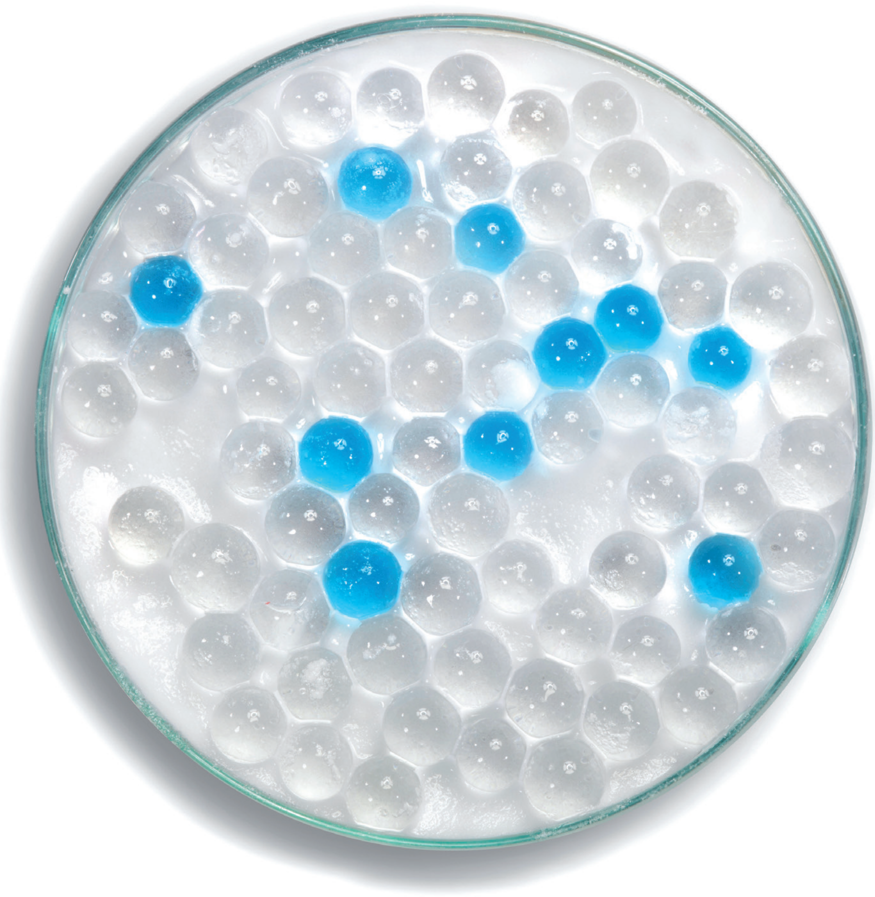
Deloitte.

Culture in banking
Under the microscope



The Deloitte Bank Survey 2013

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Preface

Welcome to **The Deloitte Bank Survey 2013**. Half a decade after the onset of the financial crisis, governments, regulators and senior bankers are pausing to reflect on the causes and how to avoid a repetition. Last year, The Deloitte Bank Survey tackled the subject of deleveraging. In the wake of the crisis, the immediate imperative for the banks was to shore up their balance sheets and to improve the soundness of the entire banking system.

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The focus of debate has shifted from leverage to standards, values and culture. Many – both inside and outside the industry – now accept that many aspects of the industry's culture were problematic, whether in terms of some of the behaviour exhibited, putting profits ahead of customers, misaligned incentive systems or in the attitude to, and handling of, risk. Senior figures within the industry have acknowledged the need for change.

Deloitte UK has interviewed 41 senior bankers at financial institutions around the world.[1] The objective was to understand their views on the following questions: What were the causes of these cultural problems that manifested themselves during and after the financial crisis? To what extent do cultural problems still exist? And what can banks do about them? The findings offer the 'insider' view – from chairmen, chief executive officers (CEOs) and other senior executives across Europe, the Middle East, North America, Asia, Australasia and Africa. We have undertaken this research in the spirit of identifying workable solutions to speed the recovery of the banking sector – a key part of any major economy.

The survey reveals bankers' views on the depth of problems in the industry, the time horizon for change, pay and regulation. They point to three key challenges. Is the industry prepared for the scale of change required? Respondents acknowledge significant problems in the industry, but many fewer see problems at their own banks. And they expect the industry transformation to be complete within just four years. How will the industry reform compensation schemes? Bankers identify them as key to changing culture, but measuring behaviour, rather than financial targets, will require a change of approach.

And how will bankers resolve a complex dynamic with regulators and policy-makers? The latter are determined to force change on the industry, making it safer, simpler and easier to manage. But many of the senior bankers interviewed by Deloitte are deeply concerned about regulation, rating its impact on industry returns as their key cultural concern. Moreover, they believe that ring-fencing retail from investment banking will be ineffective in improving culture. Given the degree of political and regulatory oversight in the industry, it is important that a way be found to resolve these profound disagreements.

We look forward to discussing the findings with you.

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1 See note at the end of this report titled 'About the survey'.

Executive summary

Is there a problem?

1. **Yes, but less so in my bank:** 65% of senior bankers believe that there are significant[ii] cultural problems across the industry. However, they see the problems as less extensive in their own bank, where just 33% believe there are significant problems. Similarly, while 76% of bankers interviewed in the survey believe that compensation levels were a significant cause of cultural problems within the industry, just 26% believe that they were a significant cause within their own bank.

Where did it all go wrong?

2. **The buck stops with us:** Bankers say that the main causes of the industry's cultural problems were misaligned incentives and poor leadership, which are predominantly within their sphere of influence. Respondents believe that neither senior managers nor the boards which monitor them were up to the job. Inadequate board oversight and management's limited understanding of their balance sheet ranked #2 and #5 as causes of cultural problems. These management and governance failings were amplified through employee incentives: compensation structures, excessive pay and misaligned performance metrics ranked #1, #3 and #6 as causes of cultural problems.

3. **Regulators and supervisors to blame too:** Almost two-thirds of respondents believe light-touch regulation and inadequate supervision were significant causes of cultural problems before the financial crisis. However, they also recognise that it is very difficult, if not impossible, for supervisors to keep up with new and complex products and technologies, or to recruit staff capable of challenging bankers.

4. **Red herring (1):** Huge structural reforms are being implemented across the UK, Europe and the US to separate investment from retail banking. Senior bankers have strong views on this. Looking back, a clear majority, 69%, believe that combining investment and retail operations within the same banking group was not a significant contributor to the industry's cultural problems. Looking forward, 87% believe that separation, or ring-fencing, would be relatively ineffective at improving culture. Rather than contamination by the investment bank, several argue that it was the decline in profitability among retail banks that prompted them to increase leverage and adopt a more aggressive sales culture.

5. **Red herring (2):** There has been much hand-wringing about whether the free-market system was to blame for a greed-is-good, get-rich-quick ethos that infected banks' culture, thereby triggering the crisis. However, it was ranked #13 out of 15 causes of cultural problems for the industry as a whole. Rather, many interviewees emphasised their continuing faith in free-market capitalism.

What's to be done?

6. **Performance must be better managed:** Employee performance metrics and compensation structures came top of the list of levers for changing culture in banks, at #1 and #2. Perhaps surprisingly, compensation level was ranked #5 out of eight factors, with bankers arguing that how the industry compensates staff, and what for, are more relevant than the amount they receive.

7. **Change starts at the top:** Over 90% of the bankers in the survey say that senior business leaders and the CEO are responsible for setting and changing culture.

8. **Miscreants go unpunished:** Less than half of the senior bankers interviewed believed that senior management in their bank are effective at punishing wrongdoing.

ii Here 'significant' refers to respondents' ratings of 5, 6, and 7, on a scale where 7 represents 'catastrophic cultural problems'. A similar scoring system is used throughout the report.

9. **Regulatory creep:** The bankers in the survey believe that regulation is relatively ineffective at changing culture. In fact, far from seeing stricter regulation as a benefit, they view the regulatory response following the recent crisis as easily the #1 cultural concern for their bank. Two-thirds of them rate 'too much regulation reducing returns' as a significant concern as they seek to improve culture within the industry.

What next?

10. **A question of time:** Senior bankers expect that it will take culture in the industry just three to four years to get to where it ought to be. They were even more optimistic about their own bank's ability to change: sorting out the problems within their own bank will, they expect, take between just over one and a half and just over two and a half years. This seems ambitious given the scale of cultural change required.

Is there a problem?

Key industry stakeholders – governments, regulators, industry bodies, shareholders and senior bankers – have done much soul-searching since the financial crisis to understand what went wrong and how they can prevent it happening again. The focus to date has been on resuscitating banks, repairing their balance sheets and restructuring them so that they can fail without endangering the broader economy. Regulators also introduced restrictions on pay, in a bid to reduce the incentive to take inappropriate risks.

Yet as the industry strives to meet tough new regulatory requirements for capital adequacy and liquidity, the debate has moved on. Industry stakeholders have begun to question the extent to which more deeply-rooted 'soft' factors are at play and, specifically, to what extent the recent crisis is due to endemic cultural issues. What was it that prompted serious failings such as excessive risk-taking, mis-selling and the attempted manipulation of key interest rates?

What is culture?

Culture is amorphous. In this research, the following definitions and interpretations of culture and the role it plays in a corporate environment have been used:

- Culture shapes the way people act, and don't act, on a daily basis and it can be shaped itself by influential people inside and outside an organisation.
- It is often visible through the choices and actions people make. At other times, it is not as evident, as some of the cultural drivers and ethos operate below the surface. Nevertheless, they too influence choices and actions.
- The right culture aligns people's values and behaviours with a firm's strategy.
- "It's the way we do things around here".

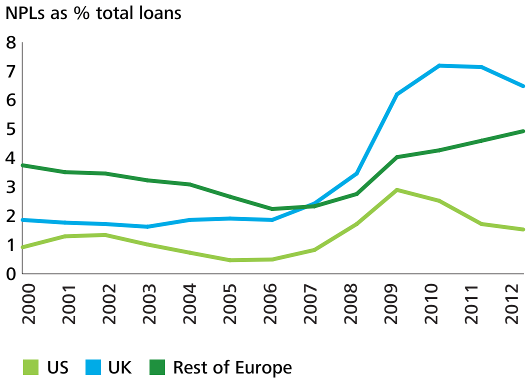
Getting culture right may not be a panacea to banks' many ailments. However, an effective culture can serve as a glue: it binds together elements such as governance, risk management, compliance, high-level systems and controls, and makes the whole cohesive and strong.

Sifting through the evidence

The evidence of a cultural problem can be seen in the financial and reputational damage the industry has inflicted on itself.

Excessive risk-taking inflicted catastrophic losses on the industry. Non-performing loans[1] more than doubled from 1.7%, in 2006, to 4.0%, in 2012, on average, for US, UK and European G-SIB banks[iii]. (See figure 1). Governments were forced to buttress banks by injecting capital to meet their losses.

Figure 1. Non-performing loans across US, UK and Europe, 2000-12



Source: Bloomberg

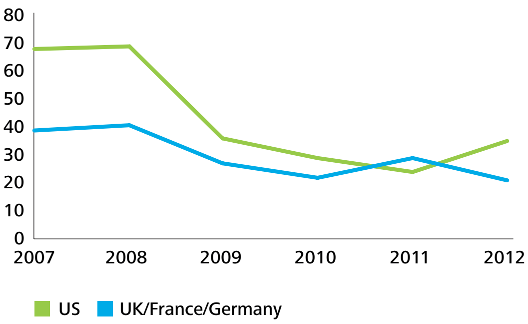
Many banks relied on wholesale markets to fund their banks before the crisis. When these markets seized up, central banks across Europe and the US had to step in.

More recently, concerns about aggressive sales practices have been fuelled by a series of regulatory breaches that resulted in substantial fines. UK retail banks alone have put aside around £14B for the mis-selling of Payment Protection Insurance (PPI)[iv] following more than four million complaints.[2]

iii G-SIB banks refers to the group of 29 Global Systemically Important Banks originally identified by the Basel Committee on Banking Standards in November 2011.
iv Payment Protection Insurance (PPI) is a form of insurance offered to borrowers to provide loan repayment cover if the borrower's financial circumstances change.

Reputational damage has also been significant. Public trust is at a low. Consumer trust in banks to 'do what is right' has fallen sharply since 2008 across the US, the UK, France and Germany, according to a global study by Edelman.[3] It also found that banks are now the least-trusted of all industries surveyed. (See figure 2).

Figure 2. Trust in banks – US, UK, France and Germany – 2007-12



Source: Edelman Trust Barometer, 2012

Houston, we've got a problem

Regulators, central bankers, politicians, journalists and bankers themselves have all acknowledged that there is a cultural problem in the banking industry. (See figure 3).

The UK Prime Minister, David Cameron, set up the Parliamentary Commission on Banking Standards in July 2012 in response to the industry's attempts to manipulate the Libor[v] rate. Its remit was "to consider and report on professional standards and culture of the UK banking sector, taking account of ... lessons to be learned about corporate governance, transparency and conflicts of interest, and their implications for regulation and for Government policy."

The industry's leaders recognise they have a significant cultural problem to address. Sir David Walker, the former regulator appointed chairman of Barclays in the wake of its Libor settlement, declared, "Culture and reputation are the issues which are of most concern now."[4]

Figure 3. There is a widespread perception of a cultural problem in banking

Regulators and central banks

"There are increasing signs that many banking industry leaders recognise the need for major change, change which we as regulators can encourage through our regulation of compensation practice, and through being clear that poor conduct is not acceptable." **Adair Turner, FSA Chairman, May 2009**

"There really does need to be a culture shift – and so far, I think we've gotten, really, a 'culture shaft' a lot of times. And, as we've seen, sometimes it goes all the way to the top." **Bart Chilton, Commissioner, Commodity Futures Trading Commission, Jul 2012**

"The crisis was the story of a system with in-built incentives for self-harm: ...Avoiding those self-destructive tendencies means changing the incentives and culture of finance, root and branch." **Andrew Haldane, Bank of England, Oct 2012**

Politicians

"The strongest influence in any bank is usually its culture and its habit of working." **Andrew Tyrie, UK MP, Oct 2012**

"This culture of foolish risk-taking needs to change." **Viviane Reding, Member of European Commission, Nov 2012**

"British people are crying out for a return to good old-fashioned banking... and not put that at risk by big investment banking. That's why the governor is so in favour of changing culture at the banks and so am I." **David Cameron, UK Prime Minister, Jun 2012**

Bankers and bank bodies

"These banks have got to change and one key issue that's got to change is the culture. If I can do that I believe I'll have made a good contribution." **Hector Sants, Barclays Head of Compliance, Jan 2013**

"It is as if, too often, people had given up asking whether something was the right thing to do, and focused only on whether it was legal and complied with the rules." **Stephen Green, former HSBC Chairman, Mar 2010**

"So there are certainly elements of our culture that are negative and that we need to root out, and that we are in the process of rooting out." **Andrea Orcel, UBS Investment Bank CEO, Jan 2013**

"Clearly there has been a lapse in professional and ethical standards." **Anthony Browne, CEO BBA, Jan 2013**

Media and other commentators

"The split [of investment and retail banking] should reinforce the difference in cultures between investment banking and retail banking, with the latter focused on longer-term customer relationships." **Martin Wolf, Financial Times, Oct 2011**

"We need to focus on getting banks to behave better, not in response to a detailed rulebook, but because it is part of their culture." **Future of Banking Commission, Mar 2010**

v London InterBank Offered Rate (Libor) is a benchmark interest rate at which banks can borrow funds from other banks in the London interbank market.

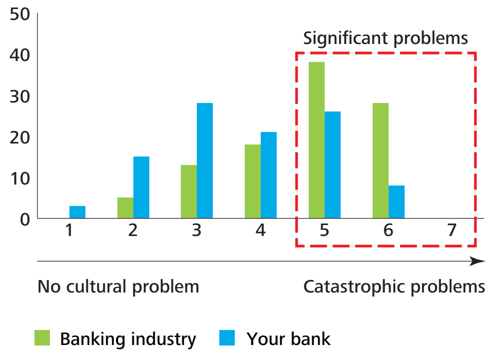
Douglas Flint, chairman of HSBC, wrote in the bank's 2012 annual report, "Banking has been given a huge wake-up call and we are determined to play our part in restoring its reputation and thereby regaining society's trust."[5]

Axel Weber, the chairman of UBS told Deloitte, "It isn't enough to ensure that one specific incident is not repeated. We need a different risk culture supported by both compliance monitoring as well as risk control systems that permits no blemishes and ensures that mistakes are recognised shortly after they happen. A seamless front to back process alignment in risk taking activities is key to improve risk culture in a bank."[6]

The recognition that the industry has a problem, as articulated by these industry leaders, was echoed by the senior bankers interviewed. 65% believe there are significant problems in the industry. However, they see the problem as less extensive in their own bank, where just 33% believe there are significant problems.

Figure 4. Perception of cultural problems

% respondents who rate culture as being a problem



Note: Survey rating ranked 1 to 7, where 1 = no cultural problem; 7 = catastrophic problems

Source: The Deloitte Bank Survey 2013

Senior bankers told Deloitte that these cultural problems are widespread. On average they rated banks across all regions of the world to have problems. However, American and British banks were perceived to have the worst cultural problems, closely followed by those from continental Europe. (See figure 5). Asian banks were rated best culturally. However, a few respondents expressed concern about the opacity of bank accounting in the region.

By bank type, investment banks rated particularly poorly, while retail banks and mutual savings organisations, such as building societies and their equivalents, were thought to have fewer cultural problems.

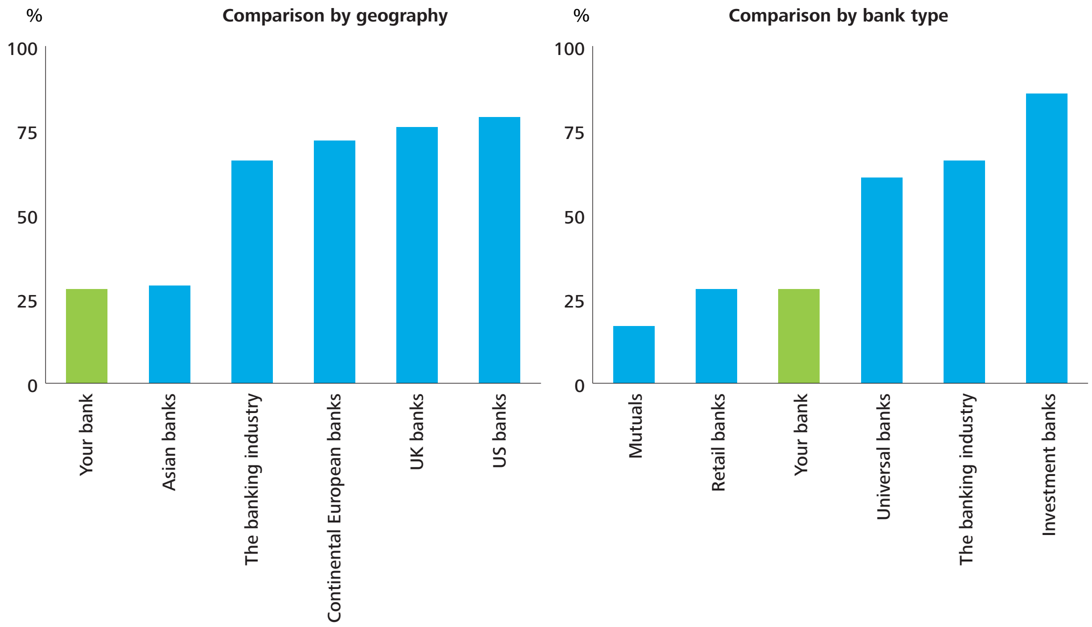
Under pressure

The financial crisis, the regulatory response and growing public mistrust from recent reputational scandals, such as money laundering, sanctions breaches and attempted manipulation of the benchmark Libor interest rate, are putting banks under pressure to improve their culture. A year after the 'shareholder spring'[vi] in the UK, things have taken a new turn – this time, politicians and voters are leading the charge against what they perceive to be excessive pay across all sectors.

vi 'Shareholder spring' describes the rejection by major UK shareholders of senior management pay packages that they saw as excessive during the spring voting season of 2012.

Figure 5. Perception of cultural problems

% rating 5, 6, or 7



Note: Survey rating ranked 1 to 7, where 1 = no cultural problem; 7 = catastrophic problems

Source: The Deloitte Bank Survey 2013

There has been a number of developments in the US, the UK and Europe granting greater shareholder 'say on pay'.

New capital, liquidity, and funding requirements will require new business models. These, in turn, will force cultural changes, notably in how staff are measured and compensated.

Moreover, changes that were proposed for structural reasons are now being looked at through behavioural lenses. For example, in the UK, Europe and the US, politicians and regulators are enforcing the separation of investment from retail banking activities. Such reforms were initially proposed in order to limit the implicit subsidy to investment banks from depositors (and, by implication, their taxpayer guarantors) and to make resolution easier in the event of bank failure. However, one of the benefits now advocated for this change is that it will protect retail bankers from the influence of a 'toxic' transactional, investment banking culture.

Paul Volcker, former chairman of the US Federal Reserve, who was responsible for the eponymous rule limiting proprietary trading, expressed just such a fear when giving evidence to the UK's Parliamentary Commission on Banking Standards. The Commission's initial report states, "Paul Volcker told us that his biggest concern about current arrangements was not the risks caused by having different types of banking side by side as such, but 'the damage that it does to the culture of the whole institution'."[7]

Martin Wolf, chief economics commentator at the *Financial Times* and a member of the Independent Commission on Banking that recommended ring-fencing of retail banking activities in the UK, wrote, "The split [of investment from retail banking] should reinforce the difference in cultures between investment banking and retail banking, with the latter focused on longer-term customer relationships".[8]

Another *Financial Times* commentator, John Kay, agrees and has commented to readers that "Separation of retail and investment banking will reduce the cross-subsidy arising from mingling taxpayer-guaranteed deposits with speculative exposures, and limit contamination of the everyday business of financial intermediation by the culture of trading."[9]

Re-evaluating capitalism

The deep-seated belief in capitalism and free markets that was thought to have won the war of ideas by the end of the twentieth century has been undermined. The problems in banking developed against a backdrop of fundamental geopolitical, policy and macro-economic shifts. Reaganomics and Thatcherism in the 1980s gave life to free-market theories. The efficient market hypothesis[vii] became the bedrock of capital markets.

As author Philip Augar puts it, "The decade leading up to the banking crisis of 2007-08 seemed, at the time, like capitalism's finest hour. A consensus emerged among shareholders, regulators and governments that business worked best if it was left to its own devices. This view had been prevalent in the US and became entrenched in the UK in the years either side of the millennium."[10]

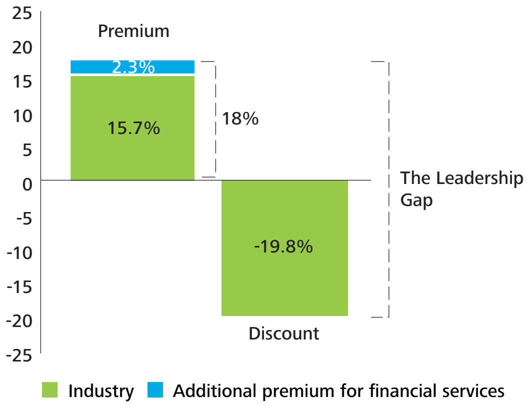
On the other side of the Atlantic, Paul Krugman, the Nobel laureate, blamed "free-market fundamentalism", writing, "This is what led Ronald Reagan to declare that deregulation would solve the problems of thrift institutions – the actual result was huge losses, followed by a gigantic taxpayer bailout – and Alan Greenspan to insist that the proliferation of derivatives had actually strengthened the financial system. It was largely thanks to this ideology that regulators ignored the mounting risks."[11]

The benefits of the right culture

Creating the 'right' culture has the potential to do more than merely fix problems. The right culture can provide organisations with a competitive advantage that is difficult for rivals to emulate. Leadership is widely acknowledged by culture experts to be integral to culture, good or bad. The Deloitte report, '*The Leadership Premium*,'[12] quantifies the impact of leadership on long-term equity value. It finds that the gap between the value of a company perceived to have good rather than weaker leadership could be more than 35.5%. For financial services companies the premium for good leadership is even higher, which could boost the total gap to more than 37%.

Figure 6. The Leadership Premium

Average premium/discount placed by equity analysts on effective/ineffective leadership (%)



Sample refers to Brazilian, Chinese, Indian, Japanese, UK and US banks.

Source: Deloitte: The Leadership Premium, March 2012

vii The efficient markets hypothesis is the theory that market prices at any point in time 'fully reflect' all available information.

Where did it all go wrong?

Since the financial crisis, many commentators have pointed to profound cultural problems within the banking industry. They cite a number of possible causes. Some of these are 'external', such as: structure, e.g., universal banks containing both investment and retail banking arms, and the increasing size and scope of banks; regulation and supervision; a prevailing free-market ethos and loose monetary policy. Others, such as board oversight, management understanding of their balance sheets and employee incentives, are 'internal'.

The Deloitte Bank Survey 2013 reveals the 'insider' view of the causes of the cultural problems in the industry. Respondents recognised the industry's culpability for the financial crisis, with internal factors accounting for five of the top six (out of 15) possible causes of the industry's cultural problems.

Problems started at the top

Weak board oversight was rated as the #2 cause of cultural problems across the industry while managers' lack of understanding of the risk on their balance sheet and the resultant excessive risk-taking was rated #5.

Respondents were scathing about the ignorance of senior managers around the risks being carried on their balance sheets.

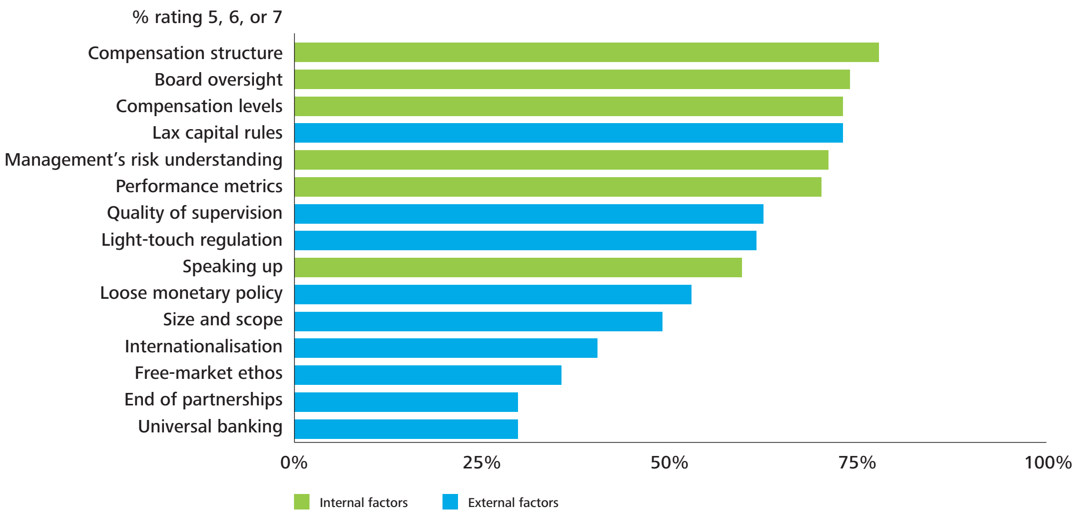
A senior executive from a global universal bank told Deloitte that "Executives in banking have limited oversight of the real decisions being made," adding, "That is unforgiveable."

Respondents showed barely more respect for the boards whose role is to monitor executives. A senior non-executive director at one of Europe's largest mortgage providers told Deloitte that "The evidence is that [board oversight] has been pretty shocking across the industry." However, he also added, in explanation, "It's a [very] difficult job."

In bankers' defence, the explosion in balance sheet size and risk (see figure 8) did not occur in a vacuum. Prior to the crisis, a structural shift was occurring among banks' shareholders. Between 1998 and 2008, the average holding period of bank stocks for US and UK banks' investors fell from almost three years to three months.[13] Put differently, an increasing proportion of banks' shareholder base was short-term investors.

Return on assets was steadily falling. (See figure 9). However, shareholders were accustomed to double-digit returns on equity (ROE). In a bid to meet these challenging ROE expectations, banks took increasingly risky assets on to their balance sheets to increase returns. Leverage rose sharply in the run up to the crisis across the UK and Europe. From 2000 to 2008, leverage increased from 20 times to 34 times across UK banks, and from 26 times to 39 times across other European banks. (See figure 8).

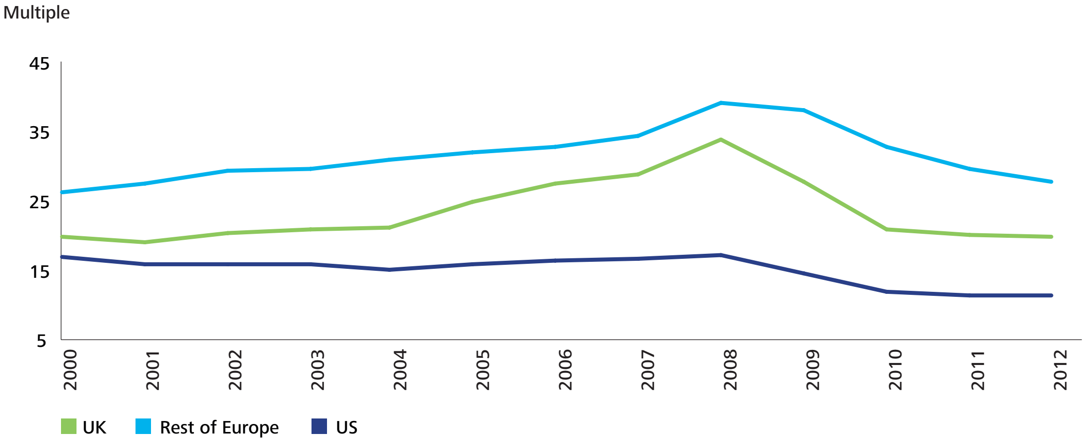
Figure 7. Causes of cultural problems in the banking industry



Note: Survey rating ranked 1 to 7, where 1 = very minor cause; 7 = significant cause

Source: The Deloitte Bank Survey 2013

Figure 8. Leverage*, UK, US and European banks, 2000-12

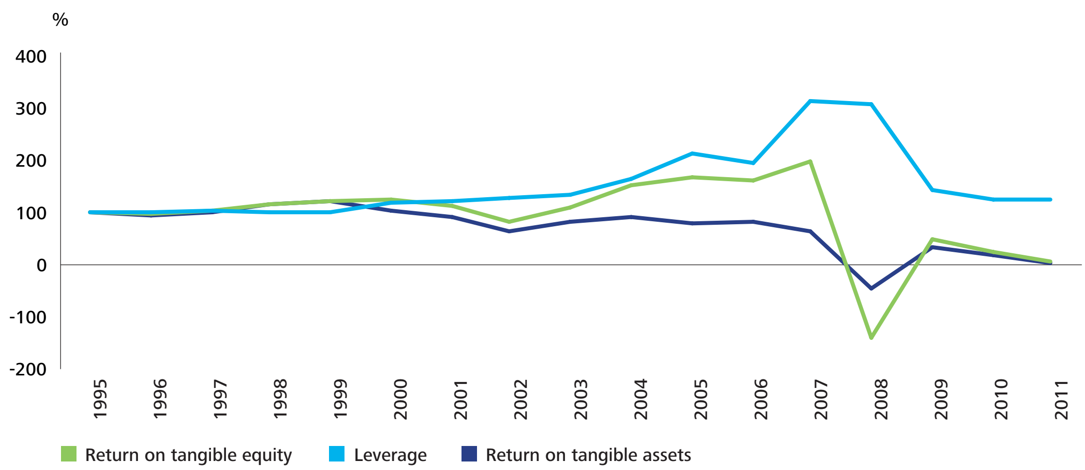


* Financial leverage is calculated as average total assets divided by average total common equity. Total common equity is share capital plus additional paid-in capital and retained earnings.

Based on a sample of 24 banks: US – Citi, Bank of America, JP Morgan, Goldman Sachs, Morgan Stanley, Wells Fargo, State Street, Bank of New York Mellon. UK – Barclays, Lloyds, RBS, HSBC, Standard Chartered. Rest of Europe – Credit Agricole, Societe Generale, BNP Paribas, Deutsche Bank, Commerzbank, UniCredit, UBS, Credit Suisse, ING, Santander, Nordea.

Source: Bloomberg

Figure 9. RoTCE#, RoTA, leverage#, UK banks, 1995-2011



Return on Average Tangible Common Shareholders' Equity, which is calculated by dividing net earnings applicable to common shareholders by average monthly tangible common shareholders' equity. (RoTCE measures the performance of businesses consistently, whether they were acquired or developed internally.) Leverage is the ratio of tangible assets to tangible equity.

Based on a sample of nine banks: HSBC, Barclays, RBS, Lloyds, Santander UK, National Australia Bank, Nationwide, Northern Rock, and Bradford and Bingley.

Source: Bank of England, Financial Stability Report. June 2012.

Incentives made things worse

Failures at the top were reinforced by employee incentives. Banks set corporate targets that were not adjusted for risks in order to meet the demands of short-term investors. These corporate targets cascaded into individual pay. Compensation structures, compensation levels and performance metrics ranked #1, #3, and #6 among most important cited causes, as the 'tone from the top' was reinforced by performance incentives. (See figure 7).

A financial director at a global universal bank recounted, "All of a sudden we started celebrating big trading heroes who made hundreds of millions for the bank, regardless of the risks they were taking for the bank. The risk was not transparent. All that was transparent was the money they were making for the bank."

A financial director at a global universal bank also highlighted the vulnerability of a weak awareness and understanding of risk, telling Deloitte, "Not understanding the risk, and very strong incentives on the compensation side to take risks … that's quite a dangerous cocktail."

Bankers' beliefs about the impact of compensation, i.e. how staff are paid, how much, and for what, are not unique. Policy-makers and regulators introduced wide-reaching changes to compensation structures in banks in the early years following the crisis. Moving forward, banks covered by European regulation will be required to limit the variable proportion of pay they award, and long-term financial instruments issued to staff as remuneration continue to be eligible for 'claw-back.'

The Bank of England notes how non-risk-adjusted metrics, and overly-short time periods over which performance is judged, can result in flawed performance targets. The Bank noted, "variable pay can sometimes be contingent on non risk-adjusted performance measures, such as ROE or earnings per share, skewing incentives towards excessive risk-taking."[14]

At the time of the financial crisis, few banks measured, or paid for, performance over periods in excess of one year. Since then, many have implemented extended performance measurement and deferral periods. However, these extended timeframes still do not match the underlying credit cycles. The Bank of England estimates the medium-term credit cycle – fluctuations in lending and other types of credit provision across an economy – at eight to 30 years.

Senior bankers interviewed in the survey believe compensation *levels* were less important than performance metrics and compensation *structure* in fuelling cultural problems.

Some 76% of bankers interviewed acknowledge that compensation levels were a significant cause of cultural problems within the industry. However, just 26% believe that they were a significant cause of problems within their own bank.

Silent whistles

62% of senior bankers believe that upward communication of concerns to management, or lack thereof, was a significant cultural problem. Bankers are not confident that this problem has been addressed across the industry, with just 26% rating the industry as significantly effective at encouraging whistle-blowing.

Moreover, although most banks consider that they have effective policies and processes for employees to raise concerns, senior bankers in the survey reported that their junior colleagues are often afraid to speak up.

The chief executive of one Asian bank told Deloitte, "This is an oriental culture – respect to authority-holders is quite significant. As CEO I am lacking challenges to myself. I have to encourage challenge."

The Chief Risk Officer (CRO) at a European commercial bank identified why staff may be reluctant to speak up, saying, "My concern is: do you get at latent ones [concerns] at grassroots level. It's always a challenge, particularly for more junior staff. In this tight labour market, they feel vulnerable. There are so many competing priorities [like paying the mortgage]."

The head of governance at a global universal bank told Deloitte, "There is a significant concern that activities around whistle-blowing are focused on form rather than substance, that boards and organisations are just going through the motions. There are insufficient consequences when poor behaviours are raised, particularly if revenue is threatened."

Macro-economics and light-touch regulation fanned the flames

More than half of respondents pointed to external players – regulators, policy-makers, supervisors and central bankers – as bearing significant responsibility for the industry's cultural problems.

Three-quarters thought lax capital requirements before the crisis were a significant cause of cultural problems. A finance director at a North American bank said, "Leverage numbers for one bank were 75 to one, which was hard to believe ... In the US and Europe there are so many exemptions to the leverage ratios".

The rating for loose monetary policy varied by region: bankers from 'crisis survivor' nations considered it less important than did those from Western Europe and North America.

The connection between macro-economic developments, loose monetary policy and leverage was articulated by Adair Turner, then chairman of the UK's Financial Services Authority (FSA).[vii] He asked himself, in the first major speech of his chairmanship, "Why did this extreme crisis occur?"[15] He answered, "At the core of the crisis was an interplay between macro-economic imbalances which have become particularly prevalent over the last 10-15 years, and financial market developments which have been going on for 30 years but which accelerated over the last ten under the influence of the macro imbalances." High savings in surplus economies like China, which were recycled into risk-free assets, drove down rates of return on those assets to historically low levels, Lord Turner explained.

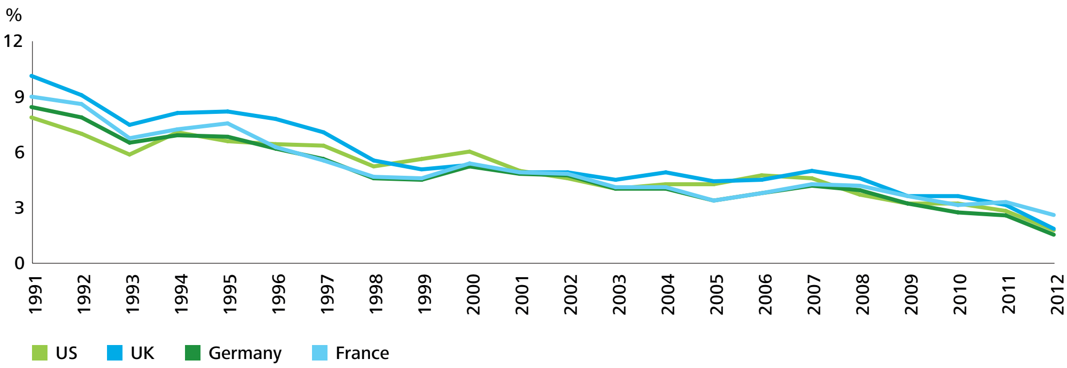
Interest rates across the US, the UK, Germany and France fell by 3 to 6 percentage points between 1991 and 2006. (See figure 10). These low rates, in turn, had two important effects. First, they drove credit expansion that translated itself into housing bubbles across several economies, including the US, UK, Spain and Ireland. But it also drove what Lord Turner described as a "ferocious search for yield."

For banks, the combination of more and cheaper funding and the search for yield encouraged risk-taking, and resulted in an under-pricing of risk. Higher levels of risk-taking were facilitated by the lighter-touch regulation that was prevalent before the crisis.

Mervyn King, Governor of the Bank of England between 2003 and 2013, admitted that "Such risk taking was possible because of inadequacies in financial regulation and supervision."[16]

A financial director at a global universal bank explained to Deloitte Insight, "When interacting [with supervisors] I sometimes wonder if they understand what we're doing." A CRO at a North American bank said "I think all regulators have a problem with attracting talent".

Figure 10. Interest rates on sovereign bonds*



* OECD index on long-term nominal interest rates based on 10-year sovereign bonds.

Source: Organisation for Economic Co-operation and Development

viii On 1 April, 2013, the FSA was replaced by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

However, bankers recognised that it was extraordinarily challenging for supervisors to keep up with new and complex products and technologies, as well as to match the talent in the banking industry.

Red herring (1): Investment banking 'contamination' of retail banking

Despite recognising that light-touch regulation was a problem, there is one regulation that bankers feel particularly strongly about: the proposed separation of retail and investment banking activities. With a handful of exceptions, bankers feel it to be unnecessary at best, and counter-productive at worst.

Looking back, a strong majority, 69%, believe that having retail and investment banking under the same roof bore little or no responsibility for the industry's cultural problems.

No banker rated it as a significant cultural concern at their own bank. Intriguingly and perhaps influenced by the broader policy debate, 26% rated it a significant problem for the industry.

Looking forward, 87% believe that structural change – separation of retail and investment banking – would be relatively ineffective at improving culture. Almost a third of bankers said the separation of retail and investment banking in the industry would never happen.

Many respondents argued that structural factors were being blamed for the crisis when other causes were at play.

One bank's CRO said, "I think the contamination of retail banking by investment banks is a false issue. I just don't buy that it is inherently wrong. [Our home market] has shown that this can work. Where it was an issue, it was because of how the place was being managed. It's about governance, not structure."

The head of compliance at a global commercial bank stated forcefully, "What differentiates the 'failed' and 'didn't fail' is culture. Don't look to structure to solve your problems."

Many respondents told Deloitte that retail bankers were able to get into trouble without the help of investment bankers, even if the sort of trouble is different in nature. Cultural problems at investment banks, for example, were seen to stem from conflicts of interest, such as designing complex products loaded against the client. In retail banking, many cultural problems were seen as emanating from a mis-understanding of risk, or a failure to treat customers fairly, for example by selling them products they did not need. Interviewees pointed out that retail banks copied the language and techniques of retail industries, such as aggressive sales targets, as much as those of their investment banking counterparts.

Some respondents argue that it was the decline in return on assets, rather than any 'contamination' by investment banking, that drove executives to 'lever up' dangerously as they chased ever-higher short-term, non-risk-adjusted return on equity.

The CRO at a European universal bank insisted, "Investment banking culture has not contaminated retail banking culture. Retail banks are very cut-throat and aggressive in their own right."

Some regulators have sympathy with the view that retail banking has problems other than 'contamination' from investment banking. Paul Tucker, deputy governor of the Bank of England, said, "Even if we were to go to full separation, the challenges of culture in retail banking stem in part from infection from investment banking but I don't think they arise entirely from that ... There's been an industrialisation of high street banking. They've drifted away from relationship banking, branch managers are much less empowered than they were 20 or 30 years ago and that is a major problem of culture change in its own right – irrespective of what happens to global investment banking."[17]

Red herring (2): the free-market ethos

Some commentators have blamed the free-market zeitgeist for a greed-is-good banking culture. Deloitte found this view was not widely held by senior bankers: just 37% of respondents cited free-market ethos as a significant cause of the crisis in the industry.

A handful held the view that a greed-is-good culture had emerged that had badly damaged banking. A senior non-executive director at one of Europe's leading mortgage providers explained, "There is a societal, cultural problem around acceptance of norms of behaviour around greed and money, which has changed in the last 20 years. The typical person who was a banker has changed in their attitude, values and behaviours." He asked, "What is the relative importance [to bankers] of contribution to society versus self-interest?"

The CRO at a European retail bank suggested that egregious banker behaviour was not challenged by stakeholders and the broader public because it reflected changes in society at large and a broadly-held faith in the capitalist system and the prosperity it appeared to be delivering. He said, "A big contributing factor to [my country's] woes was the lack of challenge within a small community. Then it got too late, and it was rise or fall together – and no one thought it would fall."

He said "responsibility... lies with all factions including, perhaps controversially, with the depositors [who sometimes didn't understand who they were lending to]. There was no single source [of the problems]."

The head of compliance at a European commercial bank concurred with this sentiment, telling Deloitte, "Banks and their employees are a mirror of society." He added, "Customers themselves buy problematic products due to various reasons – it's not all ... based on malicious advice given by banks."

Still more felt aggrieved that bankers had been singled out for public opprobrium. They were eager to point to other culprits, whether policy-makers who encouraged cheap money, or others, such as politicians, doctors and journalists whose behaviour had fallen short.

Interviewees commented on the fact that politicians were keen to encourage home ownership on both sides of the Atlantic. One strategy head at a global bank said, "From the perspective of lending, we were actively encouraged by the government [via loose monetary policy]. They didn't take any steps to suppress the housing bubble, and neither did we."

A finance director at a North American bank said "Cheap money was definitely an issue [in creating cultural problems at banks]. Cheap money has driven a desire for yield."

Many bankers complained of feeling bashed. The chairman of an international bank complained, "It's popular to bash banks." The head of compliance at a global commercial bank asked, "To what extent are we the victims of politicisation? Are we the only ones to blame?" He added, "Banks have borne the brunt of the criticism [for the global financial crisis]. Regulators have never admitted [in the West] that they are a part [of the problem] and neither have governments."

Big whimper

Some British commentators have dated the problems in the country's banking system to the Big Bang reforms of 1986, which saw many unlimited liability partnerships swallowed up by big banks, and the associated internationalisation of finance. However, some respondents did not agree.

The chief executive of one Asian bank told Deloitte, "[I] don't think Big Bang really has anything to do with it ... It's the same with free market. I think that may just have been used as a justification for some of the extremes."

A slightly higher proportion of respondents (see figure 7) saw the increasing size and scope of banks as a significant cause of problems in the industry. The head of HR at a European universal bank explained, "The bigger the bank, the greater the distance from the customer ... I think the detachment of bankers from the clients they were serving was extremely important in creating the cultural problems we see in the banking industry."

Where are we now?

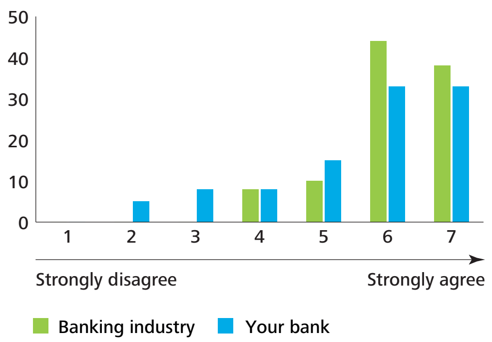
Unsurprisingly, given their acceptance of the industry's cultural problems, an overwhelming majority of the senior bankers interviewed, 82%, agree or strongly agree that the industry would benefit from a change in culture. (See figure 11). Again, interviewees felt that the desirability of change was less pronounced at their own bank: 65% agree or strongly agree that their own bank would benefit from a change. This reflects a belief that their own bank was starting from a better place than their peers.

Given the recognition of the desirability of change, it is also encouraging that 63% of the senior bankers interviewed agree or strongly agree that banks are *able* to change their culture. (See figure 12).

Moreover, bankers are optimistic that they can sort out the industry's problem in a relatively short time-frame. Respondents envisaged that improving aspects of the industry's cultural problems would take between three and four years. They were even more optimistic about their own bank's ability to change: sorting out the problems within their own bank will, they expect, take between just over one and a half and just over two and a half years. (See figure 13).

Figure 11. % distribution of bankers who agree that their own bank and the banking industry would benefit from a change in their culture

% of respondents choosing each category



Note: Survey rating ranked 1 to 7, where 1 = strongly disagree; 7 = strongly agree

Source: The Deloitte Bank Survey 2013

Misplaced optimism?

The faith of the bankers interviewed in the speed of change is at odds both with both expert views and the public responses of banking leaders about specific elements of culture management. Large scale change projects often take years even in stable, mature industries. But very few companies or industries have faced the scale or scope of challenges that banking does now: deleveraging, recapitalisation, regulation, dealing with past scandals, rebuilding trust and redefining their business model, naming only the most salient. Any one of these on their own would be a substantial undertaking; to do them all simultaneously would daunt even the best business leaders.

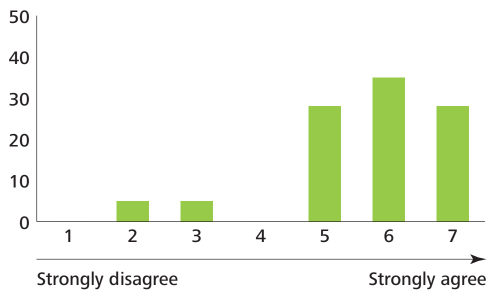
Some will point out that we are already more than half a decade on since the onset of the credit crunch in the summer of 2007. However, most of the time immediately after the crisis was spent fire-fighting, ensuring lines of liquidity, and rebuilding capital.

Moreover, when asked about specific aspects of culture, bankers are unconvinced that the industry is capable of dealing with them.

Bankers are much less worried about cultural challenges in their own banks, and correspondingly more confident about their ability to deal with them. However, even here there are pockets of concern.

Figure 12. % distribution of bankers who agree that the banking industry has the ability to transform its culture

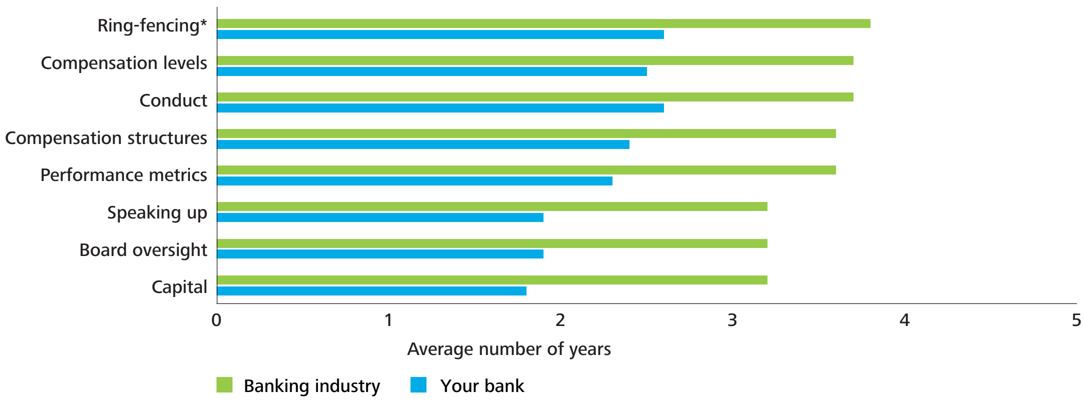
% of respondents choosing each category



Note: Survey rating ranked 1 to 7, where 1 = strongly disagree; 7 = strongly agree

Source: The Deloitte Bank Survey 2013

Figure 13. The number of years to make components of culture fully effective



*30% responded 'never' on ring-fencing

Source: The Deloitte Bank Survey 2013

Regulatory backlash

Despite recognising that light-touch regulation was a factor in the industry's downfall, the single biggest cultural challenge that bankers identify is 'too much regulation reducing returns' (See figure 14).

Many expressed the opinion that regulation would not improve banking culture. A senior risk officer at a European-headquartered global universal bank complained, "I'm concerned about regulation – not because it's reducing returns, but because it's idiotic."

The head of governance at a global universal bank asked rhetorically, "What is the key lever to change culture? Not more regulation! Banking is a very innovative business and will always find a way through."

A senior risk officer at a global universal bank asked, "Is the problem culture? Or is there something more fundamental wrong?" His own belief is that "the key issue is that banks' core businesses ceased to be profitable. Can we solve the cultural problem without solving the underlying problem?"

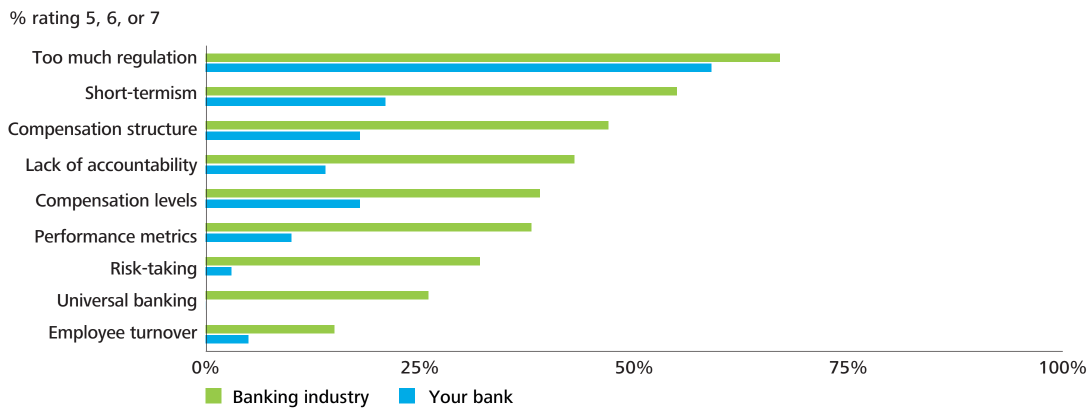
"Profitability requirements might not allow [banks to change their culture]," he warned, adding, "If you can't make any money you do one of two things. You do things that are not good, or you give money back to shareholders."

Many bankers spoke angrily about regulation. A key concern is the sheer number of regulations being introduced. The CRO at an Asian universal bank complained, "There are too many overlapping regulations. They are going too far." A financial director at a global universal bank explained his view: "There's so much regulation that in the end it becomes counter-productive."

Meeting the new Basel III capital adequacy and funding regulations will reduce returns. However, bankers' worries go beyond earnings drag. Their concerns about regulation include lack of relevance, inappropriateness of a one-size-fits-all approach, and reduced flexibility to grow and innovate.

Despite the concerns expressed by the majority of interviewees, others recognised the importance of building better and deeper relationships with regulators and supervisors, and the progress their banks were making to work collaboratively with them. Many told Deloitte that their relationship with regulators was improving. Several reported that their conduct was getting better, and they were making an effort to follow the 'spirit' (as well as the letter) of regulation.

Figure 14. Concern about aspects of banking culture



Note: Survey rating ranked 1 to 7, where 1 = not concerned at all; 7 = extremely concerned

Source: The Deloitte Bank Survey 2013

Short-termism

Bankers in the survey ranked short-termism the second most worrying aspect of banking culture both for the industry, where 55% rated it significant, and for their own bank, at 21%. (See figure 14). This echoes concerns raised by regulators like the Bank of England's Andrew Haldane, who has spoken of a "deeply-rooted problem of short-termism in modern capital markets."[18]

Compensation structures were rated a significant challenge for the industry by 47% of respondents and for their own bank by 18%. (See figure 14). A CRO at a leading European universal bank said "It's not about leadership, it's about compensation. Changing the incentive structure will change the culture."

The head of governance at a global universal bank was concerned about the link between compensation structure and risk-taking, saying, "There is a lack of alignment between compensation and risk appetite. This is exacerbated by an inadequate focus on ROE, which results in metrics focused on revenue, and not risk and ROE."

One CRO was passionate about the importance of proper accountability in banks, insisting that they should, "make all the risks fully transparent, [and ask] 'What is the risk? What is the problem?' Then ensure full accountability to manage this risk. It makes no sense for risk mitigation to be delegated. It has to be clear who is responsible for what, who is accountable. Make it transparent what the consequences are. So if someone breaks the rules, you should sack them and you should talk about it."

Risk off?

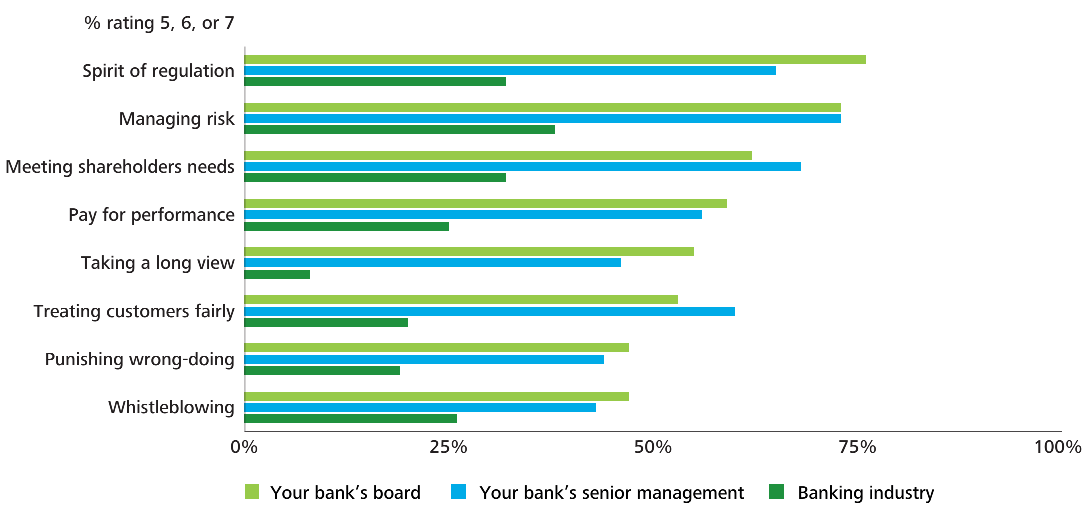
Bankers were strikingly divided about the challenge posed by 'too much risk-taking'. Almost a third considered it still to be a significant challenge for the industry but only 3% saw this as a problem for their own bank. (See figure 14).

This discrepancy was also evident when bankers were questioned about the ability of the industry, their own senior management and their boards to manage risk. Just over a third rated the industry as significantly effective at managing risk, and this was the factor in which the industry scored best. (See figure 15). While it was also the area where respondents rated their own managements the highest and boards second highest, the scores were much higher, with nearly double the proportion (73%) rating both significantly effective.

A senior risk officer at an Australian commercial bank expressed confidence about the new attitude to risk throughout the industry. "Given what we've come through," he told Deloitte, "I think everyone is attuned to managing risk."

However, an HR director from a universal European bank said, "I thought I would be bombarded with mandatory training on risk management and good ethical practice, to prevent managers from stepping over the line. We could go much further. I think it's good when you need to catch up in terms of discipline and integrity as a sector."

Figure 15. Rating of cultural management



Note: Survey rating ranked 1 to 7, where 1 = ineffective; 7 = extremely effective

Source: The Deloitte Bank Survey 2013

The non-war for talent

High employee turnover was rated a significant concern for the industry by just 15% of respondents, and for their own bank by just 5%. (See figure 14). Rather, one HR director at a global universal bank said, "I don't have enough continuous turnover. I've a lot of lower level employees who are not going to retire. There isn't a lot of flexibility in their mindset. [I am] big-, big-time investing in employability."

Is the industry able to change?

Bankers are sceptical about the ability of the industry to manage various aspects of culture effectively. They do demonstrate much more confidence in their own management, and especially boards, but there are still pockets of concern. (See figure 15).

Just under a third of respondents rated the industry significantly effective at 'meeting shareholder needs'. The executive director at a European universal bank explained: "Everything is for the management and very little is for shareholders. There is an obvious misalignment. This is very bad culture."

He was also cynical about the industry's attitude to the 'spirit' of regulation, remarking, "The industry is trying to play a game. We don't play [it] so much because we are retail."

What's to be done?

Culture is amorphous and it is difficult to see with clarity which levers will change it, or by how much. Even Lord Turner, whose job as chairman of the UK's FSA was in part to monitor banks' culture admitted, "We simply don't know whether we really have tools which can change culture."[19]

However even if the impact of different levers of culture is difficult to assess, bankers are broadly agreed about which of them they believe to be most potent.

What gets measured gets done

Unsurprisingly, for an industry in which pay is a key motivator, senior bankers chose employee evaluation metrics as the top lever for cultural change, with 89% rating it significant. For their own banks it was also the top factor (jointly with compensation structures), rated significant by 83% of respondents. (See figure 16).

Two factors struck many senior bankers as important for improving culture. First, many bankers said that performance metrics should balance risk and reward. Second, several senior bankers believe it important to evaluate employees' behaviour as well as performance.

Introducing a risk element into compensation is widely supported by central banks and regulators. Many banks have already begun to do this. Other banks, including several UK retail banks, have gone further, and have removed sales-specific targets altogether, replacing them with customer service targets.

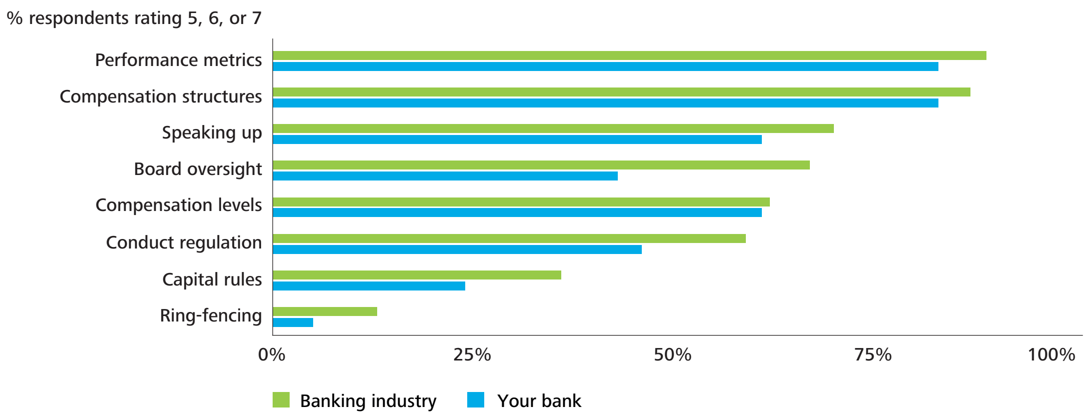
The strategy head of the European arm of a global bank said that "in retail banking this year, for the first time, we have no sales targets. It's behavioural-led. It's activity-led." He admitted, "It's a big leap of faith."

Increasingly, banks are beginning to judge employees not just on what they do, but also on how they do it. The key challenge for banks is whether they are willing to respond to poor conduct as they would poor performance, either by withholding bonuses or by sacking badly-behaved stars.

One CRO at an Asian universal bank outlined the problem. "Performance should measure both aptitude and attitude. You can't compensate people for being nice, but you can penalise them for not having the right behaviour." However, he conceded, "It's difficult, especially taking actions against star performers."

A CRO at a North American bank concurred on both the importance of metrics and the challenges of punishing stars. He said, "Compensation is another key part, you know. How is compensation set? Do bad actors [who] make big profits get rewarded? Or is there a cultural/behavioural override on the decision?"

Figure 16. Most effective levers for improving culture at your bank and the banking industry



Note: Survey rating ranked 1 to 7, where 1 = ineffective; 7 = extremely effective

Source: The Deloitte Bank Survey 2013

How you pay or how much you pay?

Compensation structures were thought to be the joint top most important lever for interviewees' own banks and second most important for the industry. Yet again, senior bankers rated compensation *level* less important than employee *metrics* and compensation *structure* (See figure 16).

One CRO at a European commercial bank told Deloitte, "It [compensation] is the sledgehammer. I can't think of many other effective levers."

The CRO at a European universal bank was unambiguous: "It's not about leadership, it's about compensation. Changing the incentive structure will change the culture."

Senior bankers focused on two key areas when discussing compensation structure: composition of pay (cash versus equity versus debt); and timing of pay (immediate versus deferred payment, and length of the deferral period).

On composition of pay, senior bankers indicated that the long-term risk associated with employees' performance should be reflected in their variable pay, advocating greater distribution of equity stakes instead of cash. This is supported by regulators. The EU's Capital Requirements Directive, for example, demands an appropriate mix of cash and components such as equity stakes, to align the interests of the employee with the bank.

Several interviewees accepted the need for pay in the industry to fall. One CRO said, "When the party's over, the party's over. I am against the privileged view that we, as bankers, deserve higher salaries regardless of whether we perform or not."

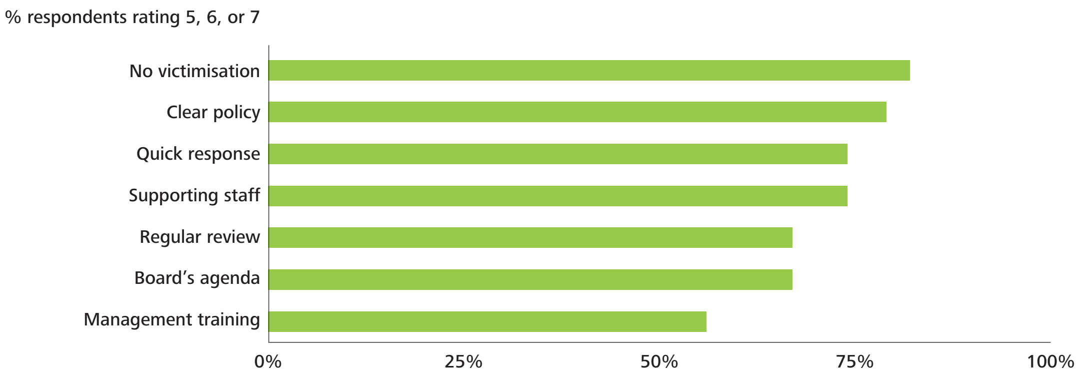
Speaking up

More effective communication of concerns was rated the third most important lever for the industry, and for interviewees' own banks. (See figure 16).

The bankers interviewed believe that they had the right processes and procedures in place for staff to escalate concerns. (See figure 17). The CRO at an Asian universal bank said, for example, "Whistle-blowing is top of the CEO's agenda. Every single whistle-blowing incident must be raised to the board."

Some respondents were less confident that the substance matched the form of the policies. The chief operating officer (COO) of the investment banking arm of a global bank outlined the dilemma. "I do think escalation is [important] for the banking industry [but] I don't think we make it easy. I think [the] airline and pharma industries show they have a better ability to escalate mission-critical information. I think putting the brakes on a profitable operation would be very career-limiting. It's now something that's being talked about more. Whether it's firmly on the agenda, I'm not sure."

Figure 17. Effectiveness of whistle-blowing management at your bank



Note: Survey rating ranked 1 to 7, where 1 = strongly disagree ; 7 = strongly agree

Deloitte would like to thank *Public Concern at Work*, the whistle-blowing charity, for their advice in drafting this question.

Source: The Deloitte Bank Survey 2013

Overboard

Many interviewees identified ‘tone from the top’ as key to changing culture. The CRO at a North American bank said, “I think it’s the tone from the top, if you were to pick one thing [to change culture].” One CRO at an Asian universal bank said, “The board and senior management are typical drivers of culture. The tone from the top … it’s core to the culture … [you] have to be seen to walk the talk.”

The global risk head at a global universal bank concurred that actions speak louder than words. He emphasised, “Unless you have very effective management in place, the tone from the top is just words and emails and posters. It’s not something that lives and breathes.”

When asked about responsibility for culture, bankers rated leaders of business units as bearing most responsibility for setting and changing culture, followed by the CEO, the board and the CRO, in that order.

They rated leaders of individual units as being most influential, CEO and CRO as moderately influential, and the board slightly influential, in instilling culture.

What is striking is that the heads of individual businesses were rated ahead of both CEO and board for both setting and instilling culture, thus reflecting a known finding in social psychology: that humans tend to conform to the behaviour they see around them.

When asked to identify the biggest challenge their banks faced when trying to change culture, incentives and conduct, bankers reported that getting these on to the board’s agenda was by far the least difficult of the problems they face. (See figures 18 and 19).

Training needs

Leadership training for senior managers was ranked the most important tool to help banks embark on a cultural change process, being chosen by 58% of respondents. A number of interviewees also commented on the importance of training for emerging leaders.

One banker argued that employees should be taught the right leadership skills and behaviours for each new leadership role before they enter into it. The global risk head at a global universal bank explained with exasperation, “We just don’t train leaders and managers. We just assume they’ll learn it by osmosis.”

Easier said than done

Across the board, senior bankers recognise that changing culture presents a challenge. Bankers interviewed by Deloitte believe they can rely on their boards to back them in this task: getting culture, incentives and conduct on the board's agenda was not considered to be difficult. Some interviewees said that these items were not on the agenda simply because they permeated all of their board's discussions.

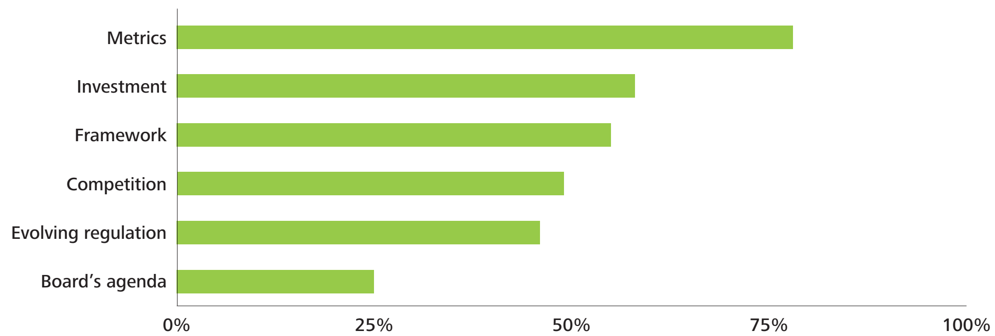
Easily the most challenging aspect of undertaking cultural change, bankers told Deloitte, is defining the right metrics against which to measure culture.

However, respondents held diverging opinions on whether cultural change helped or hindered their bank's competitive position. Some felt it was difficult to change if other banks didn't. Others argued that an effective culture is a competitive advantage. (See figure 18).

The COO of the investment banking arm of a global bank explained, "Perversely I think there is a potential prize of getting this [culture] right. If a culture makes us safer, customers may recognise this and we would benefit from that".

Figure 18. Biggest challenges when making culture more effective

% respondents rating 5, 6, or 7



Note: Survey rating ranked 1 to 7, where 1 = not challenging; 7 = extremely challenging

Source: The Deloitte Bank Survey 2013

Compensation complications

The respondents consider that the biggest challenge while reforming compensation is how to maintain motivation while pay is static or falling. (See figure 19).

After that come competitive pressures. Many were concerned that changing performance incentives would result in competitors picking off their best talent. The head of compliance at a South African bank said, "Remuneration structures can be a lever [for cultural change] but we need to be mindful of the impact on attracting and retaining key talent."

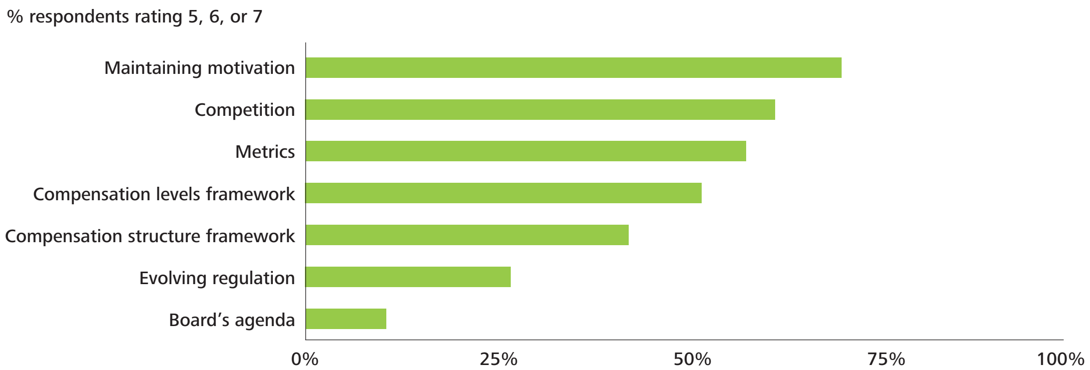
This may appear surprising given that pay and jobs in banking are being cut across the world. After all, even bankers themselves reported that employee turnover was not a major concern.

However, banks operate in a global market and are competing internationally for talent. Compensation experts report that senior bank management teams find it difficult to implement universal compensation policies because of differing compensation regulations.

Conduct challenges

Bankers reported that balancing compliance with generating return was the biggest challenge in improving conduct. Aligning conduct to evolving regulations, competitive pressures and designing a framework and metrics for conduct were all considered to be moderately challenging.

Figure 19. Biggest challenges when trying to improve performance metrics



Note: Survey rating ranked 1 to 7, where 1 = not challenging; 7 = extremely challenging

Source: The Deloitte Bank Survey 2013

Epilogue

The banking industry is under pressure to make significant cultural changes to practices and behaviours that are deeply embedded within organisations, stretch across thousands of people and, in many cases, numerous countries. The expectations around the *extent* and *pace* of cultural change in the banking sector are unprecedented.

This survey has shown that bankers themselves recognise that the cultural problems in the industry have many causes. To tackle these causes will require action on a number of fronts, from leverage through compensation through risk awareness and training staff to speak up if they suspect wrong-doing.

As Stephen Hester, chief executive of RBS, which is undertaking one of the biggest cultural transformations in banking explained, "We need to understand that people are … saying here is an industry with a cultural problem … but culture changes over a generation, not on the turn of a sixpence."[19]

About the survey

The Deloitte UK Banking Insight team interviewed 41 global bankers from 18 countries across Europe, the Middle East, North America, Asia, Australasia and Africa. The institutions represented held around £15T ($25T) in assets as of December 31, 2012.

Interviews were conducted between December 2012 and April 2013. The positions of those of interviewed include: chairman; chief executive officer; non-executive director; chief operating officer; chief risk officer, and director of human resources.

About the authors

Margaret Doyle, Alicia Chung and Patrick Quigley comprised the Deloitte UK Financial Services Insight team that conducted the survey in conjunction with DTTL member firms around the world. Sandeep Medury, Ranganathan Tirumala and Karishma Gupta are Financial Services analysts in the Business Research Center at DTTL in Hyderabad.

Notes

1. Bloomberg, Non-performing loans as a % of total loans, US, UK, Europe, 2000-2012
2. PPI provisions of major UK banks consisting of HSBC, Barclays, Lloyds Banking Group, RBS and Santander UK, taken from the company announcements. Data on the number of complaints were taken from the Bank of England. These were based on financial services firms' reported number of complaints which were not resolved by the end of the business day following their receipt. http://www.bankofengland.co.uk/publications/Documents/fsr/2012/fsrfull1211.pdf
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Culture in banking
Under the microscope

Is there a problem?... Yes, but less so in my bank

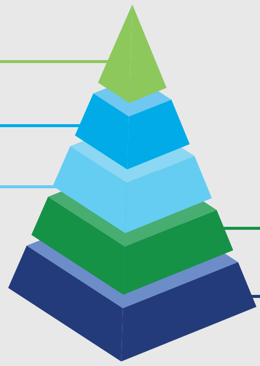
65% of senior bankers believe there are significant cultural problems in the industry

But only

33% of senior bankers believe there are significant cultural problems in their bank

Top five causes of cultural problems

1. Compensation structure
2. Board oversight
3. Compensation levels
4. Lax capital rules
5. Management's risk understanding

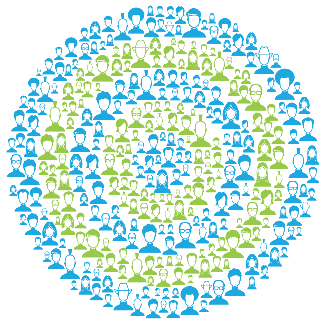


Performance must be better managed

76% of senior bankers believe that compensation levels were a significant cause of cultural problems but only **26%** believe it is a significant problem in their bank

Performance metrics were the: **#6** cause of cultural problems **#1** most effective lever for change

Compensation structures were the: **#1** cause of culture problems **#2** most effective lever for change



Regulatory creep

Senior bankers view the regulatory response following the recent crisis as the **#1** cultural concern for their bank

2/3 of senior bankers rate 'too much regulationreducing returns' as a significant concern

Incentives and management are key to changing culture – more so than external forces or regulations

69% of senior bankers believe that having retail and investment banks under the same roof bore little or no responsibility for the industry's problems

Is the industry able to change?

63% of senior bankers agree or strongly agree that banks have the ability to transform their culture

82% of senior bankers agree or strongly agree that banks would benefit from a change in culture

Defining the right metrics is the biggest challenge to improving culture

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