

BANKING CONDUCT AND CULTURE –THE NEED TO GO DEEPER

HOW BANKS CAN AFFECT TARGETED CULTURAL AND BEHAVIORAL CHANGE





THE NEED TO GO DEEPER

Banks have made progress in addressing the conduct misdemeanours that were exposed by the financial crisis and its aftermath. Many have put in place frameworks, structures and measurement tools to manage conduct. But the journey is far from complete. New incidents and fines are still occurring, with several high-profile cases continuing to emerge in the last year. And there are growing concerns that the proliferation of metrics, controls and surveillance technology that have been implemented are costly to maintain and may have some unintended consequences on conduct. Leaders in banks are asking how they can generate the confidence that they are addressing the right areas of concern in an effective and efficient manner – targeted and effective conduct culture change to reduce conduct risk.

The stakes of getting it wrong are high. Conduct has emerged as one of the biggest material risks since the financial crisis and has eroded shareholder value with hundreds of billions of dollars of fines to date and still growing. At wholesale firms, these fines and settlements accounted for up to 75% of non-financial risk losses over the last five years.¹ Fundamentally, this has impacted the trust that customers and clients have in the financial services industry. Moreover, top executives now take direct accountability for poor conduct outcomes, due to both the implementation of the Senior Managers Regime in many jurisdictions, and the scrutiny of the media.

To drive the desired changes and improve leaders' confidence, we believe banks need to be more targeted and go deeper in the next phase of their conduct culture² work, specifically the application of behavioral based techniques and insights. Conduct-related events and outcomes typically result from individuals' behavior: what they say and what they do. These behaviors are a result of the stimulus of highly complex neural networks that have not been fully understood by most large organisations.

Generating a fact-based understanding of the current culture and then driving the cultural and behavioral change is possible, through systematic diagnosis and programmes of intervention which draw on behavioral science. The Oil and Gas industry has demonstrated a step change in behavior is possible. For example, our work over the past 15 years in this sector started with driving safety towards the industry's "goal zero" – a target focused on no fatalities. Companies have been through several iterations of refining their understanding of what is required to create a safe workplace getting deeper and deeper into what motivates people to change. Now they are focused on establishing a culture where everyone cares about the business, their colleagues, and themselves – creating a safe work environment. These same techniques can be applied to great effect in the banking context to dramatically improve the risk and conduct culture.

In this paper we cover the two main factors that make for successful behavioral change: firstly the identification of specific current and target behaviors and their root causes, and secondly a sustained commitment to support individuals as they go through the process of

¹ Source: Operational Riskdata eXchange Association (ORX)

² Starting at the broadest level, all aspects of culture within an organisation would be the Corporate culture, of which there are typically many different subcultures. Similarly, conduct culture is the part of culture that has an impact on conduct related issue, both positive and negative (mis-conduct)

behavioral change – typically through waves of change and 90-day cycles of nudges. This support ranges from simple interventions at the individual level, to structural changes that affect groups. The interventions are aimed at encouraging and reinforcing right behaviors and limiting those that do not serve the organisation.

UNDERSTAND THE ROOT CAUSE OF TARGETED SUBCULTURES

The first step is to understand the root causes that underpin the specific behaviors requiring change. These are typically seen in specific subcultures in the bank. Familiar examples of subcultures that transcend firm cultures include:

- Foreign exchange traders: Seen as a kind of brotherhood or club. Market manipulation was made possible by a horizontal culture and behaviors that cut across banks and was arguably more influential than any institutional identity or culture.
- Trading floor culture: This is dynamic, individualistic and driven by profit making. Its 'jungle rules' are informal and unwritten, and shape behavior more strongly than the stated organisational culture.
- Debt- and equity-capital markets: Across both areas there are tensions between longer-tenured employees who display client behavior that is more protectionist, and juniors who tend to have a more collaborative approach and serve more dynamic clients.
- Support functions: Many of these have developed quite different cultures to the rest of the business due to the role they fulfil and an imbalance of power. The relationship is often further strained by misunderstandings and curt communications, as well as pressure exerted on support functions to execute outside their comfort zone.
- Geographic: This is well-researched with insights on many levels. Decision making tends to be consensual in Japan, top-down in China and relatively distributed in the United Kingdom and United States. Communication in Asia is predominantly high-context, while that in the US and Europe is low-context. The Germans and Dutch are most direct when evaluating work and giving negative feedback; many Asian cultures are indirect; and the UK and US are in the middle ground.³

These differences in subcultures are important because any efforts to change the behaviors will have limited impact if employees cannot relate to them in their day-to-day environment. To anchor behavioral change in daily actions, leaders require granular information and a deeper understanding of subcultures and what is important to them. Absent of this, banks have often applied a broad-brush, one-size-fits-all approach resulting in poor and varied impact. For example, many have invested in raising awareness and started the process of behavioral change by emailing to ask everyone to watch a conduct video and answer a set of questions. But, staff in a pressurized work environment may usually watch the video while dealing with emails and other business priorities. In addition the content is too broad and does not feel applicable to the employee, and there is lack of clarity over what it means in terms of expectation on employee behavior. This results in minimal impact on their awareness levels and limited change in their behaviors.

³ Erin Meyer: Culture Maps

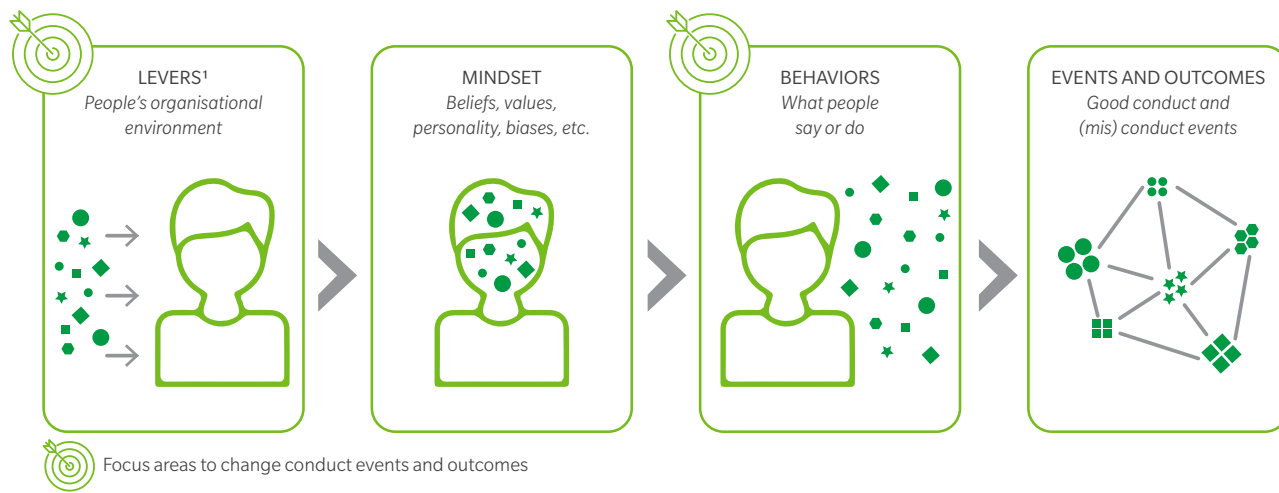
There are multiple levers that can be used to influence and change behaviors, but these need to be carefully targeted and tailored. Below is a simple framework that helps demonstrate the relationship between drivers and outcomes. (See Exhibit 1.)

Risk behavioral change programmes should look upstream of outcomes, focusing on the drivers, mind, and behaviors. This should be done through a data and fact-based diagnostic that uses a wide range of behavioral analysis techniques and data sources to identify how and why behaviors diverge from the target conduct behaviors. The diagnostic broadly involves the following:

- **Review of previously unlinked existing sources of data and information to generate rich hypotheses around which business areas and behaviors are exemplary or could cause issues:** Internal information can include behavioral surveys, engagement surveys, existing reviews on culture (including risk culture), leadership assessments, conduct forums, conduct Management Information, internal communications, organisational reviews, and network analyses or relationship mapping. External information can include external communications, traditional and social media, and online alumni evaluation.
- **Testing the hypotheses and addressing gaps in information through additional deeper investigations and data collection:** Examples tools and techniques include targeted mini-surveys and diagnostics to better understand the organisation’s culture and subcultures, for example individual behavioral profiling, cultural maturity mapping, and cultural connection mapping. Other ways to test the hypotheses involve gathering employees’ views and identifying root causes of behavior. This can be done through a combination of individual interviews, anonymous virtual focus groups, facilitated focus group sessions, and group discussions on behavioral dilemmas.

Ideally this approach is led by a multi-disciplinary team, blending expertise in banking, behavioral science, and facilitation to build trust and rapidly zoom in on insights.

EXHIBIT 1: CONDUCT EVENTS AND OUTCOMES, AND THEIR UNDERLYING DRIVERS



¹ Levers include: **external factors** (e.g. regulators, news, competitors, suppliers, markets, etc.), **tangible internal factors** (e.g. mission, strategy, incentives, organisation, processes, policies, procedures, etc.) and **intangible internal factors** (e.g. leadership style, team dynamics, office environment, etc.)

SUSTAIN THE TARGETED EFFORT TO MAKE BEHAVIORAL AND CULTURAL CHANGE

The fundamental purpose of the root-cause analysis is to develop a programme of targeted practical interventions, behavioral nudges, and messages tailored to each subculture that requires changing. It is important when starting the process of cultural and behavioral change to ensure that:

- There are clear messages about how the change will have a positive impact on the business or the results that the target audience are responsible for
- The change is designed in a way that emotionally connects to what the target audience believes is important

For example, take the situation where employees are not speaking up, with further analysis revealing that they believe speaking would hurt their careers as their managers would view them negatively. Interventions to address this could include implementing anonymous virtual focus groups where people can speak confidentially and then showing this doesn't negatively affect their career and relationship with managers. They could also include redesigning bank investigation processes, or leadership assessment and coaching. Such interventions build energy around the process of change and generate momentum. The specific combination of changes implemented will depend on what the target audience believes is important and can connect with. Regardless of which intervention set is chosen, it is then critical to show how this helps avoid conduct issues and the subsequent negative impact on customers, staff and the business (See Exhibit 2.)

To sustain desired changes, it is critical that behaviors are internalized rather than the product of a task someone does for a while.



EXHIBIT 2: EXAMPLES OF INTERVENTIONS TO ADDRESS SPEAK UP ISSUES IN DIFFERENT TEAMS

TEAM 1

SPEAK-UP CULTURE OBSERVED

- Belief that speaking up will impact career prospects, and heard stories to “confirm” belief
- Communications all come from Manager to the team



Virtual focus group

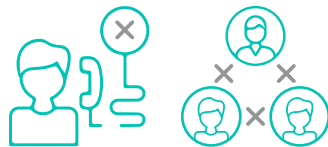
SELECTED INTERVENTIONS

- Set up anonymous virtual focus groups
- Manager 360 assessment with peers
- Manager coaching
- Set up conduct champions to improve culture / explore speak-up



TEAM 2

- Speaking up encouraged, with significant attention from leadership
- Trust in managers but not in organisational escalation methods
- Concern that those raising issues are first to be investigated



- Business review of investigation process to reduce stress and fear
- Comprehensive review of escalation mechanisms, including less formal route
- Set up representative group to raise issues up to senior management
- Provide scenario based training for HR and line managers



TEAM 3

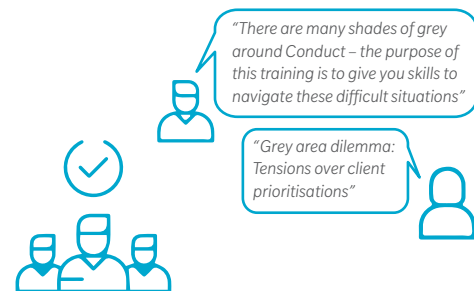
- Well-trained on conduct rules
- Less likely to escalate really grey areas due to perceived burden, unclear consequences, fear of non-compliance
- Belief that reporting issue is seen as not being able to cope



Behavioural dilemmas training



- Rollout grey area dilemmas training to improve decision-making when right answer unclear
- Ongoing coaching / follow-ups to enable strong business judgment

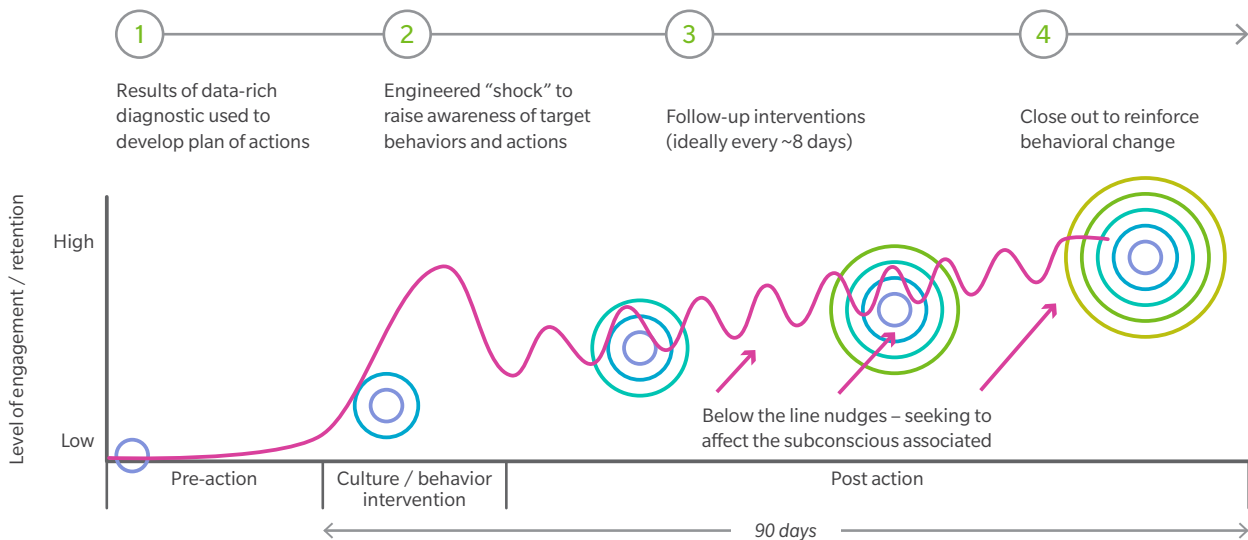


Based on research into behavioral change in adults and our experience of what works in organisations, we work in 90-day cycles or “waves of behavioral change”. Formal learning interventions such as coaching, training, communications are used as in the earlier phases to raise awareness and build understanding. These are typically combined with the structural changes being implemented as part of a bank’s conduct framework, such as policies and procedures, governance structures, and performance management frameworks. Often these are the right structural changes to be made but haven’t yet sufficiently considered team climates and behavioral patterns. To reinforce the desired change, it is critical to keep the learning going through a variety of tips, nudges, experiences and reminders (See Exhibit 3.). For example, using electronic messages, such as emails or screen pop-up windows if the trader’s pricing varies meaningfully from their normal pricing pattern or market mid – “Are you sure?”.

The leaders also need to consider how they change their behaviors and ensure that they are being visibly and credibly committed to change – for instance, actively involved in designing and launching interventions.

Targeted cultural change gives leaders the confidence that the right areas are being addressed in an effective manner to reduce conduct risk.

EXHIBIT 3: APPLYING THE BEHAVIORAL LENS TO LEARNING CYCLES



DRIVING BEHAVIORAL CHANGE

We have developed an approach to driving sustained and targeted behavioral change which addresses key pain points that banks experience when implementing risk and conduct change programmes to delivery target outcomes. (See Exhibit 4.)

EXHIBIT 4: EXAMPLE PILOT APPROACH

OLIVER WYMAN SUPPORT



We bring a unique combination of deep financial services content expertise, and an understanding of the day to day activities of bank employees and their competing priorities, coupled with proven behavioral and culture change capabilities. We have established a robust and effective approach to implementing sustained change that leverages a suite of diagnostic tools rooted in behavioral science, and a portfolio of tried and tested interventions that we can deploy. It is important to understand that given the diversity of bank cultures and environments, our approach is targeted and customisable to address a business's specific needs.

Based on extensive work with clients, we have identified a number of key factors to deliver success on the ground:

Dialogue to create ownership: Ensure the business teams own the changes. They need to be involved in conversations about the change and how best to make it work in their specific business environment from the very start, so that it becomes anchored and is sustained in their working practices. At the same time, it is important to engage and obtain visible buy-in from senior stakeholders and those in related support functions – Risk, Compliance, HR, etc.

Rapid cycles of “Test, learn, and do”: Ensure there is a sufficiently short “test-learn-do” cycle, as an effective way of instigating shifts in behavior. Within each 90-day cycle there are short pilots of changes that generate feedback, produce results rapidly, and ensure that the full roll out has a much improved rate of success.

Independence and creation of a safe space: Ensure that the programme creates an environment of psychological safety, confidentiality and trust. This is where external, independent teams are useful as they can retain a level of independence in any ongoing conduct-related root cause analysis and pilot design.

Focus on the environment rather than the individual: Focus the change on the organisation or team and its culture. It is critical that this work is not perceived as a witch hunt to identify individuals with poor behavior.

Amplify the good: Although the focus is typically on correcting the poor or inappropriate behaviors, also seek to amplify the good behaviors and highlight examples of good behavior, encouraging good conduct.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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