From Zeroes to Heroes: How culture in financial services can change for everyone’s benefit

Speech by Emily Shepperd, Chief Operating Officer and Executive Director of Authorisations, delivered at City and Financial Global's 8th Annual Culture and Conduct Forum for the Financial Services Industry.

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Highlights

- FCA cares about culture because this drives conduct: The Consumer Duty will encourage firms to analyse their culture and how that affects their conduct.
- Firms should offer the right environment for employees of all backgrounds to feel safe in challenging and speaking out.
- Just 5% of crypto firms who applied to the FCA for registration showed that they understood anti-money laundering rules but half of those who engaged seriously with us were registered.

Facing up to our image problem

The culture of financial services organisations is often depicted in binary terms: it is either dull and Jurassic or reckless and scandalous.

The world of film and television focuses on the reckless and scandalous trope as – frankly – it makes for more exciting viewing. Before I came to the City, I thought I was entering a mystical world where Porsches were delivered every February, there was no-expense spared technology, and that if you work hard, success was guaranteed.

Even today, any aspiring banker watching the BBC's series Industry would be left with the impression that graduates spend more time partying and plotting than working.

In the Wolf of Wall Street, the main protagonist is a hedonistic stockbroker in his 20s whose main purpose is to con wealthy clients with a 'pump and dump' strategy before he is eventually jailed.

In The Big Short, an eccentric hedge fund manager discovers that the US housing market is based on sub-prime mortgages so he sets up a credit default swap market to allow himself to short the property market.

All of these programmes and films depict that greed is the underlying motivation of financial services professionals. Sadly, as you know, the latter 2 films are actually based on true events and characters.

In fact, the only positive depiction of a financial services professional I could find was that of George Bailey, the main character in It's A Wonderful Life. But that was released in 1946. It was a loss-making flop for many years before becoming a classic.

So we can summarise that the culture of financial services is depicted in a negative light but what is culture anyway?

I think of culture as being the personality, habits and ethos of the organisation.

Mind your language

It has been said that culture is what you do when no one is looking.

But to be a leader means to shape your organisations' culture rather than hiding behind HR.

I attended an event recently, where Rebecca Achieng Ajulu-Bushell, Chief Executive of 10,000 Black Interns, spoke about the importance of senior people not imposing an inherited culture that can create barriers to progress, even when they rose through the ranks in that culture. She's a very impressive 28 year old and I would encourage you to look for her website.

The FCA expects senior leaders to nurture healthy cultures in the firms they lead. Cultures that are purposeful. That have sound controls and good governance. Where employees feel psychologically safe to speak up and challenge. Where remuneration does not encourage irresponsible behaviour that can ultimately damage the business and wider markets.

We recently took enforcement action against a former Chief Executive who failed to steer senior management towards ensuring there was a culture throughout the firm which valued robust adherence to its regulatory responsibilities.

It ultimately meant that the firm didn't make its anti-money laundering (AML) controls a priority and the controls it did have were ineffective.

One of the most direct ways managers and leaders can shape culture from the start – and spot when it needs changing – is through language.

Have you noticed how if a boss uses a term, whether it is 'pivot', 'leverage' or 'wet fish', suddenly everyone in the workplace begins to use pivot, leverage and wet fish?

That is because often the boss and those at C-suite level set the tone for culture.

But even bosses can find themselves swimming against a tide.

When I first came to the regulatory world 18 months ago, I was in for a culture shock. Aside from the Tolstoyesque-list of acronyms, there were language terms that seemed alien to me such as 'private secretary' and a 'private office' rather than an 'EA' and a 'team', or the term 'commissioning' work rather than 'asking for stuff to be done'.

But I got some of my own terms adopted too. The name given to graphs to track the speeding up of authorisations decisions and reduce our backlog was called Glide Path. So I changed it to make it a Burn Down Plan.

That change of language immediately brought in urgency and action. It kick-started a much more detailed process which has ultimately seen us halving our authorisations backlog. We have kept our standards high, rejecting 1 in 5 firms compared to 1 in 14 in the previous years.

When I started at the FCA, I found the custom of asking a question and having to wait for the answer to be fact checked by several people too slow – although I appreciate that accuracy is crucial.

I found that deploying the revolutionary technique of cutting down on emails and walking around and talking to people more effective and immediate.

Our role as a regulator is to lead by example and we do care about culture as it informs conduct and that is what we regulate.

So the final tool that I would urge you all to consider are our policies that I will touch on now.

The Consumer Duty will focus minds on culture

Perhaps one of the biggest policies we have unveiled in recent years is one that will do the most to address conduct – and therefore culture: the Consumer Duty.

We have asked firms to think about what a good outcome would be for their customers and to apply that consideration at every stage of producing and delivering a product or service.

We have also asked that the thinking starts at board level and have requested that there is a consumer duty champion on every board.

The reason is simple: the Duty challenges you to ask significant questions about your purpose.

The Duty pre-empted the cost of living challenges and we have always asked firms to pay particular attention to the most vulnerable.

This becomes even more critical when many consumers are facing hardship.

If you are a bank and spot that a customer has suddenly taken to losing money in gambling transactions late at night, what is your responsibility?

There has been understandable resistance from some firms when we first started discussing the Consumer Duty – mainly because it requires enormous cultural and operational change.

We do not set out to be prescriptive about culture but will step in when consumers are at risk of harm.

That begins at the authorisations stage. We have spoken about raising standards to prevent harm before it occurs.

We found evidence of poor culture when we assessed some funeral plan providers' applications.

An example included diverting consumer funds which should have been invested via an independent trust for their future funeral plans, to investing in other short term business interests, in the hope those interests would produce profits for directors.

A case of prioritising personal gain over the safety of customers' funds.

This meant making some difficult decisions, which we knew would impact consumers.

But we had to weigh our options against a high risk of more significant and widespread harm later on.

While we cannot guard against all failures, and we don't always get it right, we want to set clear expectations in terms of what it means to be regulated by the FCA.

Other tools to embed positive culture

Another tool is our Early and High Growth Oversight support. This helps new firms to embed the right steps from the start, soon after they have gained authorisation and long after the consultants have abandoned them. It also provides support to those new firms that are looking to scale up. Diversity and inclusion is also critical to culture as it can prevent group think.

Through our Firm and Portfolio Assessment Models, our supervisors look at purpose, leadership, governance and the approach to people. This includes diversity and inclusion (D&I) as well as psychological safety.

We have recently completed a study into D&I across a range of organisations and found that firms were focused on improving representation at senior level but this dropped off at mid and junior level.

We expect firms to collect data on the diversity of their staff, actively monitor it with interest and take bold action where needed, paying attention as to where it intersects.

It can lead to better recruitment and retention – particularly in a challenging market for talent.

And it can lead to unique insights that can fuel more innovative approaches, greater efficiency and reduced misconduct.

And diversity of thought can foster innovation.

Fostering an innovative culture

Perhaps the biggest cultural shift we have seen inside the FCA since it was created has been its growing commitment to innovation.

We want to support industry as it draws on new tools, like artificial intelligence (AI), to analyse the colossal amount of data they hold.

With the Bank of England, therefore, we're talking to industry and consumer groups about how firms can use AI safely.

Done well, it can mean better, more accurate pricing and products better suited to consumer needs.

But there are risks, too.

We know that many in industry are worried about how AI will be governed and we agree that more guidance in this space will be needed.

However we also believe many of the rules to cover this are already in place or on the way, not least the Senior Managers and Certification Regime (SM&CR) and the upcoming Consumer Duty.

SM&CR embeds and codifies good practices across a broader group of firms to support accountability and transparency.

Likewise, there is a debate around crypto and its regulation – or lack of. At present, the FCA's role is largely limited to making sure that crypto firms that want to register in the UK are abiding by anti-money laundering rules.

Few firms have been authorised because our standards are high.

We make every effort to support innovation but not at the cost of consumers or market integrity.

The CryptoSprints we have held have been fascinating and have highlighted the potential cultural clashes between those entrepreneurs who think the best way of dealing with rules is to smash them and regulators, who are busy pointing out why they cannot skim over these steps.

The collaborative approach has helped both sides: for us to understand how the crypto sector works and where the future opportunities lie and for the sector to see why we have regulations and what is expected of them.

We found that only 5% of the applications we received were of high quality and could demonstrate that they had understood the regulations, and how they would meet these.

A further 30% needed material extra work, and we engaged with the firms to address concerns about capability, business models and controls. Almost half were subsequently registered.

The remaining 65% of applications were very poor, and none of the firms were registered.

Many couldn't explain how the Money Laundering Regulations (MLRs) would be satisfied in the business model proposed – some of them even struggled to explain their business models.

Doing the right thing leads to the right results

Finally, one of the issues we get the most questions about is the future rules around environmental, social and governance (ESG) products and promotions.

There is – rightly – always a major focus on the E and S part of ESG.

But perhaps less so on the g – or governance.

We are looking closely at what support firms offer to employees to improve their culture so that it boosts the conduct of their business or function.

If more firms can get this right, we might see fewer films about rogue traders and more films about the plucky banker who saved the economy and consumers from harm by doing the right thing. It might be an initial box office flop, but I am confident in time it will become an enduring classic success.

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Links

- [1] https://www.10000blackinterns.com/
- [2] https://www.fca.org.uk/news/press-releases/fca-issues-final-notice-former-ceo-anti-money-laundering-failings
- [3] https://www.fca.org.uk/news/statements/fca-authorisations-update
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