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Management information on culture Connecting the dots

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Executive summary

Culture in financial services firms has moved towards the top of the agenda for regulators, investors and consumers in the wake of excessive risk-taking by some firms in the run-up to the financial crisis and a string of misconduct scandals. Despite this, there can be a tendency on the part of some in the industry to see culture as “someone else’s problem”. A Deloitte survey on culture in banking carried out in 2013 found that 65% of senior bankers believed there were significant cultural failings across the industry, while only 33% believed the same of their own bank¹. Financial services firms outside the banking sector have generally received less scrutiny in this area than the banks. However, this is likely to change as regulators apply the lessons learned in banking to other sectors. For example, the UK Senior Managers Regimes, which prescribe specific responsibilities in relation to culture to ensure that it is taken seriously at the top of the organisation, are expected to be extended to all financial services firms by 2018. At the EU level, the European Insurance and Occupational Pensions Authority (EIOPA) has called on insurers to create a more customer-centric culture and a strong risk culture². Moreover, and more positively, some firms are paying attention to their culture because they recognise that culture drives outcomes and see a strong culture as a way to differentiate their business from competitors.

While there are certain cultural characteristics that are generally considered to contribute to positive or negative outcomes, there is no single “good” culture. Each firm

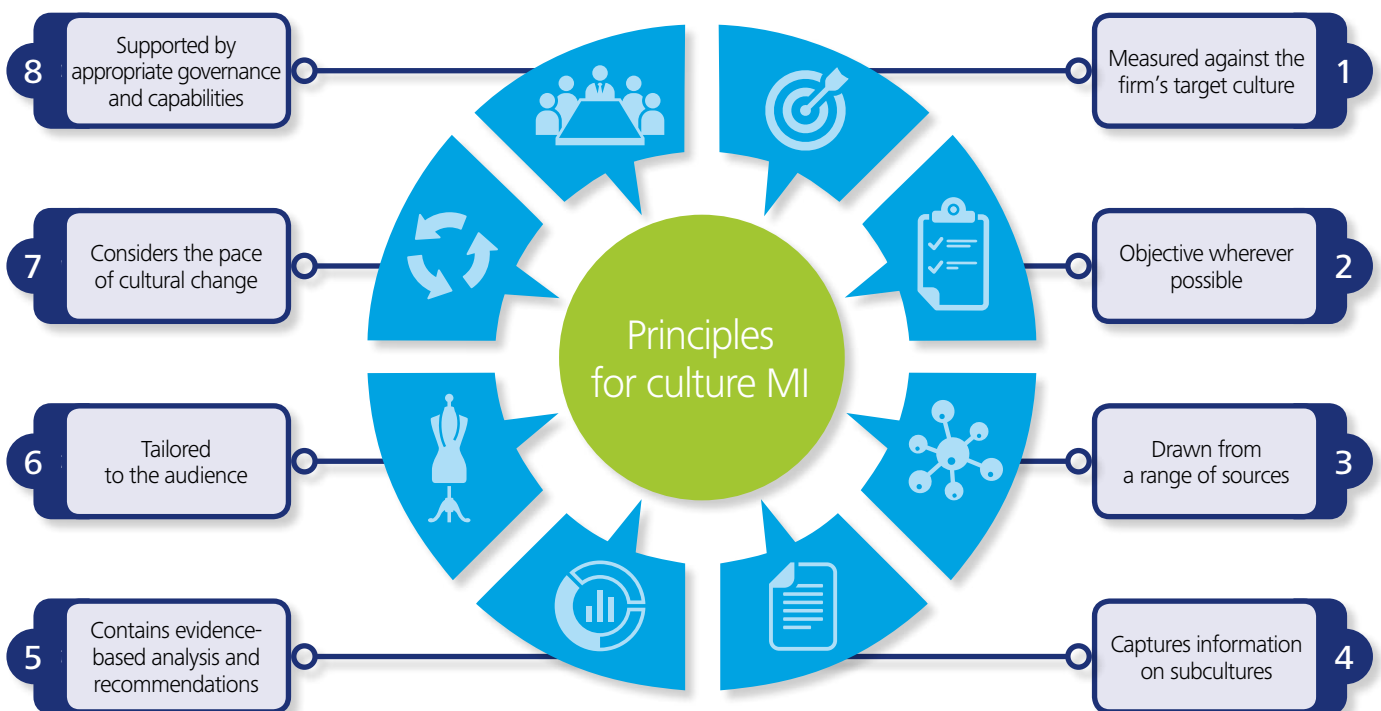
needs to articulate its own desired culture, consistent with its strategy and risk appetite. To be effective, a target culture statement needs to include both principles and specific, measurable behaviours. These desired behaviours can then be used to form the basis of a culture assessment.

Firms need to think carefully about how they assess their culture. Although culture is inherently difficult to measure, it can and should be understood and assessed because it is a key aspect of a firm’s business. Using only a small number of indicators may give an incomplete picture of a firm’s culture or make it possible to manipulate the results. On the other hand, trying to capture every piece of information which could indicate something about culture may result in Boards and senior management drowning in the detail. Moreover, some types of indicators can be misleading if the results are not carefully interpreted. And expressions of culture are unlikely to be uniform across a large firm operating across countries and business lines.

This paper sets out eight principles for collecting meaningful management information (MI) on culture to help firms deal with some of these practical challenges (see Figure A).

Our³ view is that, regardless of how strong or weak a firm’s culture is currently, culture needs to be understood and actively managed. If it is not, it can rapidly become a serious threat to the reputation and success of the firm. Data on culture alone is not sufficient – MI must include analysis that leads to action.

Figure A: Principles for culture MI



Introduction

“The succession of scandals mean it is simply untenable now to argue that the problem is one of a few bad apples. The issue is with the barrels in which they are stored”⁴.

Mark Carney, Governor of the Bank of England and Chair of the Financial Stability Board (FSB).

Questions are increasingly being asked by regulators, investors and consumers about whether cultural weaknesses in the financial sector may be a common theme underlying misconduct scandals and excessive risk-taking by some firms. It is no longer considered sufficient for firms to manage and report on breaches of rules and procedures, since employees may be exploiting gaps or loopholes in the rules to engage in conduct which, while not prohibited, is inimical to the Board’s desired culture.

Within the financial services industry, banks have so far received the biggest regulatory fines for misconduct and the greatest scrutiny of their culture. However, concerns about misconduct span all financial services sectors⁵ and regulators are starting to broaden their focus on culture to other sectors. For example, the UK Senior Managers Regimes, which seek to increase senior management accountability and include specific roles for senior managers in relation to the development and embedding of a firm’s culture, currently apply to banks and insurers and similar regimes are expected to be extended to all financial services firms by 2018.

William Dudley, President and Chief Executive Officer (CEO) of the Federal Reserve Bank of New York (FRBNY), describes culture as “the implicit norms that guide behaviour in the absence of regulations or compliance rules—and sometimes despite those explicit restraints”⁶. Culture can be thought of as a system of values, beliefs, and behaviours that influence how work gets done within an organisation. Culture is different from compliance in that compliance is about what you can do, whereas culture is about what you should do. A firm’s corporate culture permeates all aspects of its business, including attitudes towards risk-taking, customer treatment, competence, compliance with rules, innovation, plain speaking, diversity and inclusion, empowerment of staff to make decisions, and the time horizon over which costs and benefits are considered.

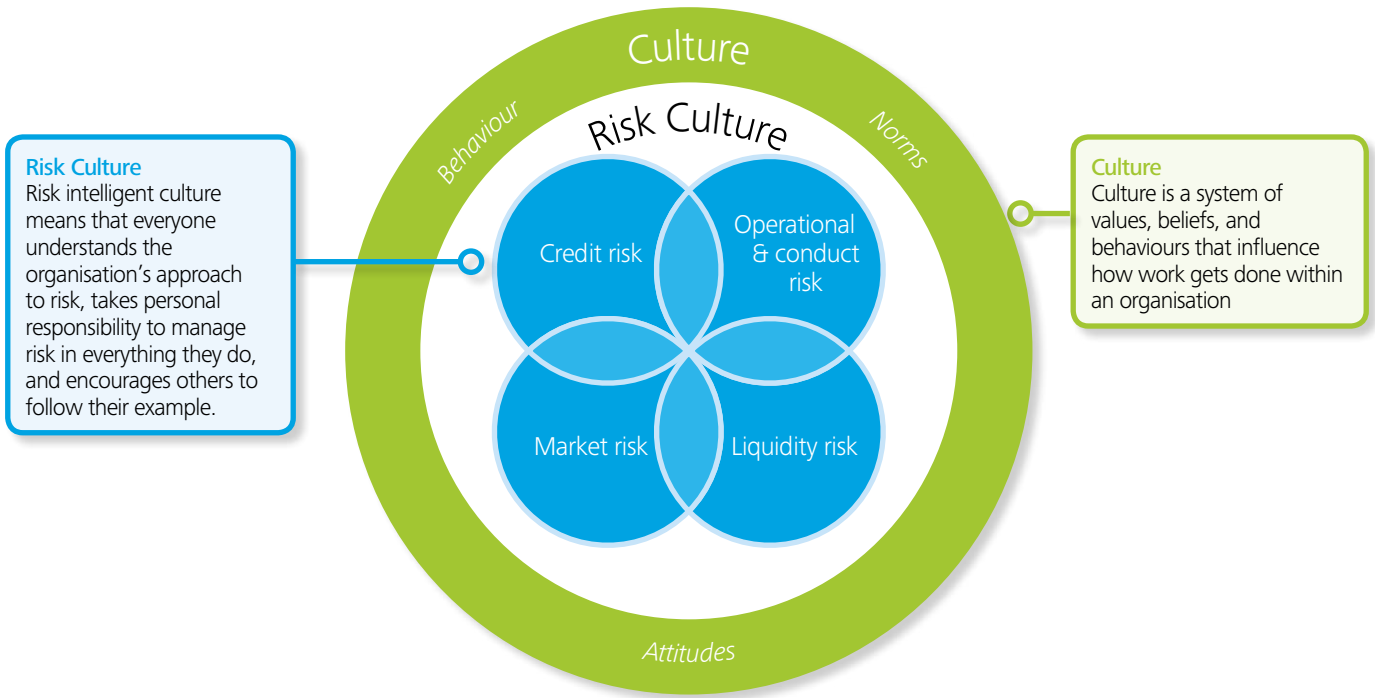
Some firms have made the greatest progress in assessing certain aspects of their culture, such as their “risk culture”. This focus on risk culture is partly driven by discussions with regulators whose perspective on culture is driven by their supervisory objectives. For example, the Basel Committee on Banking Supervision (BCBS) looks at risk culture, which it defines as “a bank’s norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks”⁷. While it is crucial for firms to have a good understanding of their risk culture, it is

important that a focus on certain aspects of culture does not lead to a siloed approach since different aspects of a firm’s corporate culture are likely to be linked. For example, if staff feel unable to speak up when they are uncomfortable with what they see, this is likely to affect both risk culture and employee well-being issues that might be the responsibility of Human Resources (HR), such as staff bullying. To avoid this, it needs to be clear how each aspect of culture fits into the whole. Clearly articulating the desired overall culture may also encourage staff to take a broad rather than a narrow view of their own responsibilities for promoting a positive culture across the firm as a whole. Perhaps in recognition of this, initiatives such as the UK’s Senior Managers Regimes look at culture more holistically. Figure B illustrates the relationship between culture and risk culture.

Culture is inherently difficult to measure, but we can get a good indication of culture by looking at attitudes, behaviours and outcomes. As the UK’s Financial Conduct Authority (FCA) puts it, “the challenge is that we cannot measure culture directly – although clear success measures around key indicators are needed both for the firms and regulators in order to be able to make an informed judgement on it”⁸. These indicators can be combined with analysis to form the basis of culture MI.

In a large financial services group operating across business lines and regions, it is inevitable that there will be some cultural differences. These may arise due to external factors (e.g. differences in national culture or practices in different markets) or internal factors (e.g. middle managers who are influential role models). To some extent, these cultural differences may be beneficial. For example, in a fast-moving dealing environment decisions need to be made quickly and staff may speak frankly and abruptly to get business done, while someone in a bank branch dealing with a vulnerable customer will need to communicate slowly and patiently. Similarly, customers in different countries may expect different levels of formality from the firm’s staff. However, each different area needs to demonstrate that they align to the firm’s desired culture in their specific context. For example, being “customer-focussed” may involve different behaviours where client needs are different; and being “cooperative” with colleagues may be best achieved using a different balance between plain-speaking and tact in different national cultures.

Figure B: Relationship between culture and risk culture



There is already recognition in the banking industry of the importance of understanding and addressing culture. For example, in a recent G30 report senior industry, public sector and academic figures called for a “fundamental shift in the overall mindset on culture” to recognise that “this problem is core to our business model and fixing it is key to the economic sustainability of the institution”⁹. Many firms have started to think about assessing the strengths and weaknesses in their culture, and some have already made significant progress¹⁰. In some cases, this has been precipitated by a public scandal or incident. Where something goes wrong or there is a near miss, it is essential for firms to consider whether an underlying cultural weakness allowed this to occur and what drives behaviour across their business (not only in the area in which the incident occurred). However, culture change work is likely to be less effective when only viewed as a way of minimising future regulatory fines and redress, rather than central to success of the firm’s business¹¹. In other cases, firms have paid attention to their culture because they see a strong culture as a way of differentiating their business from competitors. But there is a third group of firms which have spent less time thinking about their culture because they think that culture assessments are only necessary for firms with serious problems. Our view is that *all* firms need to understand and manage their culture, because culture can be a competitive advantage or a serious threat to a firm’s business.

In order for the Board and senior management to understand the culture in their firm, they need to receive MI on behaviour and culture as well as spend time in the business. Such MI may report the results of a specific cultural assessment exercise, the progress of a culture change programme, and/or regular data on aspects of the business that provide insight into cultural trends.

This paper sets out principles for culture MI, including how reports should be compiled and what kind of information can inform the Board and senior management about culture so that they can actively manage it. In preparing this paper, we spoke to Deloitte member firm culture experts in EMEA, the US and the Asia-Pacific region, as well as a number of firms and regulators, to understand different perspectives on culture MI.

Benefits of culture MI

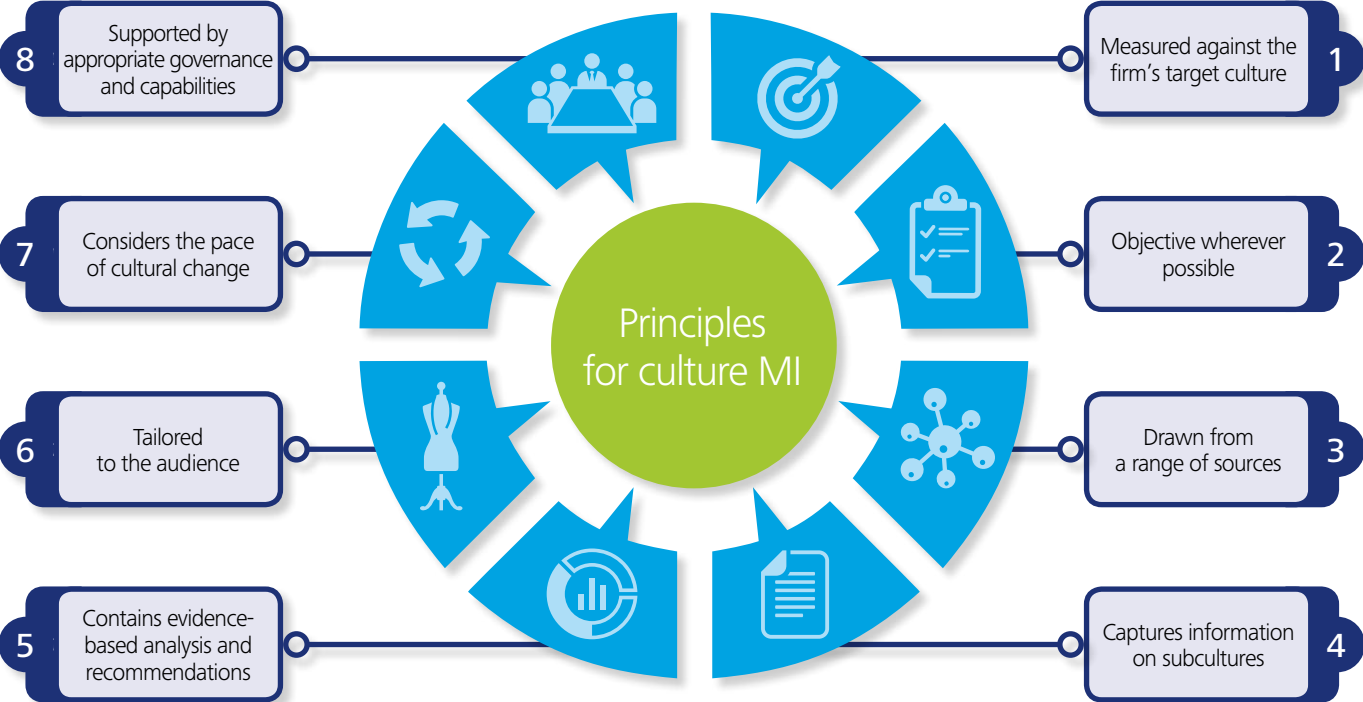
A firm's culture reflects how its staff think, behave and act and consequently influences business results. Developing a culture that is right for the business can increase profitability, revenue and customer satisfaction and reduce risks and employee turnover¹². It can help to embed a new strategy or a new system or operating model, as well as support effective regulatory compliance and risk management. Getting it wrong can mean the reverse, with poor culture identified as a contributing factor to incidents ranging from the financial crisis, mis-selling fines and redress, and fines for market abuse and criminal acts¹³.

A range of stakeholders also expects firms to focus on embedding a culture that aligns to the strategy of the business. This is evidenced by the fact that financial services firms commonly discuss their culture in their annual report, in some cases with more than 50 references. However, while some annual reports allow readers to draw clear conclusions about how the firm's culture is assessed, others contain relatively bland statements about the firm's culture¹⁴. Calls from stakeholders for more transparency¹⁵ provide an added incentive for firms to have a clearly articulated target culture and assessment of their current culture. Consumer organisations are also scrutinising this area, for example the UK Financial Services Consumer Panel recently commissioned research on how bank customers define a good banking culture¹⁶. Some credit rating agencies also take culture into account in their rating methodologies¹⁷.

Since the financial crisis, ensuring firms have articulated and embedded a culture that promotes risk management and good customer outcomes has moved towards the top of regulators' agendas. Many regulators across Europe, the US and the Asia-Pacific region have cited culture as a supervisory priority in their business plans and speeches¹⁸. Regulatory work on culture has typically been undertaken from three different perspectives: (i) corporate governance, looking at issues such as staff diversity and professionalism¹⁹; (ii) prudential regulation, ensuring risk culture and compensation support sound risk management²⁰; and (iii) conduct regulation, ensuring culture and incentives support the fair treatment of customers and market integrity. However, in some jurisdictions there are signs that this siloed approach may now be changing. Due to the size of conduct related fines in recent years and their potential impact on the resilience of firms, the lines between prudential regulation and conduct regulation are now blurring. And some recent regulatory initiatives look at culture more holistically, such as the UK's Senior Managers Regimes and work by the US Financial Industry Regulatory Authority (FINRA) to assess how broker-dealers establish, communicate and implement cultural values²¹.

Principles of culture MI

In order to be able to actively manage their firm's culture, Boards and senior management need to receive culture MI to inform them about whether they have the culture they want. They need to know that their "tone from the top" is reflected in a strong and consistent "echo from the bottom". Below we set out our eight principles of culture MI and in the section that follows we provide an example that puts the principles into practice.





1. Measured against the firm’s target culture

To embed a good culture within an organisation, senior management first needs to articulate what “good” behaviour looks like within a range of acceptable and desirable behaviours. Box A on page 14 discusses how this can be done. Metrics and indicators should then be chosen to measure these behaviours and interpreted in light of them.

If the Board is still in the process of specifying its target culture, on an interim basis the MI can be assessed against a set of characteristics which are thought to produce positive outcomes.

DOs

- Interpret each indicator in light of what it is trying to measure. For example, an increase in internal whistleblowing could be negative if trying to assess conduct risk but positive if trying to measure a cultural willingness to speak up. Similarly, an increase in reported complaints may be negative if trying to assess customer outcomes but positive if trying to measure staff willingness to seek customer feedback proactively.
- Indicators should be benchmarked against the standard the firm is trying to achieve. For example, a firm that wants its culture to be strongly customer-focussed might compare its customer feedback ratings to highly scoring firms from outside its industry.
- Conduct targeted assessments on specific cultural themes that emerge on the firm’s risk radar (e.g. areas of increasing regulatory or media scrutiny).
- Review the target culture whenever the firm’s strategy is reviewed so that the two continue to align.

DON'Ts

- Don’t simply collate culture-related indicators because they are available without a clear view on which aspect of the target culture each indicator is trying to measure. Otherwise indicators may be uninformative or may be interpreted in different ways by different people, resulting in an unclear view on the firm’s cultural strengths and weaknesses.

2. Objective wherever possible

It can be challenging for firms to be objective when assessing their own culture. Where staff attitudes are part of the problem, it may be difficult for them to diagnose their own cultural weaknesses. In assessing culture, staff need to be willing to challenge their own beliefs based on objective data. For example, if a firm asserts that it has a culture of low risk-taking but its strategy aims to produce a high return on equity, it may need to reassess whether its strategy and desired culture are consistent.

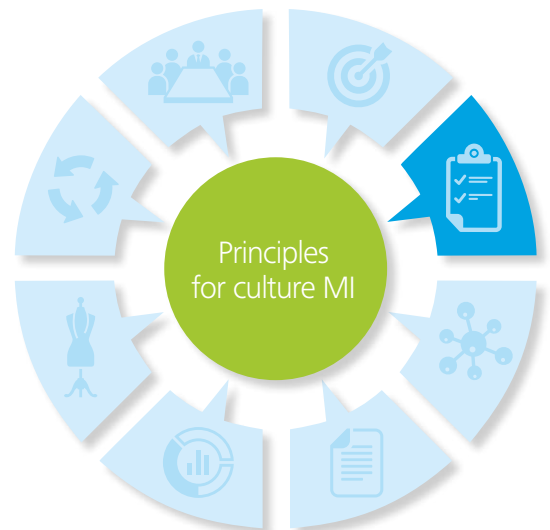
Objectivity may also be a problem for control functions if they think that culture is only a “first line” issue.

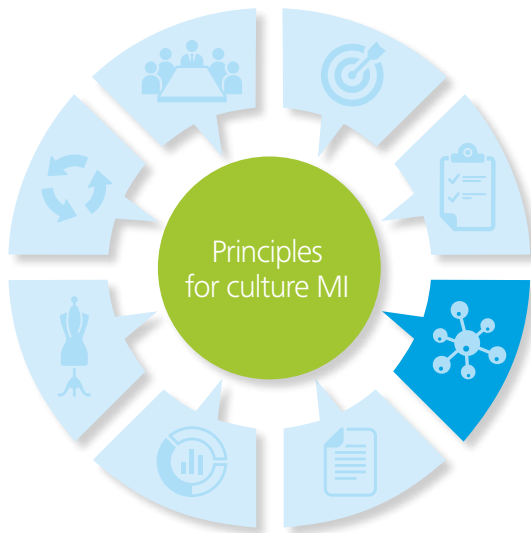
DOs

- Combine subjective metrics, such as staff surveys, with more objective metrics, such as the untimely completion of compliance training or the untimely validation of P&L in a trading book.
- Consider how staff surveys can be made more objective. This could include using a behavioural psychologist to help frame the questions, and asking people to provide examples or evidence to support their views.
- Take into account the perspective of different business areas when considering their views. For example, front-line areas may have a different view to control functions on what constitutes an appropriate level of control.
- Look at external viewpoints, such as the number of customer complaints upheld at the Financial Ombudsman Service.

DON'Ts

- Don't rely solely on subjective metrics.
- Don't collect metrics in a way that is likely to result in biases. For example, if staff engagement is a KPI which feeds into the size of the bonus pool for a particular area, staff may not be incentivised to be honest in responses to staff surveys.





3. Drawn from a range of sources

To form a balanced view of their culture, firms need to use a range of indicators drawn from different sources. Using too few indicators runs the risk that “what gets measured gets managed”. Information can be drawn from specific culture assessments, existing internal data and MI, and external sources. See Figure D on page 18 or more detailed examples of data sources.

DOs

- Use both internal and external data.
- Think about what existing MI can be used to assess culture, including data which can be adapted. For example, the number of suspicious transaction reports may be an indicator of market abuse risk, while their source (e.g. traders vs systems) or volatility (e.g. spikes after training events which quickly tail off) may be indicators of culture. Similarly, firms could look at the number of conduct risk breaches to assess conduct, and the timeliness of breach reporting to assess culture.
- Innovative information sources include “big data” analysed on an anonymised basis to understand sentiment on external social media and recruitment sites, and to look for aggressive language in staff emails and communications.

DON'Ts

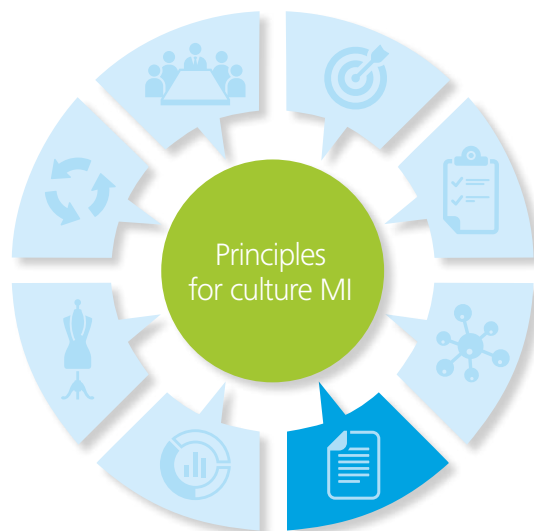
- Don't draw all cultural indicators from one source (e.g. HR surveys).
- Don't simply reuse existing MI without considering what aspects of the data can best provide insights into the firm's culture.
- Don't rely too heavily on conduct risk data for culture assessment. Conduct and culture are similar but distinct.

4. Captures information on subcultures

In large firms, Boards and senior management need to recognise that there may be subcultures within the firm. There may be differences across:

- National culture: for example, in the US and Europe a key regulatory focus is on preventing excessive risk-taking, while in Japan the Commissioner of the Japanese Financial Services Agency has said that a risk-averse collective mindset has created and prolonged stagnation²².
- Business line: for example, a fast-paced trading room might have a different culture to bank branch staff who deal with vulnerable customers.
- Market communities: for example, a foreign exchange (FX) trader may be more influenced by the behaviour in the FX trading community than by his or her own management.
- Grade: for example, middle managers are often key role models for front-line staff and may have a bigger influence on them than senior management. The FCA has referred to a “permafrost” layer of middle management that can hold back cultural change²³.

Boards and senior management should also consider the cultures that may exist in partner organisations, such as where the firm has an outsourcing arrangement or white labelling.



DOs

- Analyse culture MI by business line, region and grade to identify outliers.
- Use a mixture of indicators which are comparable across business lines (e.g. HR data) and those which are specific to certain business lines (e.g. risk limit breaches). Comparable data can be used to identify subcultures across the firm, while function-specific data can give useful information about the risks in each area.
- Use culture champions in each business line and country to help put indicators into the cultural context. For example, norms in retention rates may vary so firms may want to use different benchmarks.
- In staff surveys, differences can be drawn out by asking staff about their experiences of working with other parts of the firm.

DON'Ts

- Don't simply aggregate metrics on a firm-wide level as this may not be very informative in a large and diverse organisation. It may also create a false sense of security, since a firm might be rated “green” for an aspect of its culture overall while some divisions may be rated “red” when looked at individually.



5. Contains evidence-based analysis and recommendations

Culture MI presented to senior management and the Board should not simply be a list of indicators but should include analysis of what the indicators mean, what they tell the firm about its culture, what the areas of concern are and what recommended actions should be considered. Firms may find it helpful to provide this information in graphical format or in a dashboard, but importantly it should include analytical commentary alongside. Box C on page 17 provides an example of the types of questions a culture MI report should be able to answer.

DOs

- Focus the MI on key messages for senior management. For example, the MI could have an overall rating for each aspect of the target culture, and then draw out any specific areas that the Board and senior management should be concerned about (e.g. including negative outliers), along with any recommendations.
- Highlight areas demonstrating cultural strengths so that lessons can be drawn on what to replicate in other areas of the business.
- Make it clear to the reader how the conclusions and recommendations are derived from the evidence, and the level of certainty underpinning the conclusions.

DON'Ts

- Don't simply present a list of cultural indicators without providing analysis on which areas senior management should be concerned about.
- Don't identify issues without making any recommendations, otherwise there is a risk that no action will be taken.

6. Tailored to the audience

In a large organisation, it is likely that culture MI will be reported to different groups of people for different purposes. Those receiving culture MI may include heads of business lines, the Board, HR, Risk and Audit. Each MI report should be tailored to the needs of its audience in both its focus and granularity.

DOs

- Report the most detailed MI to heads of business lines, who should be responsible for taking action where issues are identified in their area.
- Report a high-level summary of the culture MI from across the firm to the Chair and CEO on a regular basis to enable them to oversee the culture of the firm. The Board may receive a quarterly or annual summary.
- HR, Risk, Audit and potentially other areas may receive culture MI specific to the risks across the firm which are relevant to their functions. They should also receive MI on their own culture.

DON'Ts

- Don't reuse the same culture MI for different purposes without first considering its relevance.
- Don't overload the CEO, Chair or Board with very detailed culture MI.





7. Considers the pace of cultural change

Firms should assess their culture on a regular basis, while recognising that it will not change overnight. The frequency with which culture MI should be reported will depend on the circumstances of the firm. Culture MI should be reported more frequently if significant cultural issues have been identified, if a cultural change programme is in place, or if the firm is going through an organisational change such as a merger, acquisition, restructuring, rapid growth or significant change in the products or services offered. During organisational change, a lack of capacity may be a key driver of cultural weaknesses, either through an inability to complete procedures without resorting to “shortcuts” or through diminished clarity of individual roles and responsibilities.

Culture MI should also take into account where the firm is on its cultural change journey. At the beginning of a culture change programme, staff may feel resistant to or disorientated by the change, preferring to keep to their tried and tested behaviours. Once they accept the need for change, they may need time to experiment with new behaviours before settling on an effective new way of working. In tracking the progress of cultural indicators over time, firms should put them in the context of where the firm is on its cultural journey.

DOs

- Assess culture regularly, even if no problems have been identified. Even if a firm’s culture aligns well to its target culture, senior management needs to understand any emerging trends that may be undesired.
- Do in-depth culture assessments periodically, and in between these use existing internal and external data, or ad-hoc targeted questionnaires, to assess emerging cultural trends.
- Track the progress of cultural indicators over time. Put them in the context of where the firm is on its cultural journey.
- Whenever the target culture changes (e.g. as a result of a change in strategy or a new CEO), reassess the firm’s culture in light of the new desired behaviours.

DON'Ts

- Don’t wait for a serious issue such as a mis-selling scandal or a rogue trading incident to occur before starting to assess the firm’s culture on a regular basis.
- Don’t think that culture can only be assessed through large-scale one-off exercises using data collected specifically for the purpose.
- Don’t panic if a cultural change programme initially has a negative impact on staff engagement. Staff may at first feel disorientated by the change before finding effective new ways of working.
- Don’t stop assessing culture once a culture change programme has been implemented. Staff may slip back into their old behaviours if the focus on culture diminishes.

8. Supported by appropriate governance and capabilities

Firms need appropriate governance arrangements around the design, monitoring and analysis of culture MI. For firms subject to the UK Senior Managers Regimes, the responsibility for setting and embedding culture sits with the Chair and the CEO, so they should be responsible for approving the culture MI that is presented to the Board, with input from the Chief Operating Officer, Chief Risk Officer (CRO) and Chief Audit Officer. Non-executive directors also have a key role to play in holding management to account for embedding the target culture²⁴.

The MI should be compiled by a team that is independent from the first line, such as the CEO's office. It should include metrics collected from across the firm, including the front office and views from Compliance, Risk, Internal Audit and HR. For example, Internal Audit may carry out culture audits and/or consider culture as part of its root cause analysis in all audits. HR may be less familiar with playing a "second line" role but may have useful insights into the firm's culture. As well as submitting views on the first line, second and third line functions should also input views on their own culture, since all areas have a role in setting the culture of the firm. The team compiling the MI will need access to the right people and knowledge to be able to provide meaningful analysis on the data gathered.

MI collection also needs to be supported by the appropriate capabilities, including people, processes and IT systems. Those involved in the MI collection process need to be clear on their roles and responsibilities and the purpose behind the information they are collecting. Firms should focus on trying to ensure that the processes by which they source data and information are as streamlined as possible. Technology solutions enable increased automation to report, govern and aggregate data on both a periodic and ad hoc basis. Analytics can be used to highlight trends often obscured by large data volumes.

Firms should also look at what lessons can be learned from peers, including from outside the financial services sector. See Box B on page 15 for some insights from other industries.



DOs

- Ask the recipients of the MI to input into the design of the report.
- Use a central team to collate and analyse the MI reported to the CEO, Chair and/or Board, with appropriate senior management oversight.
- Review what MI is collected as the business changes – for example MI might focus particularly on high-growth areas, or there may be new types of MI that can be collected if a new product is launched.

DON'Ts

- Don't have different teams analysing culture MI in different areas without central coordination to ensure consistency.
- Don't allow individual areas to have the final say on what goes into the MI report. Some parts of the business may have an incentive to hide poor results.
- Don't seek to use analytics before there is confidence in the accuracy and timeliness of the underlying data.

Box A: How to articulate a target culture

It is important for firms to articulate their own target culture because there is no “one size fits all” culture. The Board is ultimately responsible for the firm’s target culture, but should seek input from senior management across the business. A firm’s target culture needs to be aligned to its business strategy and risk appetite. For example, a firm in a business which has relatively high inherent risks may want a culture where all significant decisions are escalated, while a firm in a business with lower inherent risks may want a culture where more junior staff are empowered to make decisions. Explicitly linking the firm’s target culture to its business strategy can help staff to understand the benefits of the desired culture and encourage buy-in.

Effective target culture statements should be specific, memorable, measurable and realistic. Phrases such as “acting with integrity” could mean different things to different people so need to be combined with specific behaviours that are desired or undesired. These behaviours can then be used as a basis for deriving cultural indicators and metrics to feed into culture MI.

A range of behaviours can be utilised, such as detrimental behaviours, developing behaviours and desirable behaviours. The detrimental behaviour category should set a clear boundary for behaviours that staff understand will not be tolerated. This may also include examples of behaviours which take the cultural value to an extreme level, at the expense of other values the firm holds. For example a staff member could be so customer-focussed that he or she tries to circumvent internal controls to give clients a faster service. The developing behaviour category should set a baseline of acceptable behaviour, while the aspiration should be that all staff aim for the desirable behaviours.

To provide a clear and consistent message to staff, firms should have “one view” of their desired behaviours. Having separate target culture statements relating to corporate culture, risk culture and conduct may create confusion. For example, if the corporate culture statement says that the firm aspires to be innovative and deliver fast growth, while the risk culture statement says that the firm has a culture of low risk-taking, this creates a tradeoff between the two and staff are likely to conform to whichever is more strongly reinforced by incentives. The target corporate culture statement may deal with specific components of culture, including risk culture, but it should be clear how the different components fit together to form a single view.

To be effective, target culture statements need to be cascaded and embedded within the business. Staff need to understand how the target culture applies to their day-to-day roles and why it is important. In our experience, this process is much more effective when there are cascade sessions with staff where senior managers explain the cultural vision, connecting to employees’ sense of purpose and what makes them proud, and using real-life scenarios to explain what it means in practice. Following this, individual teams can discuss what the target culture means for them specifically. It is particularly important to secure buy-in from middle management, since they are often the main role models for their teams on a day-to-day basis. It can be helpful to have specific sessions with middle managers before cascading to all staff, and asking middle managers to suggest real-life examples that can be shared with their teams. It can also be effective to have senior managers attend meetings with individual teams to show the importance of the issue and to inspire staff to engage emotionally with the desired culture.

Most importantly, the embedding of the target culture needs to be an ongoing process, with managers publicly praising examples of good behaviour to create local role models, and giving anonymised examples of where employees have been fired or disciplined for misconduct. One way to encourage this is to give middle managers formal objectives to have ongoing conversations about culture with those in their teams. The desired cultural values should also be embedded into the firm’s recruitment, training and performance management.

Example target culture statements

Values	Detrimental behaviours	Developing behaviours	Desirable behaviours
Promotes sound risk management – challenge	Defensive response to challenge	Openness to people who speak up	Speaking up is welcomed and encouraged
Promotes sound risk management – communication	Important risk messages are not communicated consistently by leaders and managers	Ratio of risk- to non-risk related messages is appropriate	Risk is always a highly visible topic, the same as other critical issues
Promotes sound risk management – incentives and consequences	Excessive risk-taking is rewarded	There are appropriate penalties for people who break the rules	Definitive and prompt penalties are applied for behaviour that contradicts risk principles, and shared to build awareness
Promotes sound risk management – incentives and consequences	Inconsistent penalties for behaviour that is misaligned with risk and compliance principles	There is reward for risk-taking that is carefully considered and acceptable for the type of business	There is reward for risk-taking that is carefully considered and is within the risk appetite of the firm and its clients

Box B: Insights from other industries

The importance of culture is not unique to financial services. Below we highlight some examples on how other industries manage and assess culture that may provide some valuable insights for the financial services industry.

Efforts have been made in the airline industry to transform a “blame culture” into a “learning culture” where people are not afraid to admit mistakes and use them to consider how processes can be improved. For example, pilots were required to attend group sessions with engineers and attendants to discuss communication, teamwork and workload management. Captains were required to encourage feedback, and crew members to speak up boldly. In the 30 years following these reforms, the total number of deaths from accidents halved, despite a ninefold increase in air travel. Efforts are now underway to try to apply these lessons to the healthcare industry.²⁵

In a number of other industries “big data” has been used to gain insights into culture, as suggested in Principle 3. For example:

- Starbucks analysed over 5,000 social media entries to understand how it was perceived by its employees, which revealed some interesting findings about its cultural strengths and weaknesses.²⁶
- An analysis of 10.24 million emails in a mid-sized technology firm found that employees who used consistent types of language to those they interacted with were more likely to stay with the firm.²⁷ Types of language such as the use of swear words, the tendency to express certainty or doubt, the expression of positive and negative emotions and whether people talk about their life outside of work, can reveal information about a firm’s cultural norms.

The principles in practice: an example

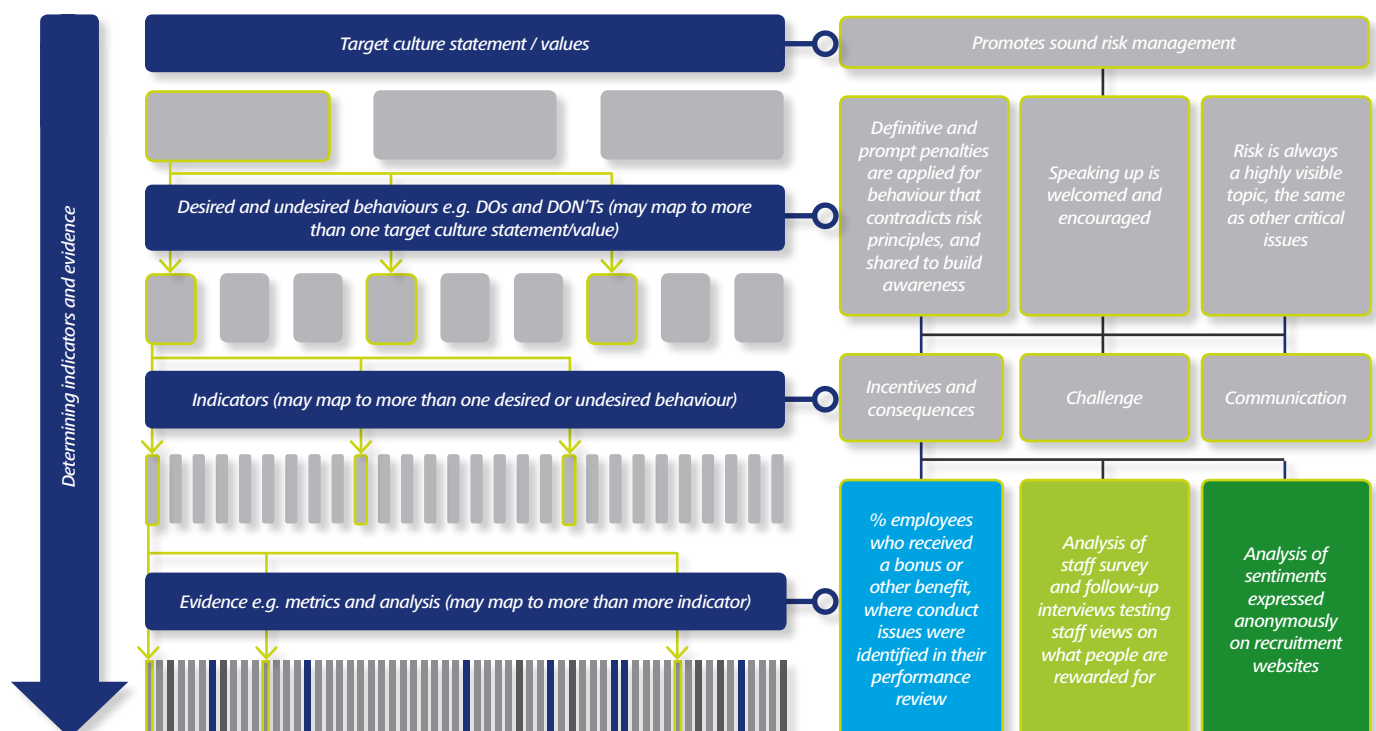
The CEO of a global firm has responsibility for ensuring the firm's target culture is embedded throughout the organisation. She recognises the central role that culture plays in ensuring a firm is market-leading. She also knows that this is an area which will be subject to supervisory scrutiny.

A few months ago, HR performed a staff survey to better understand employees' beliefs and behaviours and then, working with the CEO's office and business leads, followed up with some focus groups and interviews in the areas where the survey revealed there might be potential cultural issues. As a result of this, the Board approved some changes and a culture programme was put in place across the firm. The CEO knows that the firm collects a lot of other information already that also sheds light on the firm's culture and she does not want to wait until the next staff survey and follow-up interviews and focus groups before she is given information on the state of play, as they only run these on an annual basis. Consequently, she asks her office to provide her with quarterly culture MI. The MI will also be used in Risk Committee meetings and meetings of a newly formed Committee set up to look at conduct and culture, and less frequently with the Board.

"Top down" approach: breakdown of target culture statements to the evidence needed

In order to go about this task, the Head of the CEO's office first takes a "top down" approach. As shown in Figure C, he wants to distil the firm's target culture into indicators and then gather evidence against the indicators. He thinks that it will be easier to engage internal stakeholders on the project if the indicators and metrics relate to people's day-to-day roles. He sets out the high-level target culture statement/values that the firm is seeking to achieve, as well as desired and undesired behaviours that put these into context. He then leverages existing frameworks on values, behaviours and risk management to compile a limited list of indicators. Finally, he considers the evidence he would need for each of the indicators, recognising that he wants a mixture of metrics and analysis.

Figure C: Illustrative breakdown of target culture statements to evidence needed



Content of culture MI report

His next task is to agree with the CEO the information that she wants to see each quarter. Recognising that there is no “silver bullet” suite of metrics that can measure culture, they agree that the MI will contain analysis and be evidence-based, as opposed to being made up solely of a dashboard of metrics. As the most powerful information often comes from the anomalies, they decide to focus analysis on identifying and addressing the root causes where cultural problems have been identified in specific business divisions, regions or grades / levels, or in a small percentage of staff in the firm. They agree that the report should be able to answer the questions in Box C.

Box C: Key questions that a culture MI report should be able to address

1. What is the target culture of the firm? Is it consistent with strategy and risk appetite? Are examples of the desirable, developing and detrimental behaviours that map to the target culture well understood within the firm?
2. What are the strengths and weaknesses of the firm’s culture against the target culture?
3. Are there particular business divisions, regions or grades / levels where cultural problems have been identified? Has the root cause been identified and are there lessons for other areas of the firm?
4. Where behaviours running contrary to the target culture have been identified in only a small percentage of the staff within the firm, even if spread across business divisions, regions or grades / levels, has there been a focused effort to identify and address the root cause?
5. What is the status of the culture programme? For example, the extent to which agreed actions have been implemented and the effect they have had.
6. How does the firm compare to peers and market-leading companies in other industries? Are there any lessons that can be learned?
7. What are the recommended actions?
8. What methods were used to collect the MI (e.g. coverage, risk-based, use of external assurance)? Are there any limitations in its collection and analysis? What are the governance arrangements?

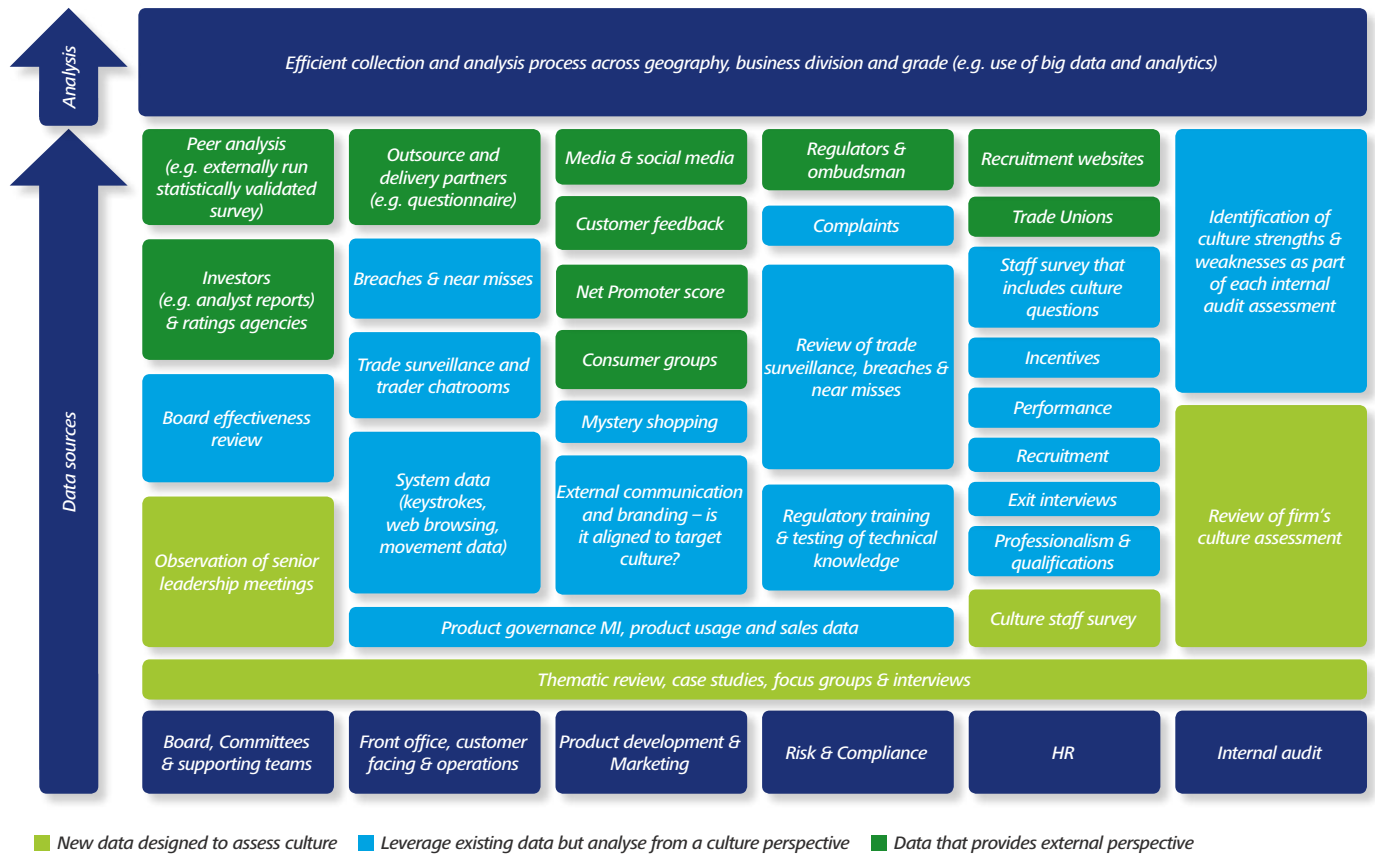
“Bottom-up” approach: data sources

Having started with a “top-down” approach, the Head of the CEO’s office now wants to take a “bottom-up” approach to understand potential data sources within the firm (see Figure D). As almost all information could potentially provide an indication of the firm’s culture, he is careful not to “boil the ocean”. He wants to make the process of collecting the quarterly MI as efficient as possible and use a range of data sources that would provide information against the indicators.

He meets with a range of stakeholders from across the firm, such as business division heads, Risk and Compliance, HR, Product Development and Marketing, and Internal Audit. They discuss the types of information they are already collecting and how by interrogating it in a different

way or looking at it through the lens of culture it might illuminate the firm’s culture. For example, when the front office experiences a “near miss”, such as nearly sending an incorrect order to the trading desk, their follow up investigation should look at whether there might be a cultural root cause, such as lack of emphasis by middle management on training and procedures. He also thinks that there is a lot of information available from external sources that would provide an indication of how the company is seen by external stakeholders and how it compares to its peers. For example, HR has regular discussions with trade unions, and the business has regular discussions with outsource providers, so they decide to capture these organisations’ feedback in a more structured way. They also discuss what might affect the objectivity of the information collected and how they can improve on this.

Figure D: Example data sources



Governance and capabilities

The Head of the CEO’s office next discusses with Information Technology (IT) how they might improve automation of information and use analytics. IT is already working with Compliance on performing analytics in certain areas of the business for conduct risk management. For example, IT is performing sentiment analysis of the communications of staff on the trading floor (e.g. to detect aggression) and combining this with other information, such as completion of training and limit breaches. Compliance uses this to identify conduct risk issues within teams, as well as for individuals. The Head of the CEO’s office agrees with Compliance that when they are looking into conduct risk issues, they should also be looking at potential cultural root causes. The Head of the CEO’s office also discusses with IT about how they might use data in the public domain to provide insight on their culture. IT pulls together a plan for a proof of concept where they will perform text search analytics on a number of websites, such as Twitter, customer feedback forums, and job websites, to identify the instances where the firm is mentioned positively and negatively, and how this compares to competitors.

He then draws up a governance framework that clearly sets out the roles and responsibilities for everyone involved in producing the quarterly culture MI report. He ensures that changes in strategy and risk appetite also drive discussion of how the culture MI might change. He makes it the role of the CEO’s office to act as a central team that brings together the different elements of evidence and assesses them against the desired and undesired behaviours, as well as compiling recommendations. As part of the analysis stage, he recognises that it is important to identify subcultures within the organisation, but that differences are not always problematic. He engages different stakeholders in different teams and countries to “normalise” the results.

Internal Audit then performs some back testing using the recent regulatory fines as a case study to see if the information they are collecting for the MI report would have identified an issue ahead of time. The Head of the CEO’s office continually seeks to improve the process and governance of the culture MI reports. Ultimately, the CEO and the Board want to see evidence that behaviours and outcomes are moving towards their target culture.

What firms should do now

Chairs and CEOs of firms subject to the UK Senior Managers Regimes should consider what culture MI they should receive to enable them to demonstrate that they are taking “reasonable steps” to fulfil their responsibility to define and embed culture in their organisations. Other UK financial services firms have until 2018 to prepare but should start early as it will take time. As Annex A shows, supervisors in many other countries are also increasingly focussing on culture, and those that have not yet asked firms what they are doing to manage their culture are likely to do so soon. Aside from regulatory pressures, there are real commercial benefits to having an effective culture which should make this a priority for Boards and senior management.

Firms should first make sure they have a clearly articulated and measurable target culture and an understanding of the strengths and weaknesses of their existing culture. Once this is in place, they should think about how they can report on their culture on a regular basis, drawing on our eight principles of culture MI. This may be through both periodic culture assessments and through more regular MI drawing on existing data which can be analysed through a culture lens. More regular MI may include the progress of any culture change work and also an assessment of any emerging cultural trends.

Conclusion

Firms cannot choose whether or not to have a culture – one or more exist in every organisation. But firms do have some very important choices to make about what that culture should be. In order to exercise that choice, firms need to understand, assess and manage their culture – a challenging but achievable task.

Firms that clearly articulate their desired culture, embed it consistently across the business, and assess and report on it, will be best placed to deliver on their business strategy, improve their customer and counterparty relationships, increase staff loyalty and commitment and reduce risks to their business.

These benefits should in themselves provide sufficient incentive for the Boards and senior management teams of financial services firms to engage with the culture of the organisations they lead. Moreover, the intense regulatory and wider stakeholder interest in culture across many countries will make it unlikely that firms will be able to escape scrutiny in this area.

It is essential that Boards and senior management receive culture MI that connects the dots so that they can understand if their “tone from the top” is reflected in a strong and consistent “echo from the bottom”.

Annex A: Regulatory approaches to culture across jurisdictions

Articulating, assessing and reporting on culture are challenging enough on their own, but firms operating in more than one jurisdiction have added complications. One of these is how a desire to implement a consistent approach to assessing and reporting on culture might conflict with differing regulatory approaches across jurisdictions. Below we highlight some key trends and differences in how regulators approach culture²⁸.

Most jurisdictions are assessing firms' culture

There are a number of different ways regulators are assessing culture within financial services firms (see Figure E for an overview). In some jurisdictions, regulators assess culture as part of their regular supervisory work. For example, in the UK, the FCA uses a method of "joining the dots" to make a judgement on the effectiveness with which a firm has embedded a culture that supports good customer outcomes²⁹. In Australia, the Australian Securities and Investments Commission (ASIC) is taking a similar approach and is "considering cultural indicators" in its surveillance work and "joining the dots on the very concrete aspects of the way firms operate" to provide a better picture of how culture "might affect customer outcomes"³⁰. The European Central Bank (ECB) states that "corporate governance, values and culture are at the heart of the Supervisory Review and

Evaluation Process"³¹. The Japan Financial Services Agency (JFSA) assesses firms' risk culture and governance when it identifies issues within the firm that may have a cultural root cause, such as incidences of misconduct³².

Some regulators are undertaking dedicated assessments of firms' culture. Between 2010 and 2014, the Dutch Central Bank (DNB) conducted more than 50 risk-based assessments of behaviour and culture at financial services firms³³. In the US, FINRA recently wrote to broker-dealers stating that it will review how firms "establish, communicate and implement cultural values", through meeting with executive business, compliance, legal and risk management staff³⁴.

In some jurisdictions, other bodies are conducting assessments of firms' cultures. For example, the Banking Standards Board (BSB), an independent organisation in the UK funded by the banking industry, is designing and undertaking a culture assessment exercise in 2016, which builds on a 2015 pilot exercise³⁵.

Even if firms are not subject to such strong supervisory interest in their culture, there are compelling reasons for them to articulate their desired culture and report on the extent to which it is embedded within the organisation.

Figure E: Comparison of supervisory approaches across jurisdictions³⁶

Country	Regulator	Asks to see evidence that the firm has conducted its own assessment of its culture or risk culture	Culture or risk culture is included as part of regular supervisory assessments	Dedicated/one-off culture or risk culture supervisory assessments
Eurozone	ECB	✗	✓	✗
France	ACPR	✗	✗	✗
	AMF	✗	✗	✗
Germany	BaFin	✗	✗	✗
Netherlands	AFM	✓	✓	✓
	DNB	✓	✓	✓
United Kingdom	FCA	✗	✓	✓
	PRA	✗	✓	✗
Australia	APRA	✓	✓	✗
	ASIC	✓	✓	✗
Hong Kong	HKMA	✗	✗	✗
	OCI	✗	✗	✗
	SFC	✗	✗	✗
Japan	JFSA	✗	✓	✗
Singapore	MAS	✗	✓	✗
US	FINRA	✓	✗	✓
	FRBNY	✓	✓	✗
	OCC	✓	✓	✗

Commonality across indicators

The FSB’s guidance on assessing risk culture sets out the indicators of a sound risk culture³⁷. A number of regulators, such as the JFSA and the Australian Prudential Regulation Authority (APRA), are using these indicators when supervising firms’ risk culture. However, the DNB, the FCA, FINRA and the UK Prudential Regulation Authority (PRA) utilise different frameworks to assess culture, with additional and overlapping indicators.

The word cloud in Figure F sets out the indicators used across the various supervisory frameworks. There is commonality across a number of the indicators. We have grouped the indicators according to four themes: organisation, relationship, motivation, and competence. Interestingly, the supervisors appear to focus less on competence. As some of the frameworks were focused on risk culture, risk management related indicators dominate. However, some of the indicators show how the regulators are “connecting the dots”.

Figure F: Depiction of indicators regulators use in assessing culture³⁸



- Relationship e.g. challenge, management, leadership and communication
- Motivation e.g. performance management, incentives, risk orientation and accountability
- Competence e.g. knowledge, skills, learning, recruitment and induction, and retention
- Organisation e.g. strategy and objectives, values and ethics, policies, processes and procedures, and risk governance

Increase in personal accountability

In order to give teeth to supervisory expectations on culture, regulators in a number of jurisdictions are increasing individuals' personal accountability. The FSB's supervisory paper on risk appetite frameworks³⁹ places the responsibility for articulating and embedding a sound risk culture with firms' Boards and senior management. The FSB's risk appetite paper also sets out expectations for the CRO, Internal Audit, business line leaders and legal entity-level management with respect to risk culture.

In the UK, the Senior Managers Regimes seek to increase personal responsibility by ensuring that senior managers are assigned specific responsibilities⁴⁰. In particular, the regimes prescribe roles for senior managers in relation to the development and adoption of the firm's culture. ASIC is also considering introducing rules that enhance accountability⁴¹.

A number of jurisdictions place responsibility in relation to culture on other individuals within the firm through the use of codes of conduct. In Japan, a listed company's culture should be reflected in the Code of Conduct, which stipulates that the Board and senior management should regularly review its implementation across the firm. The review should "focus on the substantive assessment of whether the company's corporate culture truly embraces the intent and spirit of the Code of Conduct, and not solely on the form of implementation and compliance"⁴². Since 2015 the Netherlands has had a Banker's Oath, which makes it mandatory for certain individuals to swear an oath within three months of their appointment that they will carry out their duties to the best of their ability and with integrity⁴³.

All this increases the need for senior management to receive culture MI that enables them to fulfil their responsibilities in this area.

Regulation and enforcement of culture

Much of the regulation on culture is focused on compensation. For example, in the EU, the Capital Requirements Directive (CRD) IV and the associated EBA guidelines on sound remuneration practices⁴⁴, and the revised Markets in Financial Instruments Directive (MiFID II)⁴⁵ set out rules about how compensation should promote sound risk-taking (CRD IV) and work in the interests of clients (MiFID II).

The majority of other regulatory expectations on culture are set out in guidelines and principles, which are not always binding on the firm. However, there has been an increase in regulation in this area which will aid regulators in bringing

enforcement cases. Culture is now referenced by the U.S. Federal Sentencing Guidelines⁴⁶, which include expectations for organisations to promote an "organizational culture that encourages ethical conduct" and "compliance with the law." The UK Senior Managers Regimes will also allow regulators to more easily enforce against senior managers where they fail to carry out their prescribed responsibilities. ASIC has tackling poor culture as a specific enforcement priority⁴⁷. Where an institution is subject to a Regulatory Enforceable Undertaking or Regulatory Order – and culture is identified as one of the failings – the Enforcement Undertaking would likely include a requirement to assess risk culture.

More focus on ethics and professionalism

A number of regulators are also focussing on professionalism and ethics of staff. The US FRBNY particularly focuses on ethics⁴⁸. The ECB states that more work is needed over and above the FSB's risk culture work "to identify ethics as a separate component of sound business culture and to make the notion of it operational"⁴⁹. The Fair and Effective Markets Review (FEMR) recommends that professionalism is increased, with the new FICC Market Standards Board (FMSB) responsible for providing guidance on expected minimum standards of training and qualifications for personnel in fixed income, currency and commodity (FICC) markets⁵⁰. The FCA has also discussed how "behavioural science suggests that individuals respond better to messages that contain references to honour rather than law". Therefore, "framing culture as a question of ethics" is more effective than setting out rules which may leave "grey areas"⁵¹.

Drawing on psychology and behavioural economics

Some regulators are using psychology and behavioural economics to understand behaviour and culture as part of their supervisory work. In 2011 the DNB set up a centre comprising experts from a wide range of backgrounds, including psychologists, to study board room effectiveness by observing and evaluating board meetings⁵². While the ECB notes that it has not hired psychologists, it is "consulting the DNB to explore how to make optimum use of their staff and to better understand their approach"⁵³. A number of regulators are also looking at how behavioural economics can inform policymaking and supervision. In the UK, the FCA is conducting work looking at the behavioural economics that underpin firm culture as well as the lessons from behavioural economics for compliance and enforcement⁵⁴.

Firms should consider how they might use experts from other fields, such as psychologists, to inform their culture assessments.

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Endnotes

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3. Deloitte LLP, UK member firm of DTTL.
4. [The Future of Financial Reform](#), Speech by Mark Carney, November 2015.
5. For example, current regulatory investigations about potential misconduct include the treatment of long-standing customers in the life insurance sector and potential “closet index-tracking” in the investment management sector. See for example [Financial Conduct Authority to probe life insurers over exit fees](#), Financial Times, March 2016; and [ESMA updates on supervisory work on closet indexing](#), European Securities and Markets Authority, February 2016.
6. [Enhancing financial stability by improving culture in the financial services industry](#), William C. Dudley, FRBNY, October 2014.
7. [Corporate governance principles for banks](#), BCBS, July 2015.
8. [Summary ExCo paper on FCA’s approach to culture](#), UK Parliament, 2016.
9. [Banking Conduct and Culture, A Call for Sustained and Comprehensive Reform](#), G30, July 2015.
10. For example, a New City Agenda report found that all 11 UK retail banks in the sample collected a range of metrics to track culture; however in some banks these were more comprehensive and in others piece-meal. [A report on the culture of British retail banking](#), New City Agenda in conjunction with Cass Business School, November 2014.
11. In its analysis of 46 major banks across jurisdictions, the G30 found that there was greater internal impact of culture change work when it was positioned as core to the economic viability of the institution, rather than defensive work to minimise future regulatory fines and redress. [Banking Conduct and Culture A Call for Sustained and Comprehensive Reform](#), G30, July 2015.
12. For example, in a recent Deloitte survey of more than 7,000 executives in 130 countries, 86% of business and HR leaders said that culture was an important or very important issue in managing people, and over 50% said they are currently attempting to change their culture in response to shifting talent markets and increased competition. [Global Human Capital Trends 2016](#), Deloitte University Press, 2016.
13. The FCA states that “poor cultures have been often part of root causes of crystallised risks” in its [Summary ExCo paper on FCA’s approach to culture](#). In 2015, the FCA cited poor culture as a contributing factor in 13 enforcement cases, involving fines on individuals totalling £1m and fines on firms totalling £6.5bn. When cultural weaknesses lead to misconduct, these can be very costly. For example, research by New City Agenda found that the total amount set aside for redress for payment protection insurance mis-selling by UK banks was £37.3bn in 2010-2015. Total provisions for misconduct in UK banks were £52.7bn in 2000-2015. [The top 10 retail banking scandals: 50 billion reasons why shareholders must play a greater role in changing bank culture](#), New City Agenda, April 2016.
14. We reviewed the annual reports for a number of UK and international banks, and large insurers, to determine how often, and in what context, they discuss culture. The results are highly variable – in one instance there were 79 references to culture; as opposed to only three references in the least prolific annual report. The context of references was also highly variable: while in several cases the majority of references were in relation to risk culture, there were instances where the principal context for references was in relation to remuneration practices or governance, and some where the references were primarily non-specific (e.g. “we are committed to having a strong culture”). In some cases, the commentary in the annual report enabled the reader to draw some clear conclusions about how the culture of the company is assessed, for instance that employee engagement score had increased to XX%; providing comparisons to levels achieved by peers; or giving data on what percentage of employees answered certain questions in the survey positively. Other reports specified that the bank conducted annual staff surveys, and set out the proportion of staff that completed the survey, which allows the reader to draw conclusions about the extent to which staff were engaged in the culture assessment process.
15. For example, following recent research by the Chartered Institute of Internal Auditors (CIIA) into the number of FTSE 100 companies providing information in their annual reports on ethics, the Institute said that “boards must work harder to ensure that codes of behaviour are clearly defined and understood by all relevant parties and publicly reported, if confidence and trust in business is to be improved”. [FTSE 100 companies still fail to provide shareholders with information on ethics](#), CIIA, March 2016.
16. [Consumer Panel Position Paper–Banking Culture](#), Financial Services Consumer Panel, March 2016.
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18. For example, ASIC states that culture is a supervisory priority and mentions it 35 times in its [2015-2016 to 2018-2019 Business Plan](#). Culture and governance is one of the FCA’s seven forward-looking areas of focus in its [2016-2017 business plan](#). In November 2015, the FRBNY held a [workshop](#) on reforming culture and behaviour in the financial services industry.
19. Key papers include the [G20/OECD Principles for Corporate Governance](#), OECD, November 2015, and the revised [Corporate Governance Principles for Banks](#), BCBS, July 2015.
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21. [Establishing, Communicating and Implementing Cultural Values](#), FINRA, February 2016.
22. [Address at the 31st Annual General Meeting of the International Bankers Association of Japan](#), Nobuchika Mori, Commissioner, Financial Services Agency, Japan, November 2015.
23. [Wholesale Conduct Risk](#), Speech by Tracey McDermott, July 2015.
24. The PRA’s expectations for non-executive directors in holding management to account for embedding an appropriate culture are set out in its [Supervisory Statement 5/16. Corporate governance: Board responsibilities](#), March 2016.
25. [From a blame culture to a learning culture](#), The Rt Hon Jeremy Hunt MP, March 2016.
26. [Making Sure the Cup Stays Full at Starbucks](#), Jess Stein, Sophie Sakellariadis, and Alex Cole, Monitor 360, July 2015.
27. [Fitting In or Standing Out? The Tradeoffs of Structural and Cultural Embeddedness](#), Goldberg, Srivastava, Manian, Monroe, Potts, University of California, Berkeley, September 2014.

28. For the analysis in Annex A, we looked at regulators from the Asia-Pacific region (Australia (APRA and ASIC), Hong Kong (the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission of Hong Kong (SFC) and the Office of the Commissioner of Insurance (OCI)), Japan (JFSA) and Singapore (the Monetary Authority of Singapore (MAS))); the EU (Eurozone (ECB), France (the Autorité de contrôle prudentiel et de résolution (ACPR) and the Autorité des marchés financiers (AMF)), Germany (the Federal Financial Supervisory Authority (BaFin)), the Netherlands (the Authority for the Financial Markets (AFM) and DNB) and the UK (FCA and PRA)); and the US (FINRA, FRBNY and the Office of the Comptroller of the Currency (OCC)).
29. "Culture clusters" help FCA supervisors to "join the dots" and make judgements on firms' culture. The culture clusters cover the following areas: (i) business model and strategy e.g. sustainable and customer-centric; (ii) leadership e.g. tone from the top, quality of communication, and accountability; (iii) purpose and values e.g. ethical values, used in decision-making, and integrity; (iv) people e.g. performance management, incentives, and recruitment; (v) stakeholders e.g. attitude to customers and regulators; (vi) intangibles e.g. symbols, rituals, and stories; and (vii) running the business e.g. approach to operating, oversight and risk awareness. [Summary ExCo paper on FCA's approach to culture](#), UK Parliament, 2016.
30. [Trust and culture: what customers want](#), speech by John Price, Commissioner, ASIC, September 2015.
31. [Towards a New Age of Responsibility in Banking and Finance: Getting the Culture and the Ethics Right](#), speech by Daniele Nouy, Chair of the Supervisory Board of the Single Supervisory Mechanism, November 2015.
32. Masamichi Kono, Financial Services Agency of Japan, talked about the importance of conducting "regular assessments of risk culture through inspections and interviews with management" in a keynote address entitled [What we have achieved so far, and what remains to be done?](#) in December 2014.
33. [Supervision of Behaviour and Culture, Foundations, Practices and Future Developments](#), DNB, 2015.
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36. Based on a survey of Deloitte Member Firms, correct as at April 2016. However, this is an area where supervisory activity in some jurisdictions is intensifying. For example, BaFin issued a first draft of the updated Minimum Requirements for Risk Management (MaRisk) in February 2016, which sets an explicit requirement that banks shall have an adequate risk culture. While some regulators may not ask to see evidence that the firm has conducted its own assessment of its culture or risk culture, many regulators are in regular dialogue with firms regarding their culture.
37. [Guidance on supervisory interaction with financial institutions on risk culture: a framework for assessing risk culture](#), FSB, April 2014.
38. The word cloud gives greater prominence to indicators that appear across more frameworks. It covers the DNB's [indicators for supervisory assessments of culture](#); the FCA's [culture clusters](#); FINRA's indicators to assess culture; the FSB's [indicators of sound risk culture](#); and the factors the PRA considers to identify [failings in culture](#). The phrasing of some indicators has been simplified.
39. [Principles for an effective risk appetite framework](#), FSB, November 2013.
40. The [Senior Managers Regimes](#) for banking and insurance became applicable from 7 March 2016. The regime is expected to be extended to all regulated financial services firms by 2018.
41. In a recent speech Greg Medcraft, Chair of ASIC, said that "those who create or encourage a culture that breeds misconduct should be held accountable for it". The Government will legislate to give ASIC the power to "remove individuals involved in managing a firm that may have a culture of non-compliance". ASIC is also considering "civil penalties for individuals and companies where they enable a poor culture that leads to breaches of the law by employees". [Corporate Culture and Corporate Regulation](#), speech by Greg Medcraft, Chair of ASIC, November 2015.
42. [Japan's Corporate Governance Code](#), the Council of Experts Concerning the Corporate Governance Code, March 2015.
43. [DNB newsletter](#) on the banker's oath and the Financial Supervision Act, January 2013.
44. [CRD IV](#), 2013, and [Guidelines](#) on sound remuneration policies under Articles 73(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation No 575/2013, EBA, December 2015.
45. [MiFID II](#), 2014.
46. [Guidelines Manual](#), United States Sentencing Commission, 2015.
47. [ASIC enforcement outcomes: January to June 2015](#), ASIC, August 2015.
48. [Reforming culture and behaviour in the financial services industry: workshop on progress and challenges](#), US FRBNY, November 2015.
49. [Ethics in finance: a banking supervisory perspective](#), speech by Ignazio Angeloni, Member of the Supervisory Board of the ECB, September 2014.
50. [Fair and Effective Markets Review](#), HM Treasury, Bank of England, FCA, June 2015.
51. [Summary ExCo paper on FCA's approach to culture](#), UK Parliament, 2016.
52. [DNBulletin: Supervisory approach to behaviour and culture in the boardroom is bearing fruit](#), DNB, September 2015.
53. [The relevance of the supervision of behaviour and culture to the SSM](#), speech by Julie Dickson, Member of the Supervisory Board of the ECB, September 2015.
54. [Summary ExCo paper on FCA's approach to culture](#), UK Parliament, 2016.

Notes

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