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Too complex to manage?

Global bank governance in a structurally reformed world

2017

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“My assessment of recent history is that there has not been a case of a major prudential or conduct failing in a firm which did not have among its root causes a failure of culture as manifested in governance, remuneration, risk management or tone from the top.”

Andrew Bailey, May 2016

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1. Executive summary

1.1 An industry identity crisis

Managing global banks is an inherently challenging task, and post-crisis it is more difficult than ever before. Many global banks are going through a restructuring of some kind, to change how they operate on a fundamental level, and in many cases to respond to specific regulatory requirements or political and economic shifts. Global universal banks, which have generally adopted a mixture of centralised and local business management and controls, have had to deal with new regulatory constraints on how they design and structure their governance.

The result is an increase in cost and complexity of governance structures.

Symptoms include reduced financial flexibility, a need for more independent non-executive directors (INEDS), increasingly localised governance requirements, particularly for risk management, a call for greater board accountability, as well as a more intense focus on legal entity structures. Duplication has become an inescapable part of the cost of having a global franchise, and regulators want continuous assurance that banks are well run. Banking groups need to be able to play within these new rules of the game, which requires a focus on the structural, procedural and human capital solutions necessary to coordinate globally along multiple business lines and legal entities.

Global banking groups should carry out top-down reviews of their internal governance in order to identify pressure points, unnecessary variations in practices between countries, and opportunities to optimise management time. At a minimum, group boards should know and understand the organisational structure of the group, and there should be clear responsibility for internal governance at both the level of a board committee and at an executive level. Governance arrangements should be robustly documented in a governance manual. Dual-hatting arrangements should be an area of focus, in terms of ensuring transparency, dealing with conflicts of interest, and placing the right people with the right internal standing in the right roles. Policy governance is also crucial. Groups should ensure that there is clarity as to who is responsible for ensuring group policies are embedded across the business, and that there is appropriate testing by the second and third lines of defence.

The industry has come a long way, particularly in terms of thinking about and understanding legal entity structures. But there is more that global banking groups can do to deal with the pressures of steering highly complex organisations through difficult economic, political and regulatory times. This paper sets out the new reality for governing global banking groups, and makes recommendations for where they should focus their energies.

Global banking groups need to be realistic about the pace of long-term change. In some cases groups may encounter substantive governance challenges which require a significant overhaul of the governance operating model. These will take time to address. In other cases the issues may be more familiar, and tackling them may be more a matter of bringing renewed focus and clarity to an existing programme. Regardless of the particular situation, what is essential is that global banking groups have a programme to meet the heightened governance expectations of regulators and supervisors and that they implement it to reduce the risk of regulatory interventions that further constrain their business.

The views expressed in this paper are informed by our own observations of market practices, as well as a series of interviews with Deloitte partners around the world, and external interviews with a number of global systemically important banks (G-SIBs).

“Global universal banks, which have generally adopted a mixture of centralised and local business management and controls, have had to deal with new regulatory constraints on how they design and structure their governance.”

2. Global bank governance in a structurally reformed world

2.1 A difficult task made more difficult still

Banks are highly interconnected in global economic activity and deeply integrated into the economies of the countries in which they operate. Global banking groups are large and complex, and following the financial crisis they are increasingly heavily regulated.

Looking back, the banking sector and individual banks grew rapidly and significantly in the decades before the financial crisis. The globalisation of banking was driven by a series of mega-mergers which took place in the 1980s and 1990s, some of which were at the time among the largest corporate mergers ever seen. Some groups sought to become all things to all customers in all places – global financial wholesalers and retailers.

But managing these new global giants proved far from straightforward, especially with respect to risk and control frameworks; many struggled with post-merger integration. The financial crisis threw the complexities of these organisations into sharp relief, and drew attention to the economic dangers of leaving their growth unchecked – their unique economic roles when compared to other large corporations impose a special mandate on them to be resilient in the face of economic stress. Moreover, while global banks are headquartered in individual countries, the nature and extent of their international networks of branches and subsidiaries mean that problems in one part of a group are almost invariably transmitted to others.

Regulators took note; former Bank of England Governor Mervyn King summed up the change in thinking when he observed that banks had proven to be “international in life but national in death.” Bank failures exposed the shortcomings of taking the global view without at the same time having a clear understanding of what was happening at the sub-group or subsidiary level. In the midst of the crisis this was most obvious with respect to prudential issues; in the years since the crisis it has become evident that there are related issues in the conduct sphere.

Organisational complexity still hampers many banking groups as they attempt to navigate very difficult economic waters in the midst of a challenging regulatory reform agenda. They have had to hunker down, shed non-core assets, and in several cases significantly retrench from their global presences. Many have had to overhaul their entire strategies, some more than once. Much post-crisis activity has so far been fire-fighting.

In short, the business of running and governing a global bank – an already challenging task is now more difficult than it has ever been.

Box 1 highlights the considerable variety found between global banking groups (see page 6).

“Banks are complicated. You need big, resilient banks. You need banks that can do almost everything and be lots of things to lots of people on a global basis. Complexity in itself is not a vice. But an inability to articulate the structure and operations of a bank is.”

2.1.1 Global banking is not business without borders

A wide range of post-crisis regulatory reforms mean that banking groups cannot deploy whatever governance framework or legal entity structure suits their business – they have home and host country regulation to contend with, complicating the picture.¹ In general, post-crisis, regulators have looked for more “ring-fencing” (very broadly defined) of activities within legal entities, and stronger and more independent local legal entity governance or sub-group governance. Most global banking groups are as a consequence having to change the balance between global and local management and control. And even where businesses continue to be managed and directed globally, banks need to deal with the regulatory imperative for greater legal entity management involvement in the business strategy and risk framework, and more of a say over the global business lines which deploy the balance sheet for which sub-parts of the group may be responsible. See Box 2 for a closer examination of post-crisis governance reforms.

The increased regional and national regulatory focus on the branches and subsidiaries of global groups is most evident in the US Intermediate Holding Company (IHC) requirement, the EU’s nascent Intermediate Parent Undertaking (IPU) proposal, the UK’s stance on supervising branches and subsidiaries of overseas firms, and the European Central Bank’s (ECB’s) evolving views on supervision of international groups in a post-Brexit environment. But these developments are not restricted to the US and Europe – in Singapore, for instance, the Monetary Authority of Singapore (MAS) has been given the power to force subsidiarisation of foreign bank branches where these meet its criteria for being domestically systemically important, particularly with respect to retail deposit-taking.²

These initiatives divide groups more clearly and deeply into sub-groups within single countries and regions, which local regulators then expect to be managed on a more independent and self-contained basis, cutting across global businesses and functions. Subsidiaries are not in general expected to operate entirely independently of the groups of which they are part. But their capacity to act independently if necessary is certainly being scrutinised. The most explicit statement to this effect can be found in the UK Prudential Regulation Authority’s (PRA) articulation of its expectations of subsidiary boards.³ Along similar lines, in the US the Office of the Comptroller of the Currency (OCC) noted in the context of its heightened standards that a high threshold is necessary to ensure the “sanctity” of bank charters within a parent company’s legal entity structure.⁴

But it is not all about fragmentation of group structures – groups which have historically run with thin administrative layers at the apex of the structure are contending with the increased regulatory and supervisory expectations placed on them in terms of their accountability (see Box 3 for more details). In response, a number of global banking groups are in the process of building up the global capabilities of their head offices, corporate centres and dedicated group service entities in order to exert more central control over how they operate.

Global banking groups are caught between a rock (their home supervisors) and a hard place (their host supervisors): home authorities want group boards to satisfy them that they have full visibility over everything that is happening, to avoid repeats of historical episodes in which problems surfaced in overseas subsidiaries, while hosts want subsidiary boards to satisfy them that they have sufficient control to discharge their statutory duties and meet local supervisory expectations.

“Matrix management has been going on for decades, compared to the more recent focus on making sure legal entity management is appropriate. Many banks find the tensions between the legal entity and how they manage business lines difficult to deal with. How can I set a global market strategy when I have to deal with all these different legal entities in the UK, US and Asia, and each one tells me something different which means I can’t run my business the way I want to?”

1 Banks face a range of constraints with respect to their governance beyond those imposed by financial regulators and supervisors, but for the purposes of this paper our focus is on statutory financial regulation and supervision.

2 See Singapore’s Banking (Amendment) Act 2016

3 See PRA Supervisory Statement SS5/16, *Corporate governance: Board responsibilities*, March 2016, available online at <http://www.bankofengland.co.uk/pradocuments/publications/ss/2016/ss516.pdf>

4 See OCC *Guidelines Establishing Heightened Standards for Certain Large Insured National Banks*, available online at <https://www.occ.gov/news-issuances/news-releases/2014/nr-occ-2014-4a.pdf>

The result is that banks are being pushed into the middle of the spectrum: those banks that were heavily devolved are now having to boost their centralised global capabilities, while those that were highly integrated across borders are finding those borders more substantive.

In practice these combined pressures mean that global banking groups are having to contend with:

- Relentless regulatory change in all major jurisdictions, posing major strategic and operational questions, and challenging the capacity of senior executives to keep pace or address change in a joined-up way.
- Tougher application of prudential requirements to individual branches and legal entities, reducing flexibility over deployment of capital and liquidity around the group.
- Imposition of more localised risk management requirements, creating additional layers of management and decision-making, and challenging group-level control.
- A proliferation of localised board committees, dealing with issues such as risk and remuneration, as well as broader business decisions, including increased numbers of iNEDs on subsidiary boards, increasing administrative and compensation costs, and leading to additional challenge between group and subsidiary operations.
- Increased regulatory focus on intragroup relationships, shining light into internal arrangements previously considered low priority issues, potentially putting historical cross-border operating models at risk of disruption.
- Intensified supervisory scrutiny of booking models, with the UK PRA's interest in the topic being replicated in the US and increasingly by the ECB, with heightened expectations of subsidiary boards with respect to their expected level of authority and responsibility for what gets booked onto their balance sheets (see Box 5 for more details).
- Growing interest in the individual accountability of the most senior individuals at board and executive levels, such as the UK Senior Managers Regime (SMR) and similar regimes being explored in Hong Kong and Australia (see Box 3 for more details).
- Intensified focus on conduct issues, both in terms of legacy conduct concerns and forward-looking conduct risk frameworks.
- New ways for governance inadequacies to be exposed and accounted for in business-as-usual, including through stress tests, recovery and resolution planning, and supervisory review processes such as the EU's Supervisory Review and Evaluation Process (SREP).⁵

The net effect of this regulatory activity has certainly been to strengthen individual groups, as well as the broader financial system. Faults in bank structures and faults in their oversight and supervision have been corrected for, and the subsidiary parts of large complex groups are individually more resilient as a result and in some respects more independent. But from the perspective of bank group management, the day-to-day running of a global group has become more challenging, and meeting supervisory expectations is ever-more difficult. Banks face a complicated and costly mixture of global and legal entity management and controls which consume significant board and senior management time to operate. It also creates complexity, which in turn increases the risks that controls which are in place on paper do not work well in practice. Some commentators (including senior regulators⁶) have gone as far as asking whether some of today's global banking groups are simply too big to manage. The question is, what can banks do about it?

“I think the banks are getting to grips with the legal entity lens, but the goalposts keep moving. For the Swiss and UK banks which are implementing forms of ring-fencing of certain parts of their businesses, the banks will implement a solution and then the optimisation will happen after that, and it is likely that some aspects will change over time. A lot of the programs we thought had finished have had to reopen – in some cases we have had to reconstruct Europe completely.”

5 The SREP examines internal governance, with the ECB having carried out a deep dive into the issue in 2016 and scored banks worse than in the previous year; poorer scores ultimately lead to higher Pillar 2 capital requirements.

6 See William Dudley, President and CEO, Federal Reserve Bank of New York, “Enhancing financial stability by improving culture in the financial services industry”, October 2014, available online at <https://www.newyorkfed.org/newsevents/speeches/2014/dud141020a.html>

Box 1: Bank structures and governance – remarkable variety

Global banks display great variety in their structures. Banking groups are collections of geographically distributed legal entities and branch operations, bound together by a common owner in the form of a parent company – sometimes a holding company, sometimes an operating bank. Parent companies vary in terms of their depth – some groups run with large centralised operations which seek to exert global control, while others operate with thinner administrative layers playing more of a coordinating role. Groups are often run along divisional lines, as well as along front-office/middle-office/back-office lines, and on a functional basis (such as risk management, compliance, internal audit, HR, IT, etc.), with regional lenses having varying degrees of importance between groups. Generally speaking business divisions do not usually align with legal entity or geographical structures, and corporate centres. Moreover, group service entities often provide services across countries, legal entities, and business lines. These structures are often the result of extensive merger activity. It makes for complex networks of interrelationships, and complex matrix management. Since the crisis, many banks have made considerable effort to rationalise their legal entity structures, and to disincentivise further proliferation of entities – one G-SIB, for instance, imposes a charge on its business units upon the creation of new legal entities – a form of “legal entity tax” – while many others have new and more formal legal entity approval processes than was historically the case.

Governance at any one banking group will reflect the way in which it sets out to influence and monitor its global operations in practice. It is also likely to be fluid, often adapting to the changing circumstances of the group. But in general, the more global an activity, the greater the likelihood that groups will want to exert central management control, especially if the underlying customer group is also global. It comes as no surprise that trading businesses, transaction banking businesses and so on, tend to be managed more centrally, with retail banking tending to be more locally contained. And there is a substantive difference between being global and being local in multiple locations – serving a global client seamlessly across borders is very different than having subsidiaries providing local services to local customers. As a result, global universal banking groups tend to adopt a mixture of global and local business management and controls.

It is often challenging to understand what is administered centrally, what is devolved to subsidiary operations, and what remains dispersed throughout the operating entities in an uncoordinated fashion – a fact influencing regulatory interventions aimed at generating transparency and ensuring accountability. In practice (with some notable exceptions) it often requires significant investigatory work to piece together this information, particularly regarding functional structures – many groups leave these operational details unspecified in their public disclosure beyond providing the basic information expected by shareholders relating to crucial areas such as risk management. Few of the G-SIBs provide in their public disclosures straightforward high-level articulations of their business structures, and there is no common best practice standard for banks to disclose this information.

Similarly, although disclosures around governance structures at the group level are more consistent, a look through any bank’s governance arrangements will be sure to yield – at various levels within the group – a proliferation of CEOs, Chairs, Vice Chairs, Heads of, Presidents, Vice Presidents, and so on. It is often difficult to tell from the outside looking in which individuals are really in charge, which have more representative roles, and whether perhaps some individuals are “ministers without portfolio”.

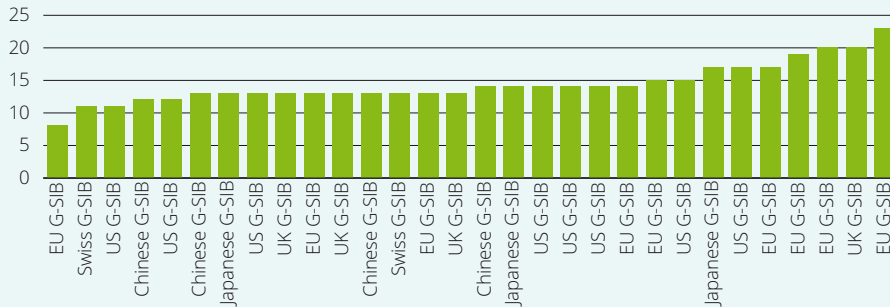
1.1.1 Board size and committee structures

At the 30 G-SIBs, based on 2016 data, group boards vary in size between eight and around 20 individuals, with the average group board made up of around 14 people (larger than the optimal size of 10 to 12 suggested by the Group of 30 in its 2012 report *Towards Effective Governance of Financial Institutions*)*. Of these, the very largest boards are generally found at European headquartered groups, although several European G-SIBs do sit at the lower end of the range.

* See G30 Working Group, “*Towards Effective Governance of Financial Institutions*”, 2012, available online at <http://group30.org/publications/detail/155>



Size of board



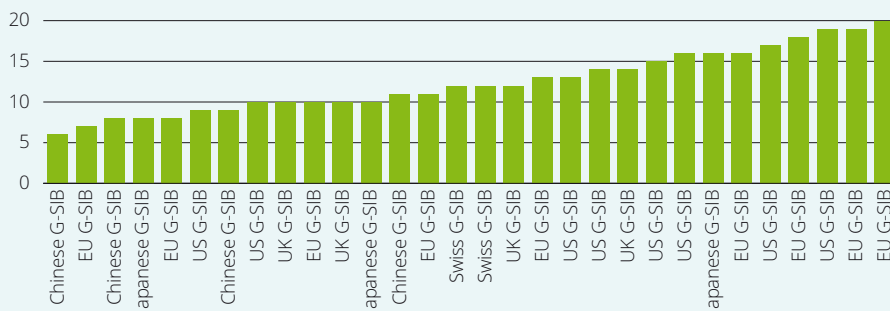
There is also considerable variation in the types of board committees that operate at group level:

- 27 G-SIBs have a standalone Risk committee (or equivalent)
- 24 G-SIBs have a standalone Audit committee, with the remaining G-SIBs combining audit responsibilities with others such as risk and compliance or internal controls
- 21 G-SIBs have standalone Remuneration/Compensation committees, while eight combine remuneration with other responsibilities such as personnel/HR – only one G-SIB does not have a group board committee with its major focus being remuneration
- 17 G-SIBs have committees dedicated to governance issues, often combined with nominations/appointments
- 10 G-SIBs have variations on corporate social responsibility, conduct and values, culture, or integrity committees, in various combinations
- There are around 10 miscellaneous other committee types found at G-SIBs, covering issues such as financial crime, connected transactions, reputational issues, and more. The most frequent “other” committee type relates to technology, found at five G-SIBs.

1.1.2 Executive teams

There is a similar variation in the size of Executive committees (and their various manifestations), which range from around six to 20 members, without any clear geographical pattern. The composition of executive teams varies significantly between G-SIBs – while most banks have at least a core of the CEO, CFO and CRO, there is then a wide range of other roles represented on the senior management team, from heads of major business divisions to regional and country heads, heads of HR, compliance, marketing, operations, General Counsel, Audit, and others. 12 of the G-SIBs have regional or country representatives of some kind on their group executive teams, while a far greater number – 22 – have direct representatives of one or several major business lines.

Size of executive team



3. Responding to new rules of the game

3.1 The costs of a global franchise

Those banks wanting to remain global need to operate within the new rules of the game – there are new costs of having a global franchise in the form of duplicative governance requirements. For those banks that accept that these costs are ultimately worth incurring, the focus needs to be on structural, procedural and human capital solutions that facilitate the effective running of a global operation: in short, to look at how to optimise the additional spend.

Although most large banking groups have spent the last several years implementing a wide range of new regulatory requirements, overhauling their operating models, and restructuring their businesses, in most cases these groups remain highly complex. Day-to-day management has not been made easier. In some cases this is a consequence of reform projects being implemented in silos, with governance solutions being retro-fitted to align with other structural changes. Consideration of the manageability of groups as a whole has often been lacking.

The industry has made progress in addressing some of these challenges in the last five to ten years – it has become better at adopting the legal entity lens, for instance, particularly as a result of resolution planning. But there is some way left to run, and political and regulatory developments are likely to necessitate restructuring over and above that undertaken to date.

3.1.1 Constrained optimisation

The problem is essentially one of constrained optimisation, with new constraints deriving from regulatory requirements and supervisory expectations adding to the existing hard rules and soft expectations of other stakeholders.

The end-point is a governance operating model which enables the group to execute its strategy while meeting regulatory requirements and supervisory expectations in each country in which the group operates. The governance model is a means to this end, and should be informed by the business model and the operating model – it should not itself be the sole driving force.

There is clearly no one-size-fits-all solution – banking groups are extremely heterogeneous in terms of their structures, geographic footprints, and cultures. In short, the right answer will depend on who you are, where you're from, what business you do, where you do it, and on what scale.

But while there is no single “right” answer that applies to all groups, this does not mean that all diversity of practice is justified by the diversity of the underlying business model: there is almost always scope for improvement.

“If you are able to globalise, have branches everywhere, one reporting line, you get efficiency from an operational, finance and governance perspective – if you could do that. The reality is you can't do that because nobody will accept it. Decision making has to be in the legal entity in country, creating an inefficient model.”

3.1.2 Outcomes to be achieved

There are some high level outcomes which all global banking groups should be looking to achieve, appropriately tailored to their own context:

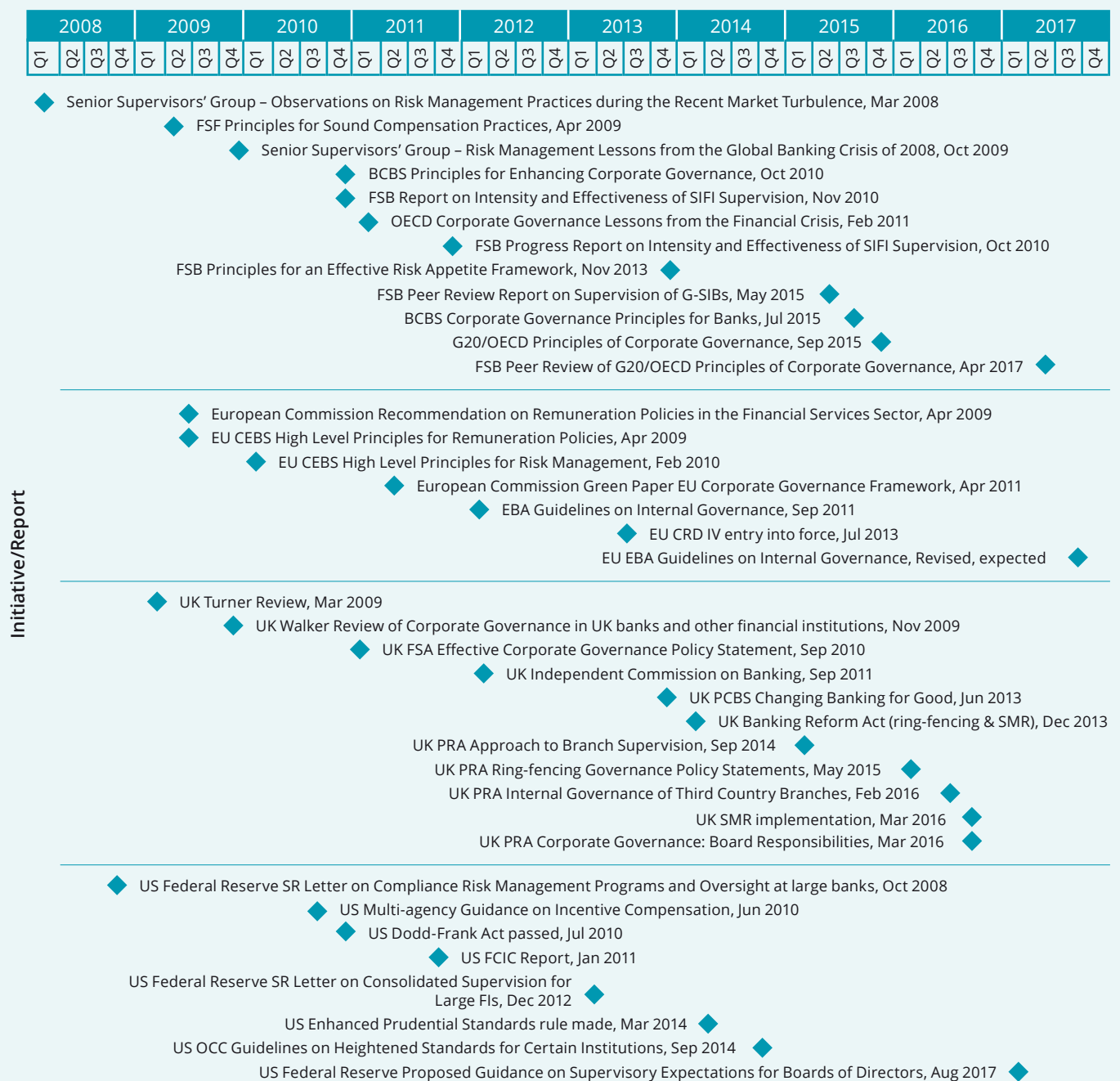
- a** Management time is optimised across the internal governance of the group, with time spent on the most value-adding activities and decisions, and duplication (for instance in committees) is eliminated to the greatest degree possible.
- b** The management matrix is clear, well-defined, and unambiguous both in terms of reporting lines and ultimate decision-makers.
- c** The balance between group and devolved governance reflects the substance and culture of the business, subject to meeting regulatory and supervisory requirements.
- d** Dual-hatting arrangements are optimised and transparent across the group, with conflicts of interest addressed.
- e** Subsidiary boards, particularly those with iNEDs, are effective and add value, reducing the burden on group.
- f** The group board has confidence that its policies are embedded across all subsidiaries and branches.
- g** The ownership of governance, and in particular internal governance, is clear, along with ownership of group policies.
- h** MI is available along group, legal entity, divisional, geographical, and functional lines, and is consistent and reconcilable across each axis.
- i** Remuneration structures and decisions on awards are consistent with the balance of global and local business management, and meet regulatory expectations.

“Ultimately you have to run matrix structures, if you want to run anything more complicated than a small local business. The question is how do you empower decision-making in a matrix? That’s a difficult management challenge. I see a lot of organisations where people hide inside matrices without taking ownership or the incentives aren’t set up such that people take ownership of issues, but I think matrices are a fact of life.”

Box 2: Timeline of post-crisis regulatory developments

Regulatory bodies including the FSB, BCBS, OECD, UK PRA and FCA, the EBA and ECB, the US Federal Reserve and OCC, Singapore's MAS, and Hong Kong's HKMA, have made their mark on governance through consultations, guidance, or new rules in relation to board and committee structures, incentives, risk management, supervisory oversight, accountability, culture and more. The result is a hotchpotch of rules, standards and guidance which varies across borders and continues to evolve, with which global groups must contend.

Timeline of select regulatory and supervisory activity on governance, risk management, and remuneration



Governance reform has been delivered in three broad waves since the crisis: diagnosis, followed by early remediation, and then a deeper re-appraisal.

Numerous post-crisis reports over the course of 2008-2012 highlighted the absence of risk appetite frameworks, misaligned incentive structures, inadequate controls, and inadequate functioning of boards with respect to their size, composition, and the qualifications of board members, as contributory factors to the financial crisis. These reports laid the groundwork for a variety of regulatory interventions which followed.



Early supervisory and policy action largely focused on remediating the most pressing issues identified, particularly the strength of the risk management functions and the oversight role of boards, as well as executive remuneration. CRD IV in Europe introduced a variety of governance-related reforms, while supervisors developed new standards and guidelines relating to risk appetite and risk culture, and pressed on industry a general heightening of expectations of the role of the CRO.

But most significantly, this early remedial activity was followed by a deeper appraisal of governance in the financial services sector. Major changes to the UK supervisory regime relating to senior managers garnered significant interest outside the UK, and a continuing interest in governance issues is in evidence via recent revisions to “fit and proper” assessments by the ECB, changes to the EBA’s Guidelines on internal governance, continuing coverage of culture in the speeches of senior supervisors, a significant review of corporate governance initiatives carried out by the FSB at the international level, and most recently, a new set of proposed guidance on supervisory expectations for boards and changes to their confidential rating system to include governance and controls, published by the US Federal Reserve. These new proposals from the Federal Reserve were prompted by a multi-year review of board practices at large banks, the findings of which included that boards may be spending significant time on non-core tasks in order to satisfy existing supervisory expectations “at the expense of sufficiently focusing on their core responsibilities”. The Federal Reserve also promised additional proposals relating to senior management and business management so that these recent initiatives are communicated as a pillar for supervision alongside capital, liquidity and resolution planning. Together, this slew of recent initiatives across multiple jurisdictions indicates that the framework for regulating and supervising governance is far from settled.

3.1.3 From the top down

Outcomes to be achieved (see page: 9)



Must haves

- **Know your structure:** the board and senior management should understand the structure of the group. Where not already carried out, this entails a top-down mapping exercise of legal entities, business lines, and local requirements.
- **Governance manual:** there should be robust documentation setting out roles and responsibilities across the legal entity structure.
- **Consistent understanding of materiality:** groups should be able to categorise their subsidiaries into tiers based on factors such as scale, nature, complexity and risk profile and define the minimum governance standards required for each tier.
- **Board responsibility for internal governance:** there should be a board committee with overall responsibility for internal governance, with a broader mandate than nominations committees have typically had in the past.

Additional best practice

- **Internal governance resources:** to maximise the effectiveness of efforts to improve internal governance, groups may want to dedicate additional resource (potentially from the Company Secretariat) to supporting the board committee with responsibility for internal governance.

“I’ve worked on a number of projects initiated after something has gone wrong somewhere, and I always start with the policy and procedural manuals. Most organisations have whole batches of these things, and you pull them off the shelf and think “fantastic, I can’t think of another thing you need to add in here.” But then you get into whether the business is following the procedures, and if they are, you have to ask: why was there a problem? And as soon as you start digging it’s clear that people aren’t following them, or aren’t even aware of them.”

A top down approach to achieving these outcomes will start with an assessment of the current state: mapping and documenting the existing group structure and supervening governance architecture, at a minimum for material legal entities. This means mapping legal entities across the geographic footprint, as well as boards, committees (including their numbers, frequency and formats), escalation protocols, control functions, and vital supporting infrastructure, including service companies. For those groups which have not already carried out such a top-down mapping exercise, much of the information may be available via the resolution planning programme, through existing legal entity rationalisation programmes, or ongoing work relating to the booking model. This is in any case a basic supervisory expectation.⁷ Common pitfalls in such exercises include fragmented management responsibility for governance (for example across legal, company secretariat, risk, compliance and the chief operations function); a lack of clear rationale to support different governance models in operation for different divisions or regions; and limited consideration of governance for entities other than subsidiaries, such as branches or special purpose vehicles.

⁷ See, for instance, Principle 5 of the BCBS’ Corporate Governance Principles for Banks which specifies and elaborates on the principle that “in a group structure, the board of the parent company has the overall responsibility for the group and for ensuring the establishment and operation of a clear governance framework appropriate to the structure, business and risks of the group and its entities. The board and senior management should know and understand the bank group’s organisational structure and the risks that it poses.”

This initial piece of work may reveal an absence of or deficiencies in certain types of documentation. Those banks which are more advanced in tackling structural reform and governance issues will have fairly detailed governance manuals which articulate the roles and responsibilities across different types of legal entities, including detailed responsibilities assignment matrices (also known as 'RACI'⁸ matrices) between legal entity, divisions, regions and group which enable decision rights coupled with risk limits and escalation protocols. Less advanced groups may find that there is no common starting point, and the aggregation of this information from various subsidiaries is challenging. A number of banks have created global governance policies and have recently refreshed the supporting documents, such as delegated authorities and subsidiary governance manuals.

Once this data is available across the group structure, it should be compared with minimum regulatory requirements: which legal entity structures are a consequence of a regulatory requirement (such as the IHC in the United States)? Which committees are mandated by local regulatory requirements? Answers to these and similar questions will determine the constraints on what is possible in terms of governance change in the absence of much broader business restructuring. A dialogue with subsidiary management should facilitate this.

Most global banking groups will find that they are running hybrid models of centralised and devolved governance, and the first question should be: is the balance between these right, and does it fit the way in which the business is run? A number of global banks have in recent years completely reappraised this balance and are in the midst of significant transformations, either in terms of devolving more power to sub-parts of the group, or in terms of building up centralised authority. In general, this balance should be the result of conscious decisions taken at group board level. Management within business lines or regions will have their own views of the world and may be resistant to change from the centre for a variety of reasons. Ultimately it may require significant cultural change within an organisation to adapt to the new reality of how global banking operates in a structurally constrained world.

In terms of ownership, in recent years a growing number of global banking groups have expanded their nominations committees to cover broader governance issues, and just over half of the existing population of G-SIBs have board committees dedicated to governance issues, often combined with nominations/appointments responsibilities. Although it is not mandatory for banking groups to have board committees with explicit overall responsibility for internal governance, this may be a natural place to look for this work to be carried out – nominations and governance committees are increasingly the forum for governance policy approval and for receipt of reports on policy embeddedness across the group. Some firms have also appointed a Chief Governance Officer or Head of Governance to ensure that the global governance policy is assigned to a senior executive who can support the board and Chief Executive. Where responsibilities are split banks need to invest time to articulate how the division of responsibilities works in order to ensure that there is a consistent internal understanding.

8 A "RACI" matrix delineates who should be "Responsible", "Accountable", "Consulted", and "Informed" for and about various issues

Box 3: Heightened accountability

The UK's Senior Managers Regime emphasises the individual accountability of senior executives, Directors, and other individuals who exercise a significant influence over the activities of banks. It allocates a set of "prescribed responsibilities" to designated Senior Management Functions, and requires the scope and allocation of those responsibilities to be mapped comprehensively through "responsibilities maps". The regime is a significant step-up in terms of how bank governance is supervised.



The UK rolled out the framework unilaterally, but since its implementation in 2016, other countries have taken note and are considering similar proposals for their own markets:

- Australia is following the UK's example, having recently legislated to introduce a new "Banking Executive Accountability Regime" which will require regulatory registration of senior executives and directors for deposit-taking institutions, as well as development of responsibilities maps.¹
- In Hong Kong, the HKMA has written to banks with guidance on culture reform, including specifying the need for a board-level committee on culture. The Hong Kong Securities and Futures Commission recently released its new "Managers-In-Charge" framework applying to all "licensed corporations" in the territory*. Affected firms were required to submit up-to-date information on their management and organisational structures by July 2017, and "Managers-In-Charge" will have to be appointed to take overall responsibility for eight "core functions", including risk management.
- In Singapore, amendments to the Banking Act are intended to give the MAS power to remove senior individuals, including the CEO, if they are found not to be fit and proper, with banks required to notify the MAS if and when they become aware of information which may affect prior MAS decisions relating to the fitness and propriety of the relevant officers.²

1 See "Building an accountable and competitive banking system", Scott Morrison MP, May 2017, available online at <http://sjm.ministers.treasury.gov.au/media-release/044-2017/>

2 See Singapore's Banking (Amendment) Act 2016

* See SFC, "New SFC measures to heighten senior management accountability", December 2016, available online at <https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=16PR143>

3.1.4 Job title transparency and where power lies

Outcomes to be achieved (see page 9)



Must haves

- **Clarity of roles and responsibilities:** the distribution of decision-making authority within an organisation should be transparent and supported by robust documentation of roles and responsibilities which should be updated promptly to reflect changing internal circumstances.

Additional best practice

- **Internal testing:** comparing real-life past experiences including near misses, against organisational charts and formal escalation protocols can reveal whether formal documentation is a reliable indicator of actual practice.

“We have seen examples of where very senior managers don’t buy into new way of working, they are shown the door, because there is no appetite at group or banking levels for senior executives who aren’t on board with this to carry on. There is no alternative, except fines and reputational risk. There is no individual that is worth that.”

Job titles can mask what is really going on within groups: culture, the quality of personal relationships, and more, mean that how a group really operates is difficult to capture in a rigid framework of job titles. A senior team may well display a degree of fluidity, with tasks being assigned according to who is best equipped to carry them out in particular circumstances, rather than following from job titles *per se*. It is therefore inevitable that there will be overlapping responsibilities in some areas. In terms of day-to-day management effectiveness, this is appropriate – excessive rigidity may lead to worse outcomes overall. But the converse is that fluid arrangements can lack transparency and obscure true accountability. This is a particular concern of regulators. It is important therefore that there is, at a minimum, clarity as to where decision-making authority and responsibility lie within an organisation. Documentation of roles and responsibilities, including where boundaries may overlap or be fluid, should be robust and explicit – this is being pushed through in the UK as part of the SMR and the “responsibilities maps” it requires. But it is a useful exercise even in the absence of a regulatory prompt, and a number of our clients have found the clarity it has brought to their organisations particularly useful. Such exercises may also feed into remuneration discussions, which should reflect individuals’ accountability, as well as the governance model of the group, including the balance between group and local business management.

One area in which this is true is in relation to regional- or country-level governance. Regional or country CEOs generally carry out one of two roles – they can be largely ambassadorial – that is, in place in order to act as senior representative or point of contact, particularly for regulators – or they can be leaders of a locally material business. Where the role is occupied by the latter, common practice is to appoint the head of the most significant business in the area. But it is not always clear from the outside as to what type of role these individuals have, and on occasion it is not clear from the inside of an organisation as a result of incomplete or mixed messaging. With respect to regional governance structures in particular, a number of banking groups have struggled in recent years to strike the right balance, particularly where the distribution of power between the group and its overseas subsidiaries has changed. In this sense there is an important cultural factor at play, and groups need to be the final arbiter in terms of making a decision about how governance will work; this may involve taking a tough line and ultimately letting individuals go if they cannot adapt.

Box 4: Operational continuity and service companies

Resolution planning has driven a number of global banking groups to overhaul their internal supporting infrastructure in pursuit of maintaining “operational continuity” – essentially ensuring that the critical functions which those banks provide to financial markets and customers can continue without significant disruption even in the event that the banking group (or parts of the group) fail and enter resolution.



One route several groups are pursuing is the creation of large (and in some cases global) dedicated service entities. The significance of these service entities to the resolvability of banking groups has understandably led to a focus on their governance. The FSB and UK PRA have in particular set out guidance* on their expectations of the governance and management of these entities. While a dedicated service entity may simplify things from a resolution perspective, it may complicate the picture from a governance point of view – a new (and in many cases substantial) legal entity will exist which is in need of a board, and a new set of intra-group arm’s length relationships will be created, in need of a control framework and incorporation into the broader management matrix. In some cases the shift towards use of service entities will require a significant cultural change from those in the business, who will have to relinquish control over some of their supporting infrastructure.


The FSB has made its expectation clear that any solution for critical shared services should have its own governance and clear reporting lines. The PRA was explicit that critical services providers should have “their own governance structure” and should “not rely excessively on staff remunerated externally” to them. In particular, both the FSB and PRA guidelines make clear that arrangements should ensure that staff remain available to run service entities in resolution scenarios. The PRA’s expectation is that for individuals who are dual-hatted, responsibilities for critical services should be “prioritised” in resolution, but that in general such service entities should not rely on senior individuals who perform “significant duties” for other entities in the group. The ECB has also recently been more vocal about oversight and governance of outsourced services and functions in the context of firms relocating from the UK as a result of Brexit. The US view with regard to operational continuity and service companies is consistent with the FSB expectations regarding governance, although it is less prescriptive than the approach adopted in the UK. US regulatory guidance requires the creation of a governance playbook that addresses employee retention policies including key and dual hatted employees. This governance playbook should detail the board and senior management actions necessary to facilitate the firm’s preferred strategy and to mitigate operational vulnerabilities.

* See FSB, “Guidance on Arrangements to Support Operational Continuity in Resolution”, August 2016, available online at <http://www.fsb.org/2016/08/guidance-on-arrangements-to-support-operational-continuity-in-resolution/>; see also PRA SS9/16, “Ensuring operational continuity in resolution”, July 2016, available online at <http://www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss916.aspx>


In general, with the increasing formalisation of accountability, particularly evident in the UK's SMR, it is important that banking groups clarify their management matrices in this respect. One useful way to identify discrepancies between organisational charts and day-to-day practice is to carry out reviews of (recent) past incidents and/or "near misses" in order to identify the in-practice escalation chain, which can be used to inform revisions to on-paper arrangements, or to remediate poor practice.

3.1.5 Management time optimisation and board practices

Outcomes to be achieved (see page 9) 

Must haves 

- **Concise management information:** digestible and meaningful information for accountable executives is essential for effective oversight, and progress made on tackling unwieldy board packs in recent years should be replicated in tackling lengthy reporting.

Additional best practice 

- **Management time optimisation:** identifying opportunities for management time optimisation may reduce the amount of time spent discharging basic statutory obligations and increase the time available to senior management to look at more strategic issues.

One of the biggest concerns for senior management within banking groups is the time spent in committees, taking away from time needed to actually manage the business. Identifying opportunities for management time optimisation should therefore be a high priority. This may involve simply varying the schedules to compress the number of days on which committees meet – some groups already operate with specific "governance days" on which multiple committee meetings will be held back to back. Circulation of material in advance of meetings is also absolutely essential for a board or committee to be fully effective. Opportunities to combine the sessions of committees with significantly overlapping memberships should also be considered. In general there should be thoughtful assignments of the level and type of person assigned to each role, with management time scaled according to the materiality of the entities concerned.

The sheer volume of email traffic, especially associated with escalation, can also create challenges, as senior executives in some institutions feel that they are needlessly copied into conversations. Clarity over delegated authorities for decision-making, and calibration of what needs to be escalated and where it needs to be escalated to, is necessary in order to reduce the amount of superfluous internal email traffic impinging on the already limited spare capacity of senior individuals.*

* The challenges of information overload have also come to the attention of regulators – the US Federal Reserve for instance recently noted in its proposed guidance on supervisory expectations for boards of directors that boards of large financial institutions "face significant information flow challenges" and can be "overwhelmed by the quantity and complexity of information they receive". The guidance urges boards to describe information needs to management, ask for improvements over time, and help set the board agenda with adequate time for deliberations to enable decision-making. See <https://www.federalregister.gov/documents/2017/08/09/2017-16735/proposed-guidance-on-supervisory-expectation-for-boards-of-directors>

Variations in board and committee practices will also need to be identified across the group – these should in general be reviewed and categorised according to whether they are necessary to meet specific regulatory or business needs, or whether they are simply a result of legacy ways of operating. This includes basic housekeeping such as the structure and formats of agendas, through to more substantive issues such as how terms of reference are set out, upward escalation of minutes, and more. There may in some instances be local requirements or substantive cultural issues which mean that variations are unavoidable, but in the absence of a compelling reason, variations should be eliminated as a matter of efficiency.

3.1.6 Subsidiary board effectiveness

Outcomes to be achieved (see page 9)



Additional best practice



- **Subsidiary board effectiveness:** sharing the results of subsidiary board effectiveness reviews with parent companies is not mandated by regulatory requirements, but may be a useful tool to enable group boards to maximise the value of subsidiary boards.


A number of global banks use a variation of a subsidiary governance manual to set out the types of governance structures the group expects of its subsidiaries. This is often tiered according to the materiality of the subsidiary, with governance requirements applied proportionately, and reflecting the maturity of the businesses in the group. But groups should also ask whether they get value out of subsidiary boards in general. Given that supervisors expect more of subsidiary boards, and that in some large markets there is a growing expectation that subsidiary boards will have iNEDs, banks should consider how best to get value from them. Subsidiary boards can be seen as a potential source of inconvenience⁹ – an additional administrative layer at which group practices can be challenged – but these boards can also play a positive role in providing assurance. Having iNEDs on subsidiary boards will in some cases be a regulatory necessity, but parent companies should look to those iNEDs to carry out their obligations in a way that group does not feel the need to unpick each and every piece of information or decision that flows up to it – having iNEDs with the right competencies and experience is clearly crucial for this. Those groups where parent iNEDs have invested time in meeting with subsidiary iNEDs (through annual conferences and strategy days, or through periodic attendance at subsidiary board committees) have developed relationships which enable a more effective information flow. Subsidiary board effectiveness reviews in which the themes are shared with parent company boards are one way to examine the utility derived from subsidiary boards, and this is generally a practice observed in European-headquartered groups. In some subsidiaries the idea of sharing the results of a board effectiveness review with the parent company may be alien, but groups should look to overcome these cultural barriers in order to derive the maximum value from effective subsidiary governance.

“The banks who do this in the most effective way acknowledge the need for subsidiaries to be involved. There is a tension if organisations are paying lip-service to appropriate governance at the subsidiary level. If organisations take it seriously and acknowledge the need to do it and subsidiary boards and committees have actual power and authority to decide what is going to be their entity – any tensions that arise out of that are incredibly healthy. Lip service doesn’t work, the regulators see through that quickly. You can tell the banks that take it seriously.”

⁹ This is particularly the case where a group does not have majority control of a subsidiary

3.1.7 Dual-hatting optimisation

Outcomes to be achieved (see page 9) **b** **d**

Must haves 

- **Dual-hatting housework:** there should be a clear register of roles carried out by individuals dual-hatting, at least for the most senior levels of the organisation, and there should be formal documents on conflicts of interest issues.

Most groups will operate various dual-hatting arrangements, whereby one individual carries out two roles. There are certainly benefits to these arrangements – they can align differing perspectives, for instance by having a business line head also responsible for a significant legal entity. This is particularly useful in an environment in which legal entities are scrutinised by supervisors, and where business heads may not otherwise have the incentives to consider the ramifications of their decisions for those legal entities.

There is a need for banks to review dual-hatted roles and to ask whether they are getting the most value out of them, with a particular emphasis on whether the right people with the right internal standing are in the right roles. But getting dual-hatting right requires a focus on a number of issues such as conflicts of interest, proper segregation of duties, the qualities of individuals in dual-hatted roles, the capacity and bandwidth available to the relevant individuals, as well as the particular local requirements for named offices such as the chief risk officer:

- Conflicts of interest need to be identified, minimised and adequately managed, particularly by means of effective escalation procedures and remuneration structures. Where dual-hatting spans different entities, banking groups must take into account not only individual conflicts of interest, but also conflicting business or strategic objectives of the entities, especially in cases where they could reinforce tensions between group and subsidiary level. It is crucial that the individuals involved should have clarity over how to act in concrete cases. A number of banks have recently refreshed their approaches to conflicts of interest management. Conflict of interest policies are standard in global groups but can be perceived as theoretical; some groups have thought through specific scenarios and the key mitigants to manage conflicts which have helped bring this topic to life for executives.
- When it comes to segregation of duties, there is a clear regulatory expectation that roles across different lines of defence are not dual-hatted, and that in particular the CRO should not be dual-hatted with heads of other functions or business roles.
- Individuals who are dual-hatting should have the right skill sets, expertise, time and resources to carry out both roles, and will also need sufficient interpersonal skills (which may include a sensitivity to differing work cultures) to carry out the role effectively.

3.1.8 Policy governance frameworks

Outcomes to be achieved (see page 9)



Must haves



- **Policy governance framework:** there should be a group-wide policy governance framework which clarifies who is responsible for ensuring policies are implemented.

Policy governance is a further important component of group governance. Many groups articulate high level group policies which are cascaded down the group structure, adapted to the varying needs of sub-parts of the group. This includes important regulatory-related policies such as risk and compliance policies, but may also extend to topics such as HR or branding. But as with any form of policy, its value derives from effective implementation, not only the clarity with which it is articulated. When things go wrong, reference is often made to the policies relating to the area in which the issue has arisen, and these policies are often well written and meet the criteria expected of them – the difficulty is in securing buy-in to those policies, and ensuring that they are embedded.

To deal with this, banks need effective policy governance frameworks which articulate the responsibilities for ensuring that policies are followed throughout the group. Some banks have historically had fairly well developed policy governance frameworks incorporating assurance testing by policy owners, but in a world of cost cutting these frameworks have in some cases been reduced or eliminated altogether. However, in a regulatory environment which emphasises individual accountability at the most senior levels, their value for group boards should be clear. Crucially, policy governance frameworks should be aligned with the existing governance framework of the group in terms of the current distribution of power and accountability. Policy governance is often found in the second line of defence, but there is a case to be made for giving the first line a greater role. We have also observed a number of banks clarifying the roles of group policy owners in response to inconsistent understanding amongst senior executives as to the extent to which their role involves monitoring embeddedness.


Variations in local circumstances, and the need to adapt group-level policies to local law, create significant challenges. Most groups operate an internal waiver system in which subsidiaries may deviate from group policies only upon receipt of an explicit waiver, granted only after the need for such a waiver has been scrutinised at the group level. However, some groups have identified that ongoing consideration of the appropriateness of waivers and the degree of evidence supporting business attestations of policy compliance are inconsistent and require more formality.

Testing as part of a regular review cycle is a critical part of policy governance frameworks, and the second and third lines of defence (risk/compliance and internal audit, respectively) have significant roles to play. This involves self-assessments, including “lessons learned” assessments following crises or near miss incidents. Those groups that have instituted a defined approach to assessing risk culture have found this aspect invaluable in understanding issues relating to policy embedding.

“You go to any large institution, I think you’ll find a whole load of sensible level zero policies that say, this is how we do this. But you follow that down and it will dilute very, very quickly. So, the issue becomes: how do you ensure that level zero policies translate into process notes on desks in Singapore and New York? That is where the control environment, the risk control self-assessment, control taxonomies, consistency of approach in how you articulate where you get your assurance from and, first, second line, all that stuff becomes massively important.”

3.1.9 Using technology

Outcomes to be achieved (see page 9) 

Additional best practice 

- **Use of technology:** firms should consider how technology can enable more efficient management of internal governance processes, thereby reducing the cost of governance.
- **Adapting governance structure to consider technology:** firms should consider whether their board composition and board committee structure takes sufficient account of technology.

As in many others areas in the banking sector, there is a role for technology in relation to governance, and banking groups should consider how new (and in some cases existing) technologies can be deployed to facilitate better governance. One US-headquartered G-SIB has gone as far as appointing a technology expert at the heart of their company secretariat function.

Management information is one of the clearest arenas in which rapid advances in data analytics could be deployed to enhance industry practices. Work continues to implement the BCBS's Principles for Effective Risk Data Aggregation and Risk Reporting (BCBS 239), but there is further to go if banks are to deliver truly consistent and reconcilable management information along the various different lenses on which they look at their businesses, such as group, legal entity, divisions, geographies, and functions. Some global company secretariat functions are considering emerging technologies such as robotic process automation to support legal entity management, particularly in areas such as statutory filings for a multitude of international entities.

Technology, particularly related to business disruption, innovation and cyber security, is a topic which has dominated board discussions, deep dives and strategy days, and the governance structure of banks is evolving in response. Six of the G-SIBs have technology-related board committees and many have identified a technology expert or panel of experts to advise the board. We anticipate this trend continuing.

Box 5: Booking models governance



Supervisory interest in global banks' booking models has increased markedly in recent years, driven by a combination of concerns around resolvability and broader supervisory interest in the state of risk management and controls, often within the parts of a global group operating in host supervisors' territories.¹

The UK PRA has been particularly concerned about the way global banks utilise their UK operations as part of global booking chains, particularly in relation to investment banking. The PRA's sensitivity to this issue is understandable in light of the large volume of activities taking place in the UK in branches and subsidiaries of non-UK headquartered groups. But the UK authorities are not alone in their interest – US regulators across the Federal Reserve, SEC and OCC have a keen interest in swaps booking practices, as well as transfer pricing, stress testing, and conduct-related issues. Brexit has provided non-UK EU authorities with additional reasons to take an interest in booking practices, with the ECB in particular having been vocal around its concerns regarding post-Brexit structures and booking practices.

Controls relating to booking practices bring governance issues to the fore, particularly for subsidiaries which play a role in global business divisions – booking practices are an avenue through which intra-group tensions can become apparent. For instance, the level of remote booking into foreign countries can cause issues, particularly where there is limited visibility or oversight from recipient entities overseas, and there may at times be conflicts between the interests of a global business head and the board of a specific subsidiary. A key question is: who has ultimate veto power over large trades? Supervisors expect that the senior management of legal entities incorporated in their territory will have this power, and on paper it will usually be the case, but it may be rare in practice to see such veto powers exercised.

Getting the booking model and its documentation right is a crucial piece of the global picture. The booking model is likely to be a major channel through which supervisors can apply pressure to cross-border practices, and poor controls or a lack of transparency may ultimately lead to enforced structural change via powers to improve resolvability. From a governance perspective, it is crucial that senior management understand the “what” and the “why” of booking practices, and have adequate documentation in support of that understanding, as well as a robust framework of trade controls with clear accountabilities.

¹ For more on booking models, see our 2015 paper *Global Bank Booking Models: Making a success of structural reform*, available online at <https://www2.deloitte.com/uk/en/pages/financial-services/articles/global-bank-booking-models.html>

“You obviously can’t have someone in an entity approving every transaction, because of the volumes booked from entities in Asia to Europe or the US, but the CRO of (for example) the UK entity is still accountable for all the risk they have taken on their entity overnight while he or she is asleep. What framework is in place that says that it’s a reasonable thing to take risk overnight while you’re asleep? And what ability does that person have to affect the compensation of the person overseas who is doing this to their entity?”

4. Conclusion

The views of regulators and supervisors need to be explicitly taken into consideration when thinking about governance – there are new constraints, and new preferences for how banks organise themselves. These issues should be on boards' agendas as they navigate a reformed regulatory environment.

Must haves

There are a number of things that banking groups need to be on top of as an absolute minimum. These include:

- **Know your structure:** the board and senior management should understand the structure of the group. Where not already carried out, this entails a top-down mapping exercise of legal entities, business lines, and local requirements.
- **Board responsibility for internal governance:** there should be a board committee with overall responsibility for internal governance, with a broader mandate than nominations committees have typically had in the past.
- **Governance manual:** there should be robust documentation setting out roles and responsibilities across the legal entity structure.
- **Consistent understanding of materiality:** groups should be able to categorise their subsidiaries into tiers based on factors such as scale, nature, complexity and risk profile and define the minimum governance standards required for each tier.
- **Concise management information:** digestible and meaningful information for accountable executives is essential for effective oversight, and progress made on tackling unwieldy board packs in recent years should be replicated in tackling lengthy reporting.
- **Dual-hatting housework:** there should be a clear register of roles carried out by individuals dual-hatting, at least for the most senior levels of the organisation, and there should be formal documents on conflicts of interest issues.
- **Policy governance framework:** there should be a group-wide policy governance framework which clarifies who is responsible for ensuring policies are implemented.
- **Clarity of roles and responsibilities:** the distribution of power within an organisation should be transparent and supported by robust documentation of roles and responsibilities which should be updated promptly to reflect changing internal circumstances.

4.1.2 Emerging best practice

Beyond these minimum expectations, there are a variety of things that we would expect banks further along the path to have in place, including:

- **Internal governance resources:** to maximise the effectiveness of efforts to improve internal governance, groups may want to dedicate additional resource (potentially from the Company Secretariat) to supporting the board committee with responsibility for internal governance.

- **Management time optimisation:** identifying opportunities for management time optimisation may reduce the amount of time spent discharging basic statutory obligations and give senior management more time to look at more strategic issues.
- **Subsidiary board effectiveness:** sharing the results of subsidiary board effectiveness reviews with parent companies is not mandated by regulatory requirements, but may be a useful tool to enable group boards to maximise the value of subsidiary boards.
- **Internal testing:** comparing real-life past experiences, including near misses, against organisational charts and formal escalation protocols can reveal whether formal documentation is a reliable indicator of actual practice.
- **Use of technology:** firms should consider how technology can enable more efficient management of internal governance processes, thereby reducing the cost of governance.
- **Adapting governance structure to consider technology:** firms should consider whether their board composition and board committee structure takes sufficient account of technology.

4.1.3 Being realistic about long-term change

Banking groups should be realistic about what they are looking to achieve – in some cases there may be substantive governance challenges which necessitate significant overhauls of the governance operating model. The solutions may take several years to work through, particularly if they involve making significant cultural changes to the way the group operates. In other cases it will be more of a case of working through existing challenges, but needing to bring a renewed focus and clarity to the issues, rather than letting them be dealt with as an afterthought of broader structural change, or worse becoming subject to regulatory intervention which constrains the business.

By carrying out a top-down review and considering variations in group practices, and considering whether the balance that exists within the current state results from conscious decisions or is rather the result of legacy ways of working, banks may identify opportunities to improve their practices, reduce duplication, and reduce some of the pressures of steering highly complex organisations through difficult economic, political and regulatory times.

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