Culture and Conduct Reform: A Permanent Mindset Change

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Speaking Notes

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Thank you to Bill Dudley and the Federal Reserve Bank of New York for hosting this conference and the importance you have placed upon bank conduct and culture. We hope this focus will continue in the future.

The G30 has been focused on bank governance issues since 2011.

We issued recommendations on governance structures in 2012

We called for a new paradigm in relations between financial institutions and their supervisors in 2013

And we turned to bank conduct and culture, making a call for sustained reform in 2015.

When we made our last intervention on conduct and culture we promised the financial community we would return to review the progress being made two years on.

That is what I want to address today – the G30 working group on culture review of progress since 2015 – which will be published this fall.[1] Our work draws on hundreds of interviews across major markets with leaders engaged in conduct and culture reform.

Let me divide my remarks into three parts.

- First – A comment on repairing trust – where are we now?
- Second – Evidence of progress – I have some good news but now is not the time for hubris and we still have work ahead of us all.
- Third – Why we must make this ongoing shift in mindset a permanent part of banks and banking.

[1] The Group of Thirty's Steering Committee and Working Group on Culture's review reflects broad agreement among its participants. This does not imply agreement with every observation or nuance. Members participate in their personal capacity, and their participation does not imply the support or agreement of their respective public or private institutions. The review does not represent the views of the membership of the Group of Thirty as a whole.

1. Repairing trust where do banks stand today?

We still have work to do to repair trust in finance and banking.

The industry's standing still remains in disrepair. In fact, the Edelman 2018 Trust Barometer, which is prepared annually for the World Economic Forum, shows that only 54% of the general public trusts financial services firms.

One number should focus our minds on today's topic – it is $321 billion. The Boston Consulting Group reported that this is the total of cumulative financial penalties assessed on major banks since the 2007–2008 financial crisis through the end of 2016

What is clear is that a great deal remains to be done to repair trust in finance ten years from the Global Financial Crisis.

And scandals continue to rock finance.

As Betsy Duke has discussed, Wells Fargo is an example of incorrect incentives, and a board that was not aware of what was happening. The cost of cultural failure has been material to the firm, the shareholders, and the sector.

Australian banks are in deep reputational trouble. The Royal Commission on Banking is uncovering a great deal. From mis-selling to AML failures.

These are banks that were for a period the most profitable banks in the world; itself a red-flag in my view. Consistent over performance always make me ask: 'What is really going on here? Are there hidden risks being taken that should not be?'

So, trust remains damaged, scandals continue to occur, and costs are material.

But notwithstanding these cases, we have seen progress since the G30's 2015 recommendations.

2. Evidence of progress

Indeed, the G30 review has identified many areas of progress in the industry.

But now is not the time for self-congratulation.

So what has the G30 working group found?

Boards have upped their game, but need to continue their focus on conduct and culture.

Boards have begun to better understand and monitor their firm's culture. They appear better able to act when conduct issues arise.

Discussions of culture and conduct matters at the board are now much more commonplace.

For instance, most boards and firms now use culture and conduct dashboards.

The G30 review recommends all banks consider creating a dedicated board level committee to monitor conduct and culture. Already approximately one third of banks surveyed have taken that step. We urge faster progress on this.

And regardless of whether a separate committee is created, regular discussion of conduct and behavior issues by the whole board needs to occur.

Today senior executives are more audibly setting the tone at the top. Leading by example.

Leaders are recognizing that signaling matters. That repetition of a bank's norms and expectations matters. Yes, it can be tiring. But it is necessary.

The G30 review will make clear that a focus on conduct and culture is not and cannot be an 'add-on', a grudging response to regulatory demands.

To be sure, embedding is not easy. It is a long, arduous process. Leaders and indeed every manager within a firm needs to understand, internalize, and champion the firm's culture in their business unit or branch.

We find that performance management and training is improving and remains key to success. From the start of their career, through an employee's lifecycle at the firm.

Specific actions we have seen banks take here include:

- More firms are using real life examples of decision-making in difficult grey areas.
- Annual performance reviews are increasingly being split between financial metrics and conduct and behavior, as the G30 recommends.
- Speaking up needs to be encouraged & rewarded. Action must be taken to protect whistleblowers.

Additional work is still needed to reinforce the training and expectations:

- If employees break cultural norms in a serious manner, bonuses and promotion must be impacted. Serious breaches should lead to firing.
- Willful blindness or failure to speak up must have consequences.
- Firms must be on the alert for unintended perverse effects of incentives.

Strengthening the three lines of defense must continue.

The first line needs to own culture and conduct.

The second line must ensure compliance.

And the third line must audit the process.

And what role should supervisors have?

The G30 review underscores that supervisors cannot make rules on conduct and culture or determine a firm's culture.

But they can and should monitor how a firm is addressing conduct and behavior issues at the board, and through other processes within the firm.

Let me reiterate: much is being done by boards and management, on conduct and culture. But this is not the time to say the job is done. Far from it.

3. A Permanent Change in Mindset

We find that the focus on conduct and culture should be part of a permanent and change in mindset in banks and the banking community.

And we must all be vigilant. What might have been a cultural norm previously often is unacceptable today. Pressure points also change, for instance with the increasing use of AI and machine learning.

Let me conclude. I think this message of permanent change is resonating and finding acceptance. The G30 urges all those here today to continue their commitment to this collective journey and the repair of trust in banks and banking.