Why is culture important?
The concept of culture in the financial sector has been on the radar for international regulators for many years and continues to be a focus area on the supervisory agenda for the Central Bank of Ireland ("CBI").

Culture can be viewed as complex as it involves behaviours and attitudes however it can also be viewed as simply doing the right thing that can maximise the best out of people individually and collectively – it can be one of the most rewarding investments an organisation can make.

There is no one size fits all definition for culture and it is not specifically defined by the CBI or any other regulator - it is defined by an organisation’s leadership.

Efforts have and are being made by financial institutions in Ireland to further understand and enhance their cultures. The journey however is only beginning!

What influences culture?
Contributing factors: Conduct; values, behaviours and norms; strategy and purpose; risk appetite, awareness and management.

Outputs: Positive customer outcomes; employee and stakeholder satisfaction; reputation and trust; capital and profitability.

Underpinned by: Solid foundations and origins.

Indicators when considering culture
• Boards and senior management need to exercise and demonstrate strong and effective leadership based on a robust governance and risk management model.
• High standards with regard to culture and conduct should be maintained regardless of profitability or excellent year-end figures.
• Vision and values must be clearly articulated and aligned with the overall strategy and purpose.
• Risks are to be identified, assessed, mitigated and managed in a timely way to address root causes and to determine lesson learned.

Culture in the Financial Sector - Why is it important?
Risk Powers Performance
Employees need to be empowered to speak up if they see something wrong to encourage an environment of open and constructive engagement.

Financial and non-financial incentives should support core values and culture at all levels.

Clear communication is critical – not only words but also follow-through.

The culture journey
Assessing, evolving and embedding a culture is a journey that requires:

- A clear vision.
- Strategic approach.
- Trust and understanding.
- Time

“Cultural is a matter for each individual bank in the first instance, and no two cultures will be precisely the same. However organisations that have an effective culture share a commitment to high standards and values with consumers at the heart of the decision making.”

Address by Derville Rowland, Director General, Financial Conduct, Central Bank of Ireland at a Board Member Event held in Deloitte in May 2020

The following are typical questions we pose to clients when assessing where they are in their culture journey.

**Areas to consider:**

**Set the tone from the top**

- As a leadership team are you visible in championing the desired behaviours, values and an appropriate risk appetite?
- Do you set accountability at board level and at all levels throughout the organisation – tone from the top, middle and bottom?
- Are culture principles implemented and communicated which align to your organisation’s behaviours, norms and values? Have you defined your culture?
- Are there policies, procedures and processes in place that promote action that are consistent with the organisation’s values and expected behaviours?

**Embed the strategy and risk management framework**

- Does your risk assessment framework included behaviours and conduct measures?
- Is MI produced to support measuring your culture?
- Do you work with and within your organisation’s current cultural situations (building on what is there) and embedding cultural targets that are aligned to the strategy and risk management frameworks?
- Is there a scope, objectives and purpose based on cultural principles and transformation best practices?
- Do you clearly articulate strategic intent and cultural aspirations to all stakeholders?
Seek feedback

- Are cultural diagnostics, surveys, interviews, data analysis being used to identify gaps and attributes?
- Are questions being asked? What do customers, employees and stakeholders’ think/feel/say about your culture?
- How do you measure outputs - have concepts and ideas been identified to address gaps, needs and harness opportunities?
- What information are you using to determine if the culture is “good or bad”?
- Have you considered where you are in relation to your peers – “benchmarking”?

Analyse & listen

- Are outputs of surveys and MI linked to your risk assessment framework being considered in conjunction with feedback received – have you considered elements for e.g. staff turnover, sick leave, whistleblowing MI and compared to the survey results?
- Are outputs aligned and measured against business and performance objectives to gain a better understanding of how culture is impacting performance?
- Are decisions being made on opportunities identified for development, enhancement and/or improvement for e.g. training, wellness initiatives, and human capital enhancements?
- Are actions and outputs tested, measured and refined (in loops) to determine the best results?

Take Action

- Do you actively monitor, manage and update the culture regularly? Does the culture evolve to align and adapt to change?
- Does everyone in the organisation live the culture and continue to evaluate and identify what is going well, if there are new focus area or newly identified opportunities?

Measurement is key - what MI is available?

Using metrics and MI to gain insights into effective controls and employee behaviour supports driving a good culture.

Whilst culture can often not be valued or assessed in the same way as other risks such as credit or market risk, organisations can determine indicators and metrics that can be quantified and measured.

MI should be reported against risk appetite and linked to conduct to provide evidence of good stakeholder outcomes which also identify potential and emerging risks.

MI Themes: operational; technology; market propositions; conduct; behaviour; culture; breaches of policy or regulation, customer complaints and errors.

General Principles to support strong MI

- Be linked to strategy and risk management frameworks including conduct risk.
- Be outcome focused.
- Be holistic and used to support the analysis of trends.
- Be forward looking.
- Be efficient and appropriate.
- Be comprehensible and traceable.
- Be accurate and timely.
- Be measurable and reported on frequently.
- Supportive of communication and challenge.
At Deloitte we have developed a suite of tools to support you in evaluating, interpreting, measuring and managing culture.

Furthermore we have significant expertise in supporting Boards and its members to become more effective in overseeing their organisation’s key risks, strategy, and overall governance structure and we work with clients across all aspects of conduct regulation including the development of overall compliance and conduct risk frameworks including systems of internal control.

The right culture enables organisations to perform ethically, professionally and financially – a winning formula for all stakeholders.

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