



P1.T7. Operational & Integrated Risk Management

“Banking Conduct and Culture: A Permanent Mindset Change” G30 Working Group, 2018.

Bionic Turtle FRM Study Notes

“Banking Conduct and Culture: A Permanent Mindset Change”

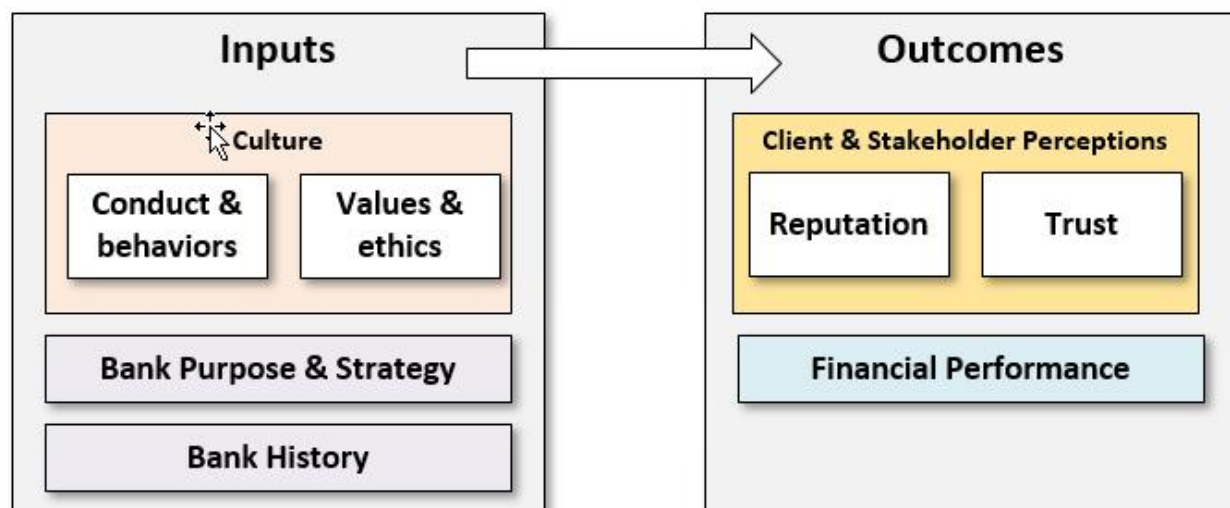
DESCRIBE CHALLENGES FACED BY BANKS WITH RESPECT TO CONDUCT AND CULTURE AND EXPLAIN
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“Banking Conduct and Culture: A Permanent Mindset Change” (Introduction through Lessons Learned only)

- Describe challenges faced by banks with respect to conduct and culture, and explain motivations for banks to improve their conduct and culture.
- Explain methods by which a bank can improve its corporate culture, and assess progress made by banks in this area.
- Explain how a bank can structure performance incentives and make staff development decisions to encourage a strong corporate culture.
- Summarize expectations by different national regulators for banks’ conduct and culture.
- Describe best practices and lessons learned in managing a bank’s corporate culture.

This report follows an earlier report by the Group of Thirty (G30)¹ that defined **culture** as “the mechanism that delivers the values and behaviors that shape conduct and contributes to creating trust in banks and a positive reputation for banks among key stakeholders, both internal and external².” To compare, our FRM says **risk culture** “can be thought of as the set of goals, values, beliefs, procedures, customs, and conventions that influence how staff create, identify, manage, and think about risk within an enterprise, including implicit and explicit beliefs³.”

The G30 used a framework to identify two broad outcomes: client and stakeholder perceptions; and financial performance. See the diagram below (our Visio render of their Figure 1)².



¹ G30 at <https://www.group30.org/>

² “Banking Conduct and Culture: A Permanent Mindset Change,” G30 Working Group, 2018.

³ 2020 FRM Part I: Foundations of Risk Management, 10th Edition. Pearson Learning Solutions, 10/2019.

Describe challenges faced by banks with respect to conduct and culture (C&C) and explain motivations for banks to improve their C&C

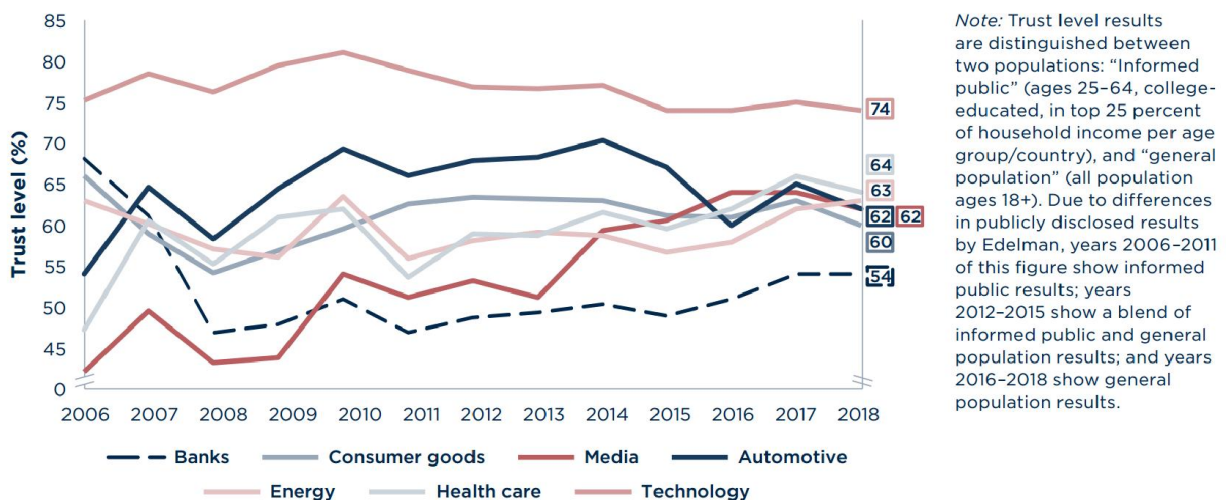
Motivations for a bank to improve conduct and culture

To build trust and reputation after the global crisis: The aftermath of the 2008-09 global financial crisis (GFC) revealed a rapid decline in the reputation of, and trust in, the banking industry. Improving bank culture and conduct was a near-universal priority from the perspective of bank managers, supervisors, clients/customers, investors, and (government) regulators.

- The industry faced penalties ranging between US\$350 to US\$470 billion, which included fines and settlement charges for matters related to poor conduct. Reports of misconduct had a contagion effect and brought down the reputation of the entire banking industry. To regain public trust required a restoration of good conduct and culture.
- With widely known cases of conduct failures, institutional clients and retail customers have become more interested in improved management of the conduct and culture of banks. Senior management and board members are making great efforts to show that risk related to conduct is well understood and mitigated, and that relevant discipline and culture are strengthened. Consequently, various changes and enormous efforts are being made to improve the conduct and culture of banks across the industry.

Continuing low trust levels and negative reputation: Though banks have put in much effort to improve their conduct and culture, and more than a decade has passed since the financial crisis, the industry is still dealing with a bad reputation. In order to rebuild their reputation and regain public trust, the banks are forced to improve their conduct and culture. At present, the trust levels remain low (see Figure 2⁴) in comparison to other industries and has not yet recovered to the pre-crisis levels.

FIGURE 2. Edelman Trust Barometer results by industry sector, 2006–2018



Source: Edelman Trust Barometer Archive.

⁴ "Banking Conduct and Culture: A Permanent Mindset Change," G30 Working Group, 2018.