smarsh

1LoD

CULTURE & CONDUCT

FORECAST 2022

The evolution of good behaviour

Much has changed in the financial services industry over the decades, from products and technology to conduct and culture. The bad behaviour of the 1980s – as depicted in Liar's Poker, The Bonfire of the Vanities and Wall Street – is out; these days, regulators and institutions resort to behavioural science, artificial intelligence and technology, data and audits to ensure that conduct in the workplace meets the highest standards.

"Great representation including insights from Europe and Americas professionals"

IRIS SUN, SENIOR MANAGER, AUDIT, SCOTIABANK

Emerging Trends in Culture Reform: The New York Fed's Perspective
Regulatory Keynote Address: James Hennessy, Senior Vice President, Head of Culture Initiative, Federal Reserve Bank of New York

Conduct and culture are not simply matters for the human resources (HR) departments at financial services institutions. Regulators, too, have a keen interest in how firms ensure correct and ethical behaviour or rally their staff around a set of shared and clearly defined core values. That was the message from two top supervisory officials when 1LoD gathered regulators, behavioural scientists and risk and control professionals from across the 3 lines of defence to join its Culture & Conduct Deep Dive virtual event in late March.

James Hennessy, senior vice president, head of culture initiative, at the Federal Reserve Bank of New York, told participants that financial services firms now have a far greater understanding of how to assess and influence the norms and behaviours which drive decisions in their organisations. He cited the increasing use of behavioural science, the larger pools of (more reliable) data about culture which are now available, as well as improvements in culture assessments and audits. This year, he said, the New York Fed will focus on the meaning and importance of trust in organisations, the impact of digitisation on culture in the financial sector, and how pandemic-related changes in working practices affect workplace culture, especially with regard to psychological safety and speaking up about unacceptable behaviour or practices.

A regulator from the UK described how culture was considered to be at the heart of its supervisory work. A healthy work culture is purposeful, diverse, safe and inclusive: it is characterised by effective leadership and underpinned by sound governance and policies relating to its employees and customers. This regulatory official urged firms to be proactive in gathering data on diversity and inclusion rather than waiting for regulators to move first. As for environmental, social and governance (ESG) issues, he said the regulator would pay more attention in future to the social aspects, including how firms treat their employees, suppliers and other stakeholders. The UK's forthcoming Consumer Duty package of measures will force firms to take stock of their culture and governance and put consumers at the heart of their financial services, he added.

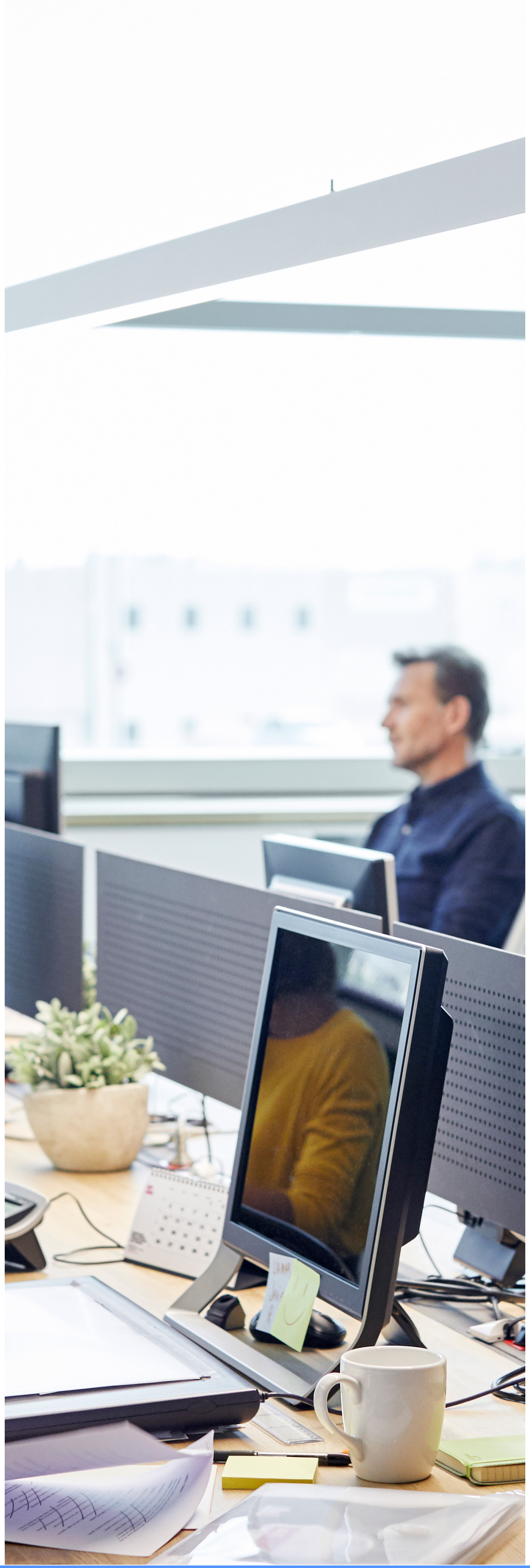
Smart solutions

Firms are under pressure to show that they are genuinely embracing ESG and diversity, equity and inclusion programmes, yet the tools and solutions that they rely on have blind spots according to Gagan Gulati, chief product officer at Behavox. Surveys, for example, can be subjective, and research by Gartner found that only 14% of workplace misconduct is reported to HR.

Technologies – for example, artificial intelligence (AI) – offer smarter ways for firms to identify cultural weaknesses and protect themselves against conduct risk, Gulati argued. Behavox's AI-powered solution is informed by a comprehensive taxonomy which was developed with top law firms. It scans firms' entire digital communications for indicators of harassment, bullying and discrimination. Messages are made anonymous to ensure privacy unless the technology flags the need for further investigation.

Remote and hybrid work can place extra stress on employees and can even contribute to the creation of a toxic workplace culture, said Bryan Jeffries, principal group programme manager at Microsoft. He cited research published by MIT Sloan Management Review in January which showed that a toxic culture was the biggest factor pushing employees to quit in unprecedented numbers in the US last year, a phenomenon which MIT Sloan dubbed the Great Resignation.

Jeffries said that promoting a positive workplace environment should start with a clear code of conduct, the creation of employee feedback channels and the fostering of a culture of transparency, awareness and trust. But technology tools that can "connect, protect and empower employees" are particularly important. For example, Microsoft Purview Communication Compliance helps organisations to detect violations of corporate conduct and compliance policies, including the inappropriate handling of sensitive information, harassing or threatening language and the sharing of adult and other prohibited conduct. Such solutions, Jeffries said, "can be vital in helping organisations better identify, analyse and address issues that can place them at risk".



The culture landscape

Participants discussed what firms' conduct and culture programmes have achieved so far, how progress should be measured, and what to focus on next.

Remote or hybrid working can have different effects on workplace culture. Some panellists argued that it has weakened unity, eroded trust and reduced the diversity of employees' interactions. Others said that working at home has proved beneficial as it resulted in less swearing and less risk-taking, while allowing more women to work, thus improving the gender balance.

Brandon Carl, executive vice president, product strategy at Smarsh, said there has been an "explosion" of awareness and prioritisation of culture at financial services firms in recent years, laying the foundation for a cultural transformation. Other participants agreed: a poll showed that 83% believed the culture at their firm has improved over the past two years.

However, Carl warned that the ingredients for misconduct in the past – huge liquidity, opportunities for inappropriate actions and the means to commit them – are all present at the moment, thanks to economic stimulus, home working and the growth of meme stocks. The need for investment in culture is therefore "greater than ever", Carl said.

Panellists agreed, and said this called for a shift in mindset. The industry's focus historically on identifying and mitigating the risk of bad conduct means that many crucial controls and data points are now in place, one participant argued. Others added that firms can now afford to redirect some resources towards improving overall conduct, which would in turn drive performance, improve client outcomes, attract talent and restore public trust in financial services.

However, one attendee warned against swinging too far in this direction: While many banks celebrate entrepreneurial spirit, she warned that this can have a "dark side", leading to undesirable behaviours which banks must not ignore.

It's clear that firms want to build a broader and more dynamic picture of their culture. Panellists reported that institutions conduct more frequent pulse surveys and encourage employees to provide feedback on one other. One attendee said that measuring culture requires a more qualitative approach, where narratives offer as much insight as hard data, but she acknowledged that achieving this balance is difficult.

In terms of understanding conduct and culture, 61% of the audience reported a medium level of confidence that their firm measured the right issues, while 16% reported a high level. Nearly a quarter had a low level of confidence, however. [chart 1]

Carl of Smarsh said that technologies for measuring and monitoring culture with a greater level of detail already exist. He added that firms must now decide which behaviours to promote and must agree on the most ethical way of doing this, engaging employees in the process.

CHART 1

The confidence I have that my firm is measuring the right things in order to understand it's conduct and culture is:

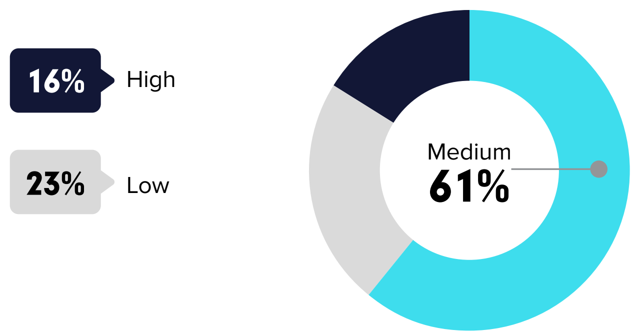
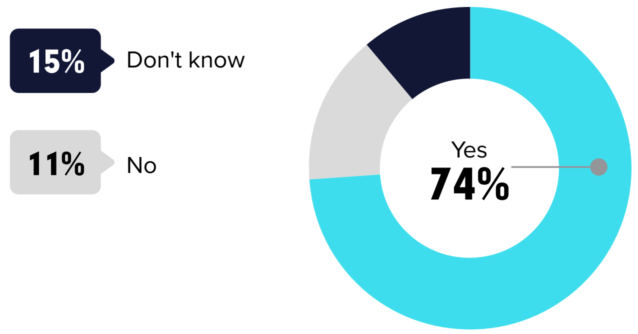
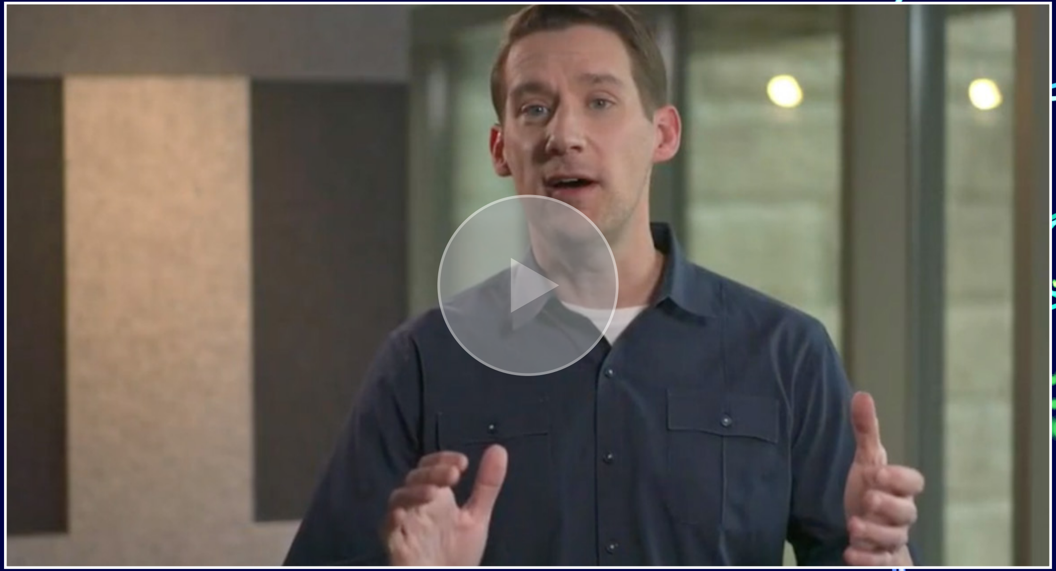


CHART 2

Does your firm have a dedicated focus on culture:





Keynote: Bryan Jeffries, Group Product Manager,
Insider Risk Product Offerings, Microsoft

Purposeful cultures

A separate line of discussion focused on how firms can align their goals with their employees' core values, and how they can inspire trust and loyalty while avoiding charges of greenwashing.

This increased focus on building a purposeful culture is partly driven by employee expectations: panellists said that some employees consider corporate purpose to be an important factor when choosing where to work. Employees are more proactive when it comes to fostering a good workplace culture, and are more willing to participate in surveys and feedback mechanisms. Regulators are encouraging this by focusing on individual accountability.

A poll of the audience found that 83% believed the responsibility for building a good culture lies with everyone in an organisation – a view echoed by panellists. A mere 14% said that responsibility lay with senior management, while 3% put the onus on the board. [charts 3 and 4]

Panellists said that middle management need to play more of a role when it comes to reinforcing a good workplace culture. Strong leadership remains key: however, tone from the top is no longer enough, and managers must show that they too live the values espoused by the company.

To instil a good culture, leaders must have a greater understanding of employees' concerns and expectations, panellists agreed. Employing behavioural scientists is one way to achieve this, but using more and better cultural surveys – with, for example, open questions to obtain qualitative insights – is also important. Organisations must find ways to include less standardised metrics in their culture audits.

As firms expand their ESG work to focus more on the social impact, they must also avoid greenwashing charges by demonstrating that this goes beyond empty pledges, for example by reporting on and closing their gender pay gap, one panellist said.

CHART 3

I think the culture at my firm has changed for the better over the past 2 years:

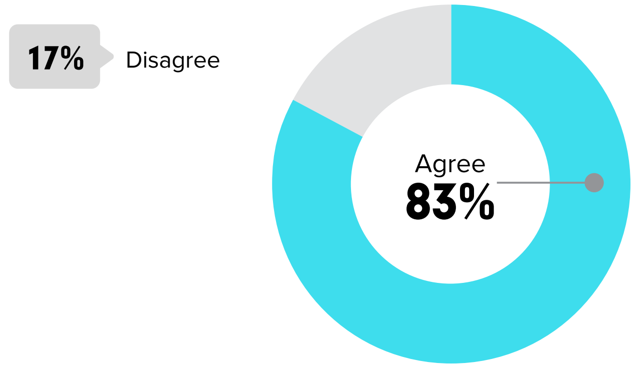


CHART 5

Do you feel that your firm's senior leadership sends strong messages from the top on culture?

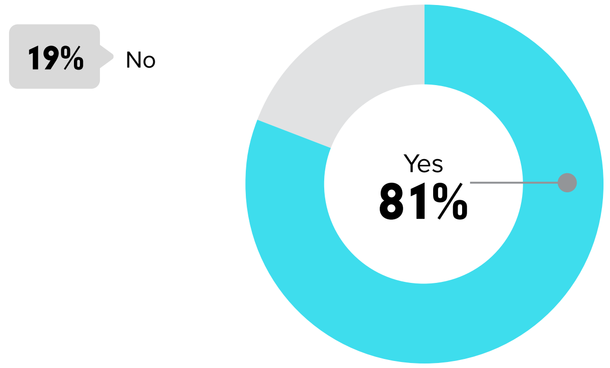


CHART 4

Who is responsible for good culture in the organisation?

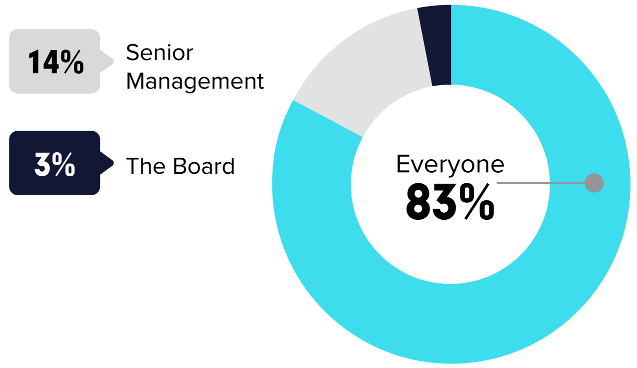
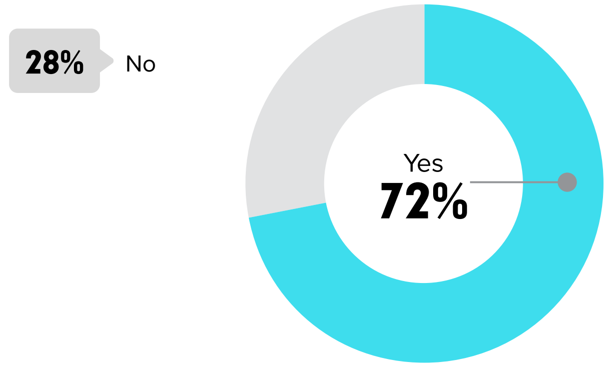


CHART 6

Does your firm have a goal related to changing its culture in 2022?



Is healthy culture good for business?

With a focus on profits, the question arises as to whether having a good culture is good for business. Panellists cited a tension between the two. A poll showed that 72% of audience members' firms aim to change their culture in 2022: this means firms must strike a balance so that culture change does not get in the way of business innovation or risk-taking, one panellist suggested. [chart 6]

However, firms do have a responsibility to align culture with business, for example by linking good conduct with compensation, one participant said. And it is important for senior and middle management to be consistent and clear when communicating the firm's goals and expectations regarding workplace culture and the benefits that good culture can bring to the business. Overall, what matters is that the tone from the top and the message from middle management are in harmony.

Firms need to measure how well cultural transformation is embedded across the organisation. One participant called for a mix of quantitative and qualitative tools, and the use of data points to identify areas for deeper, more qualitative research. The incidence of reports of misconduct, including anonymous whistleblowing or owning up to bad conduct, can also be useful metrics.

Keynote: Gagan Gulati, Chief Product Officer, Behavox

"Excellent program covering emerging topics and trends relevant in today's regulatory and risk landscape."

ANONYMOUS

Culture audits

The final debate focused on the changing shape of culture audits and how the 3 lines of defence can collaborate to mitigate behavioural risk.

A poll of the audience indicated that this was new territory for many: 32% said their firms do not perform culture audits; 16% said they perform thematic reviews; another 16% said they perform area-specific audits; 13% have culture components embedded in each audit; and 23% rely on a combination of approaches. [chart 7]

One panellist whose firm takes an area-specific approach (gathering a working-floor view of individual teams' or departments' culture through interviews, followed by surveys and desktop review) said this was due to the fact that organisations rarely have a homogenous culture. Another panellist said his firm takes an organisationwide approach, aiming to gather 10 to 12 cultural insights from each of its approximately 300 audits per year, then triangulating them against other sources such as colleague surveys or exit interviews.

Developing the right skills in auditors to conduct culture audits is a big challenge, one panellist said. Another said her firm employs skilled specialists to help interpret the information gathered in audits. A third argued that many auditors already have the right skills, but need support with building a taxonomy of behaviour.

Auditors also need to abandon a box-ticking approach and crude metrics such as training attendance or net promoter scores, this participant argued, and instead embrace more qualitative indicators while focusing on employees' behaviour rather than sentiment. However, another panellist noted that senior management in the business can be less receptive to qualitative metrics.

Asked whether their organisation links its values to business initiatives such as reward and recognition programmes or performance assessments, only 22% said this was not the case. Just over one third (34%) said a formal incentive and consequence structure was in place for both good and bad behaviour; the rest either focused purely on consequences for bad behaviour (35%) or rewards for good behaviour (9%). [chart 8]

Panellists said raising findings helped senior management in the business to prioritise interventions, but that rating or colour-coding behavioural findings can be counterproductive. In another poll, which asked whether audience members' organisations rate culture issues and reports, 48% said assessments are qualitative and unrated, 28% said issues are rated but not reports, while just 24% said both individual issues and reports are rated. [chart 9]

Sharing positive findings with the business is also important, panellists argued. And while management's follow-up interventions should be monitored, the targeted timeline for these should be longer and less prescriptive.

As culture continues to move up the agenda at organisations, capabilities around measuring the impact of interventions will require as much investment as those of monitoring culture and incentivising good behaviour.

This information was taken from the Culture & Conduct Deep Dive on 22 & 23 March 2022.

CHART 7

Does your organisation perform 'culture audits'?

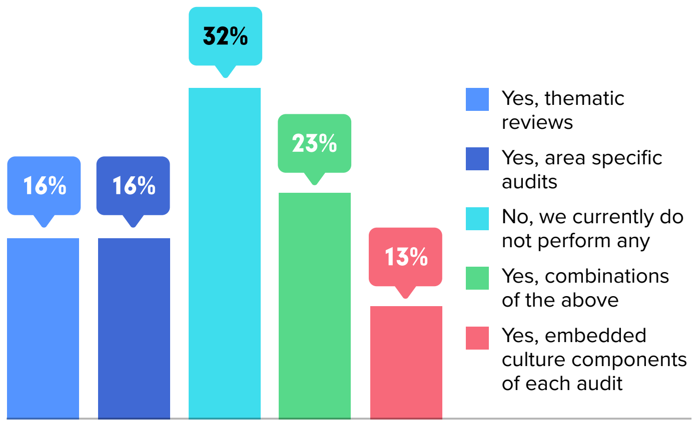


CHART 8

Does your organisation have rewards or incentives for good behaviour/culture/conduct as well as consequences for a poor culture/conduct behaviour?

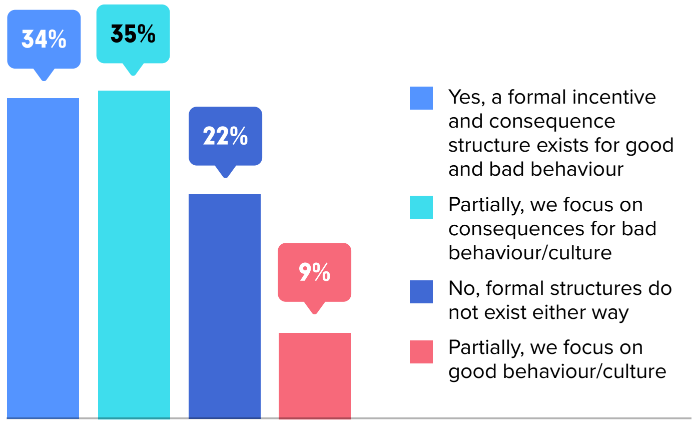
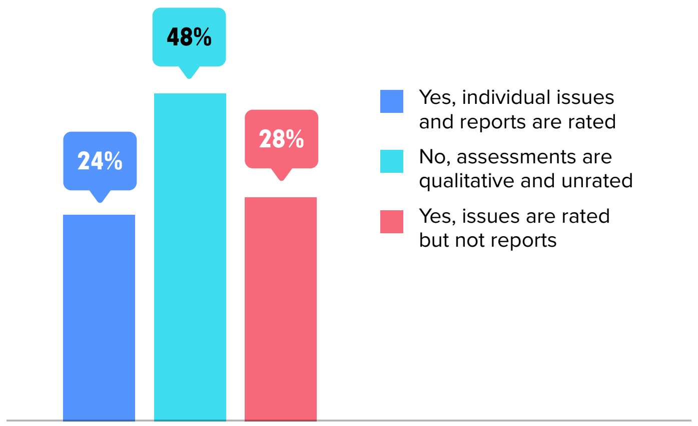


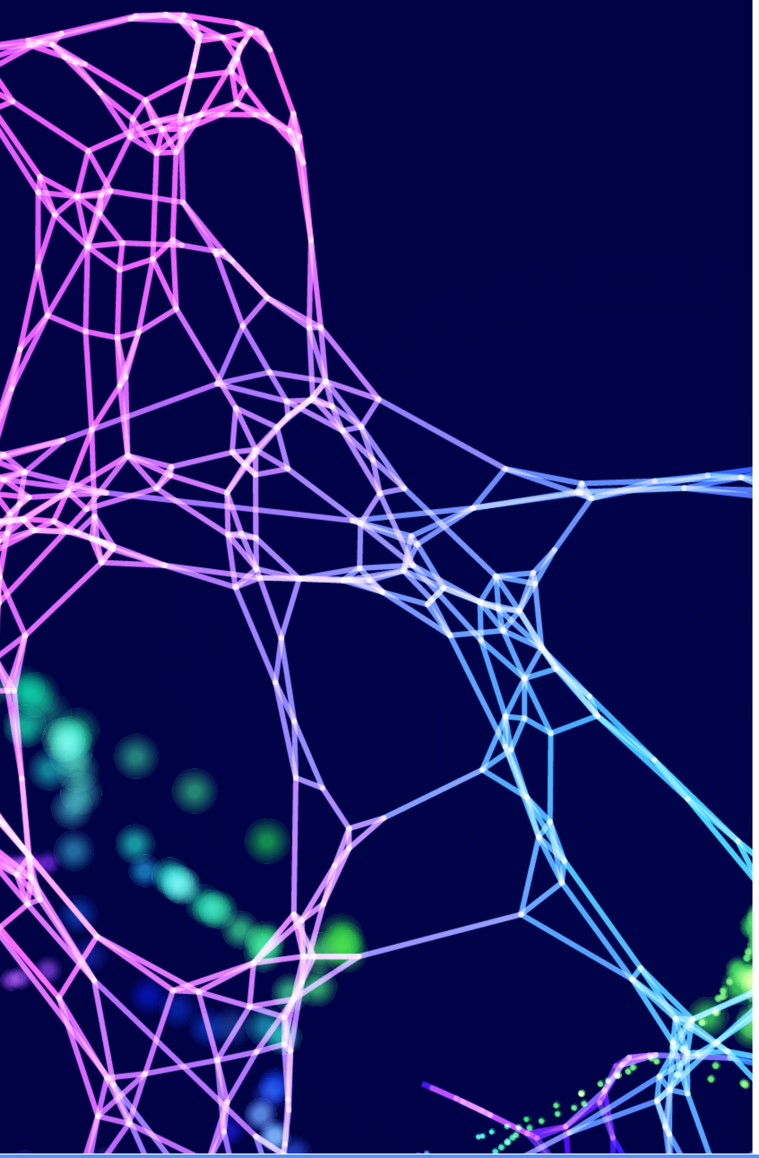
CHART 9

Does your organisation rate culture issues and reports overall?



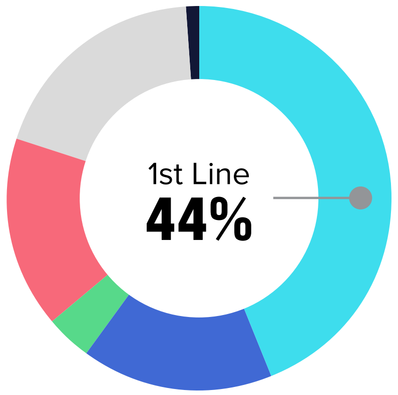
"A great event! Bringing a wealth of knowledge and expertise from such diverse perspectives creates a really interesting and thought provoking experience for all involved."

CHARLOTTE GARVEY, SENIOR CONTROL MANAGER, DIRECTOR, BNY MELLON



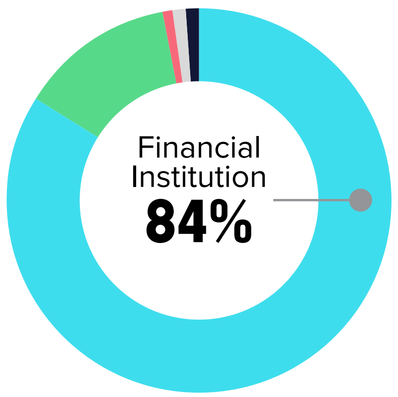
Financial Institution by Line of Defence

- **16%** 2LOD - Compliance
- **16%** 2LOD - Risk
- **16%** 2LOD - Surveillance
- **4%** 3LOD - Audit
- **16%** Other



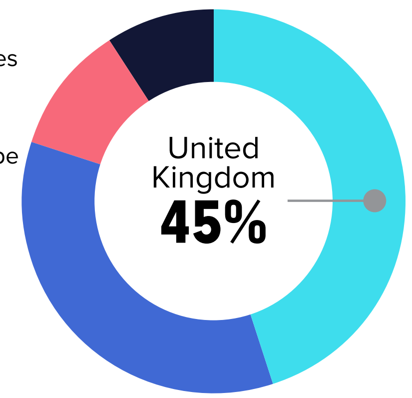
Delegate Profile by Type

- **13%** Technology Firm
- **1%** Consultancy
- **1%** Regulator
- **1%** Energy Company



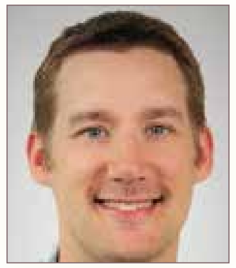
Geographical breakdown

- **13%** United States
- **11%** Other Europe
- **9%** APAC

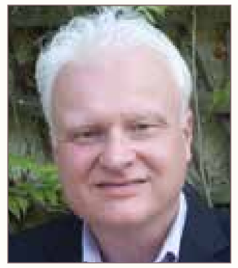


Speakers

James Hennessy
Senior Vice President, Head of Culture Initiative
Federal Reserve Bank of New York



Bryan Jeffries
Group Product Manager, Insider Risk Product Offerings
Microsoft



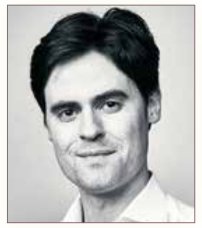
Peter Ewing
Technical Specialist
Financial Conduct Authority (FCA)

Gagan Gulati
Chief Product Officer
Behavox

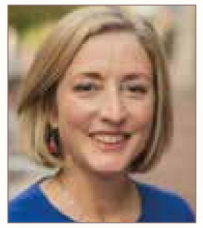
Mirea Raaijmakers
Global Head Behavioural Risk Management
ING

Nathalie Risacher
Global Head of Talents & Culture
Natixis

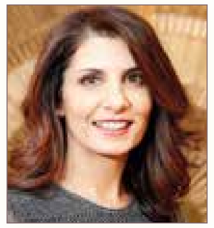
Toby Billington
Managing Director, ICG Risk and Controls
Citigroup



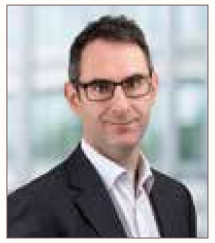
Brandon Carl
Executive Vice President of Product Strategy
Smarsh



Tracy Saale
Managing Director, Conduct Risk Management & Corporate Responsibility Officer
Charles Schwab



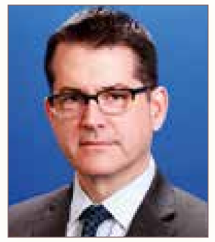
Tanya Weisleder
Global Head of Employee Conduct, Policy and Training Programs and Framework
Credit Suisse



Michael Plumbridge
Managing Director, Head of Regulatory Compliance
ICBC Standard Bank

Birthe Mester
Managing Director, Global Head of Performance, Engagement, & Culture
Deutsche Bank

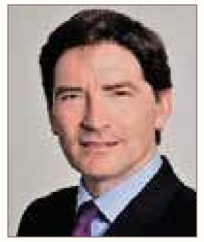
Irene Rey
Global Director, Culture & Conduct
TD Bank



John Malitzis
Managing Director, Head of Market Conduct Risk, Americas
Citigroup

Matthew Conover
Managing Director, Global Head of Conduct Risk
State Street

Anthony Kennedy
Audit Director – Finance, Culture, People & Property, Group Audit
Lloyds Banking Group



Dr Roger Miles
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author of Culture Audit in Financial Services

Alexandra Chesterfield
Head of Behavioural Risk, Group Internal Audit
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