by banknote suppliers and customer central banks working together, can be a powerful tool towards reducing corrupt practices.

There has been progress, but there is still a lot to do. Corruption cases still emerge and a number of companies have not yet joined BnEI, even though they would then benefit from fair and corruption-free competition. Also, central banks could do more to advance ethical business practices.

BnEI has been seriously searching for new ways to address the situation. This update covers where BnEI is today and how it considers addressing future challenges.

BnEI today

BnEI was established to promote ethical business practice, with a focus on the prevention of corruption and on compliance with anti-trust law within the banknote industry. The initiative demonstrated that the industry is taking corruption risks seriously and self-regulating through responding with solid controls, with the objective of creating consistent high standards across the industry.

Membership of BnEI is open to all suppliers to the banknote industry, irrespective of their size or experience. To be eligible, a company should be a banknote manufacturer and/or a supplier of components, equipment or services for use in the production of banknotes issued by central banks. To become a member each company must adhere to a strict Code of Ethical Business Practice and becomes accredited after its policies and control systems have passed a thorough and independent audit.

Currently 10 companies have been successfully accredited – Arjowiggins Security, Canadian Bank Note Company, Crane Currency, De La Rue, Giesecke & Devrient, Innovia Security, KBA-NotaSys, Note Printing Australia, SICPA and Royal Joh Enschede (albeit that the latter is exiting banknote production).



In addition, Orell Füssli Security Printing and South African Bank Note Company have signed the BnEI Code and are in the process of becoming accredited. BnEI is also in discussions with suppliers from other parts of the world (such as Oumolat Security Printing in Abu Dhabi).

This year, several member companies will have their second audit, having been accredited three years ago. The audits have been carried out from the beginning by two companies, GoodCorporation in London and KPMG Brussels.

An independent Accreditation Council reviews the reports provided by the auditors and approves these, allowing applicants to become BnEI accredited members. The Accreditation Council is chaired by Philippa Foster Back CBE, Director of the Institute of Business Ethics in London, and the members of the Council are Lorna Thomas, formerly Deputy Chief of Currency for the Bank of Canada and Josef Wieland, Director of Leadership Excellence at Zeppelin University.

Benefits of BnEI

BnEI accreditation provides companies with a high degree of assurance that their standards and the procedures they apply are comprehensive and robust. The process creates a new ethical culture within the company with clear expectations of behaviour, which in turn gives confidence that the risk of harmful incidents is minimised.

If, despite robust procedures and policies, a company suffers from the actions of a lone/rogue employee or business partner, then BnEI requires that this would lead to disciplinary action, usually resulting in dismissal. If the offender is acting alone and demonstrably outside well established and implemented controls, and the response is swift and decisive, then it need not necessarily lead to reputational harm to the organisation.

Moreover, in the case of an investigation, BnEI accreditation would provide evidence to the prosecutors and courts that the organisation had taken significant steps to prevent corruption.

The BnEI Audit Framework consists of a set of eight principles of ethical business practice: top-level leadership, dedicated responsibility for compliance, anti-bribery and anti-trust policies and procedures (including gifts and hospitality), due diligence of third party business partners, training of staff and business partners on policies and procedures, periodic compliance declaration, internal monitoring and external assessment.

The audit looks at four levels of evidence for each individual practice, namely that a policy exists, a system is in place to implement the policy, records exist which show that the system works in practice and the stakeholders agree that the system works in practice.

The auditors carry out the audit using an Audit Guidance Manual, a 70 page document, which also serves to help the companies put appropriate policies and structures in place and prepare for the audit.

As a joint initiative, BnEI provides comfort that the company is not 'going it alone', and an assurance that key sub-contractors who are accredited have also achieved the required standard.

In addition, BnEI provides a forum for the banknote industry to develop best ethical practices in line with the constantly evolving requirements of society. The Audit Guidance Manual is updated at regular intervals – the most recent update focusing on the establishment of detailed, principles-based criteria to justify the remuneration levels of agents. The auditors will judge whether a justification is satisfactory and will report to the Accreditation Council when the justification is, in their view, inadequate, or there are other risk factors relating to the sales agent and/or its remuneration.

They must also report all remuneration arrangements that fall outside certain pre-determined parameters as set out in the Audit Guidance Manual. Furthermore, the Manual calls for a progressive move away from commission-only payments towards agents' remuneration based on a time and expenses structure.

BnEI has also established a whistleblowing system to address concerns in the market regarding corrupt behaviour. Reports will typically concern rumours regarding corruption or anti-competitive behaviour in the market. The independent outside company submits reported cases to the relevant member company, and the auditors check annually how many cases have been raised and how they have been addressed by the relevant company(ies).

How can the central banks support BnEI?

It is essential for central banks, as major customers, that the standards applied by the whole banknote industry are beyond reproach.

BnEI has offered central banks the opportunity to express their support for its objectives and 35 central banks have already taken up this offer. This possibility is offered also to other organisations with connections to the industry. By including its name on the BnEI website an organisation does not create any financial or other commitments. It does however signal their support for the BnEI objectives, and thereby gives also an important message to potential suppliers.

This is, however, only one way in which central banks can support BnEI. The BnEI Members' Committee has recently decided that the Audit Guidance Manual can be made available to central banks after they have signed a non-disclosure statement.

The purpose of this is twofold. First, the Manual will enable the central banks to better understand the rigorous process of member accreditation. Second, it is circulated for potential consideration as part of the central bank's tender process.

Currently 23 central banks have signed the NDA and received the Manual, and the first central banks are already using specific ethical criteria in their tenders. The number of such central banks is expected to increase.

ISO 37001 and BnEI audit framework

The International Organization for Standardization (ISO) has recently developed a new standard ISO 37001, to help organizations fight bribery and promote an ethical business culture. This is clearly good progress in the fight against corruption.

The new standard broadly covers the principles and processes required to protect an organisation against bribery and corruption risk. Like most ISO standards, 37001 is for general application in any type of organisation faced with possible corruption risk.

The BnEI audit framework, on the other hand, is purpose-built for the banknote industry. To give an overall picture, of the 50 points in the BnEI framework, ISO 37001 has no equivalent for 12 points. There are a further 12 which do have a direct equivalent but without covering anti-trust risks as these are not in ISO 37001's scope. Several other practices have approximate equivalents but with material differences, such as matters which need to be considered but are not mandatory as in the BnEI audit framework.

Besides anti-trust aspects, the key contrasts are that the risks associated with sales agents are not addressed by the ISO standard. Similarly, BnEI's government and regulatory affairs content is only thinly covered in ISO 37001, there being no focus on intermediaries which interact with public officials on an organisation's behalf and no reference to lobbying, politically exposed persons or political contributions.

In addition, the certification method is not set out for ISO, as it is left to the certifiers to decide how they gain assurance on the processes to be certified. By contrast, the BnEI accreditation process is highly prescriptive in the detailed tests which are needed. These tests make extensive demands both in the conduct of interviews with employees, agents and managers and in rigorous testing of the relevant processes.

Future challenges

A critical mass of companies has already seen the importance of ethical business practices and a number of central banks have shown their support for these practices. However, despite the new tougher legislation, corruption scandals still emerge, and it remains as a major obstacle to development around the world.

Besides this societal perspective, there is also an important aspect here from the point of view of individual companies. Companies which adhere to zero tolerance against corruption in their compliance programs may be faced with free riders, ie. companies which are not subject to the same rigid standards and may disregard existing statutory obligations.

BnEI would like to contribute in addressing this free rider problem, finding new ways to increase the detection and sanctioning of corruption in public procurement within the banknote industry. Therefore, BnEI is currently developing integrity pacts for use by central banks and other public entities in their banknote tenders.

An integrity pact is a tool for preventing corruption in public contracting, and they have been applied since the 1990s in more than 20 countries. It is an agreement between a public contracting entity and the companies bidding that they will abstain from bribery, collusion, extortion and other corrupt practices for the extent of the bidding and contracting process, as well as during the life of any subsequent contract. Thus integrity pacts combine the integrity efforts of both the supplier and the customer.

The integrity pact should, in principle, cover all the activities related to the contract from the designing of the tender, the pre-selection of bidders, the bidding and contracting process, through the implementation and completion. To ensure accountability, integrity pacts use independent monitors to oversee the process. They will investigate any violation of applicable anti-corruption laws or rules set out in the integrity pact, as well as any justified suspicion for such violation which has come to their attention.

This has been the general framework for the development of an Integrity Pact for tendering within the banknote industry and the work is currently under BnEI consideration.

Conclusion

Maintaining high ethical standards is increasingly important today – with customers and stakeholders needing confidence that they are being pursued and maintained. BnEI has been established with this in mind, in particular. The key difference which separates BnEI from other similar initiatives is that – rather than self-assessment – companies are externally audited and independently accredited. Furthermore, BnEI provides a forum where suppliers and central banks can work together to ensure that all the companies operating in the banknote industry are performing to the highest ethical standards.

The banknote industry has now a golden opportunity to do something together to reduce one of the major evils in society – corruption. BnEI provides the infrastructure for suppliers to join forces collectively in insisting on only doing business on the basis of ethical practices, and saying an unconditional 'no' to corruption.