

## Financial Conduct Authority's Discussion Paper DP18/2: Transforming Culture in Financial Services

The FCA has recently issued a Discussion Paper on "Transforming Culture in financial Services". It has been initiated by the regulator's supervision team rather than from the more usual policy and strategy area. It adopts an innovative approach for the FCA consisting of a series of essays from academics, consultants, regulators in the US and Australia and various independent thinkers. Primary importance is given to the FCA's own approach to measuring culture looking at the four "main drivers: a firm's purpose, leadership, approach to rewarding and managing people and governance".<sup>1</sup>

Although the FCA is not formally seeking responses to their paper they would be particularly interested in views on four questions:

- Most cultural change programs fail. What makes it so hard, and what are the keys to success?
- Firms tend to focus on tangible, formal levers (such as purpose, policies, processes, hiring/performance management systems) to influence culture. What more can be done to leverage informal, less tangible levers, such as beliefs, and group norms?
- How can short term nudges be integrated with long term change initiatives?
- Counter to the wisdom that culture change needs to be driven from the top some argue the importance of devolving some aspects of culture to the local level. For global organisations, how can culture be decentralised to local teams, while maintaining consistency in (good) outcomes and accountability?

Readers views on these and other aspects would be welcome by the Centre. We are planning to respond to the FCA's paper and look forward to comments **by 30th April 2018**.

There are a number of important highlights in the paper. These include the need to focus on areas other than codes of conduct, financial rewards, sanctions and targets. These include delivering praises and status, the creation and growth of sub-cultures and the powerful driver of individuals conforming to the crowd and group identification.

Fortunately, the paper does not repeat a common canard that there was some golden era of culture in financial services from which the industry has fallen. The receipt of secret commissions, conflicts of interest and the practice of market abuse, insider trading and money laundering were not just accepted practice but were seen as the way business was done not that long ago. John Sutherland's essay in the FCA paper highlights aspects of this from the US Congressional Subcommittee on Banking and Currency hearings in 1913. There are many other more recent public examples.

Of particular interest is the approach described by Andrew Fawcett of the Australian Securities and Investments Commission. The ASIC focus on regulatory breach reporting both because it is important in its own right but also because it is symptomatic of a firm's underlying culture. How fast and fully these reports are, what level of action is taken by the firm to remedy the problems, how the issues are communicated across the business and how those who raise concerns are supported all indicate whether the business's avowed values are aligned with its practices when under pressure.

It is also important, writes, Azish Filabi of Ethical Systems, NYU Stern Business School, is the need for risk management to look at areas other than financial risks. This includes bullying and abusive employees and senior management.

---

<sup>1</sup> Financial Conduct Authority's Discussion Paper DP18/2: Transforming Culture in Financial Services, (March 2018)

A number of essays support the use of wide-spread and confidential questionnaires and focus group run by independent trusted organisations to help identify both broad and localised cultural issues. This has been used the Banking Standards Board over the last two years to good effect and reported in aggregate in their annual reviews.<sup>2</sup>

As mentioned views on all of this would be welcome **by 30th April 2018**.

---

<sup>2</sup> <https://www.bankingstandardsboard.org.uk/annual-review-2016-2017/>