

**BSB Written Evidence for the Australian Royal Commission into Misconduct in the
Banking, Superannuation and Financial Services Industry**

October 2018

The Banking Standards Board (BSB) welcomes the opportunity to provide written evidence to the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ('Royal Commission').

We have read with interest the Royal Commission's Interim Report of 28 September 2018. We believe that our work in the UK is relevant to the Royal Commission's ongoing investigation, which, in its Terms of Reference, is encouraged to consider comparable international experience, practices and reforms.

The BSB was established in the UK in 2015 to promote high standards of behaviour and competence across the banking industry. Its creation followed the 2013 report from the UK's Parliamentary Commission on Banking Standards (PCBS), which recommended that an organisation be created by the banking industry to promote high professional standards and "be a major force for cultural change."¹

The BSB is neither a regulator nor a trade association, with no statutory powers, and no mandate to lobby or advocate for the industry. It is funded predominantly by membership subscriptions and is open to all banks and building societies operating in the UK.

The BSB is governed by an independent board, comprising senior practitioners together with non-practitioner members who are drawn from across civil society. It is chaired by Dame

¹ Changing banking for good, Report of the Parliamentary Commission on Banking Standards, para. 92 and 138, <https://www.parliament.uk/documents/banking-commission/Banking-final-report-volume-i.pdf>.

Colette Bowe, who was appointed in 2014 by an independent panel led by Bank of England Governor Mark Carney. In 2018, Mark Carney reiterated his support of the BSB's ongoing work:

'Whilst firms are responsible for managing their culture, behaviour and competence, BSB membership provides the impartial challenge, support and assessment needed to do this well. I support this unique, non- regulatory initiative that the UK is leading the way with.'

The BSB provides challenge, support and scrutiny for firms committed to rebuilding the trustworthiness of the sector, and conduct impartial, objective and evidence-based assessment of the industry's progress. We do this by conducting annual firm specific culture assessments, reporting results directly to boards, and publishing aggregated results.

Methodology and Working Methods

The BSB's Assessment, policy and insights work are intended to provide member firms with the evidence, support and challenge to help them achieve and maintain high standards of behaviour and competence, individually and collectively. Underpinning this approach is our framework of nine characteristics, both ethical and professional, that we would expect to lead to good outcomes for customers, clients or employees and the economy and society as a whole; characteristics that we would therefore expect to be associated with any good culture in banking.

Our Assessment does not assess firms against a template of what a 'good' culture looks like. There is no uniquely good (or bad) organisational culture against which all others can be measured. Firms with very different cultures can produce equally good or bad outcomes for customers and clients and more broadly.

We do not, therefore, set out to measure or rank culture directly. Rather, we ask how far each of our nine characteristics is demonstrated by the firm and relative to other firms. We would expect a firm that strongly exhibited our nine characteristics to be better equipped and more likely to service its customers, members and clients well, than one in which these elements were lacking.

The nine characteristics against which firms are assessed are honesty, respect, openness, accountability, competence, reliability, responsiveness, personal and organisational resilience, and shared purpose.



The nine characteristics in the BSB Assessment framework are designed to be applicable to any firm in the banking sector irrespective of its size, business model, market segment, age, ownership structure, location or customer base. While the framework has clearly been designed with the UK banking sector in mind, it could be applied more broadly. It highlights characteristics that would arguably be regarded as desirable by customers, employees or stakeholders of organisations in any sector or jurisdiction.

Building on the framework, the BSB Assessment uses quantitative and qualitative data to assess how far each of the nine characteristics is demonstrated within a firm. This provides boards of banks with objective evidence, support and challenge on issues relating to culture, behaviour and competence, and facilitates cross-firm working to identify good practice and lessons learned. Besides providing individual firm feedback and benchmarked data to the boards, we also publish aggregated, sector-wide assessment findings in an annual review. Beyond this, we work with our member firms to establish statements of good practice and promote high professional standards as part of our policy work. We have also recently

established an insights team to use behavioural economics and data science to understand bank culture, and eventually design and test interventions with firms, to help to achieve high standards of behaviour. All our work also feeds into regular events that bring lessons from other industries to banking and facilitate exchanges of ideas and good practice between practitioners.

The BSB Assessment

The BSB assessment exercise asks how far each of the nine characteristics of the assessment framework is demonstrated within a firm. It does this by gathering evidence from a number of sources, all currently within the firm, although this may change as the approach develops.

The first data source, and the one that allows a comparison of results across firms, is the BSB Employee Survey. The survey consists of 37 questions (see Annex). All but one of these relate to one of the nine characteristics; the final question asks respondents to describe their firm in three words. The Survey is run in each firm on a consistent, stand-alone basis in order to avoid firm-specific framing effects that might introduce bias to answers. It is sent to a sufficient number of employees in each firm to provide statistically representative results for different business areas within the firm.

In 2018, the third year in which the survey was run, more than 77,000 employees from 26 firms responded. The development of a new Survey platform and an online dashboard also allowed us, for the first time, to scale the survey across global operations of firms that also operate outside the UK, and outside banking.

Respondents are asked to express a level of agreement to each Survey item. The results are then used to calculate scores out of 100 for each question and for each of the nine characteristics of the Assessment framework. The quantitative output of the survey is complemented by qualitative information gathered from all levels of the firm. This material is obtained through firm-specific focus groups with employees, as well as written submissions from boards and interviews with non-executive directors and executives. Over the course of the three assessments between 2016 and 2018, the BSB has held focus groups with a total of more than 2,300 junior and middle-ranking employees, from a wide range of areas within the firms.

Each firm receives its own Survey results (and, for those taking part in the qualitative exercise, the findings from the fuller exercise). The Survey results are provided through an online dashboard that allows the firm to cut and analyse the data in multiple ways, subject always to constraints imposed to protect respondents' anonymity. The results allow each firm's score for each characteristic and question to be compared with those of all other participating firms. These comparisons are available not just at the level of the firm, but also for individual business areas within it (allowing a firm to

compare, for example, scores and responses from employees on a trading floor with those from employees on trading floors elsewhere, or retail branch scores and responses with those from retail branches in other firms). See Annex B for some screen shots from our Survey dashboard.

While each firm can see the positioning and distribution of other participating firms, the other firms are not identified, and comparative results are, by default, not provided if there are fewer than seven firms in the comparator group. The data can also be analysed by the firm in terms of gender and a number of other characteristics, subject again to the constraints imposed to protect anonymity.

The annual Survey results, complemented by an analysis of the qualitative evidence, give boards and senior teams an independent, external and evidence-based perspective on their firm's culture. They allow firms to gauge both where they are performing well and where progress needs to be made, and to see this across different parts of their organisation, against their peers and over time. The aggregate results and supporting analysis allow us to identify the key challenges facing the banking industry in the UK, and gauge whether progress is being made.

Professionalism

Professionalism – integral to serving the interests of customers, clients and wider society – was a particular focus of the PCBS. The BSB in 2017 launched a Professionalism Forum to establish a set of professionalism principles² and help firms strengthen professionalism in banking. The Forum brought together BSB member firms, professional bodies and qualification providers, other voluntary standards organisations, trade bodies, academics, regulators, trades unions and other relevant organisations from both within and outside the banking sector. This diversity of participation allowed ideas to be aired, challenged and improved from a variety of perspectives.

One of the early challenges for Forum and Working Group members was to define 'professionalism' in a sector not generally thought of as comprising a single or traditional profession. Participants agreed, in the context of this work, that professionalism comprised 'the attitudes, judgement and high standards of behaviour, knowledge and skill expected of individuals working in banking'. They also agreed that greater professionalism in banking would help create a sector that, now and in the future, better met the needs and expectations of its customers, clients, employees, the economy and wider society.

² More information can be found here: <https://www.bankingstandardsboard.org.uk/bsb-statement-of-principles-for-strengthening-professionalism/>.

Professionalism was seen as strengthening both the trustworthiness of the sector and the sense of pride and purpose among those working in it.

Forum members expressed support for:

- establishing a ‘thought leadership’ function that would help the sector strengthen competence and behaviour, both now and in the banking sector of the future. This has led to the creation of the BSB’s Insights unit, described above;
- facilitating dialogue, debate and the sharing of good practice across firms. The BSB is in the process of establishing a Member Forum to fulfil this function; and
- setting out ‘what good looks like’ in a way that recognised the diversity of potential approaches, which our Professionalism Principles aim to achieve.

Individual Accountability

The challenge of developing a culture of accountability and responsibility rather than of blame, has been another key focus of the BSB’s work. Creating such a culture is also central to the Senior Managers and Certification Regime (SMCR), which aims to make individuals more accountable for their conduct. The BSB established a working group of member firms to identify good practice in implementing the Certification Regime fairly, consistently and proportionately. The Certification Regime Working Group was established in early 2016 to help to achieve high quality implementation of the regime, aimed at raising standards of competence and behaviour. The purpose of this group is not to identify ‘minimum compliance’, but to work towards achieving high standards. It has enabled BSB members both to learn from each other about implementation of the new Certification Regime and to identify areas where consistency of approach could be beneficial. As a product of the working group, the BSB has published a suite of [good practice guidance](#) to help firms take ownership of high standards of implementation, which is necessary for the regime to achieve its objectives.

Customer outcomes

The BSB is currently developing a Consumer Framework that takes into account the core principles that many consumer organisations and regulatory panels already use for understanding consumers’ needs or analysing how a market is meeting those needs. We received very strong engagement to our [consultation](#) from consumer and civil society bodies, and received over 2,000 responses to our consumer survey. We will use this

[feedback](#) to inform our Consumer Framework, and in helping to prioritise the issues that we focus on with our member firms.

Behavioural insights

The BSB's Assessment data, alongside findings from other aspects of the BSB's work, can help explain factors that may promote or stand in the way of raising standards of behaviour and competence in banking. In considering how firms can deploy and address these factors effectively and efficiently (and also gauge the impact of what they do) the BSB is exploring new and innovative approaches, working on this with firms themselves, academic partners and others. It will also draw on approaches that have been successful in other sectors or countries.

To this end, the BSB has created a new unit, called 'BSB Insights', that will draw on insights from behavioural economics and organisational psychology to:

- identify cultural or behavioural factors that enable, promote or inhibit high standards in banking;
- understand their causes; and
- help to test the effectiveness of interventions.

The BSB will use the data from the BSB's Assessment, alongside other relevant information, to try to identify such factors and highlight potential relationships and dependencies.

Findings

Conducting the BSB Assessment annually and across a large part of the UK banking sector has allowed us to identify and further investigate relevant themes, such as:

- the perceived mismatch in many firms between the values espoused by the firm and the way that some employees see business being done;
- helping to develop a culture within the banking sector of responsibility and accountability rather than of blame; and
- identifying practical steps to help promote personal resilience and wellbeing among firms' employees.

We have found, for example, that people are more likely to believe that their organisation lives its values if they observe their leaders doing the same, and where they see their firm acting in the interests of its customers or clients. In 2017, on average only 69% of employees

saw no conflict between their organisation's values and the way in which business was done. It is what senior leaders do, and not just what they say, that makes a difference. In areas where employees observed close alignment between values and business practices, they said that their leaders did not just talk about their firm's values, but that they did so without cynicism and demonstrated them to guide their day-to-day actions. They observed consistent, practical and relatable communications from their leaders, coupled with a genuine desire to listen and respond to feedback. They also felt that their firm's values were reflected in the products offered to customers. In contrast, in areas of greater perceived conflict, people said that their leaders did not clearly explain decisions or how they fitted with the firm's overall strategy and felt that the need to reduce costs or maximise short-term profits was prioritised over achieving good customer outcomes.

One of the lowest-scoring areas of the BSB's Survey, across all areas of banking, related to personal resilience: in 2017, 26% of people felt that working in their organisation was having a negative impact on their health and wellbeing. Employees' perceptions of whether they and their colleagues are treated fairly and with respect was also strongly associated with their wellbeing. These findings have prompted the BSB to perform further research into organisational and cultural factors that affect employee wellbeing in member firms.

Eventually, we hope to test interventions that focus on one or more factors that affect wellbeing, e.g. the degree and type of perceived fairness in environments, the design of flexible working, or concepts of what constitutes excessive pressure in investment banking.

We also found that, while some employees do not speak up because they fear negative consequences, a belief that nothing will be done to address their concerns is an equally important barrier. In 2017, 60% of employees reported that they would not be worried about negative consequences for themselves if they raised concerns, with over a quarter of people fearing such consequences. Employees in areas of firms with the lowest scores for questions related to speaking up consistently referred to a culture of fear and blame, and often spoke about their organisation as being hierarchical. Of the reasons given for not wanting to raise concerns, those most frequently given were fear that doing so would be held against them, or that it would not be kept confidential. Equally important, though, was the belief that nothing would be done to address the issue, with employees in lower-scoring areas highlighting working environments in which changes perceived as flawed were pushed through with little or no consultation of those affected.

The 2017 Survey results showed improvements from 2016 on 25 of our 36 questions and a decline in none, with the most significant improvements being in employees' perceptions of their senior leaders, being treated with respect, and their sense of shared purpose.

Improvements in employee perceptions were most evident in Retail and in Commercial Banking. While the 2017 results paint a picture of firms moving in the right direction, it is important to emphasise that two data points do not make a trend. We will publish an update on the 2018 Survey results early next year.

In response to our previous annual review, Andrew Bailey, Chief Executive Officer of the Financial Conduct Authority, said:

'For firms to be able to manage their culture, they must first understand it. The Banking Standards Board's ground-breaking work gives its member firms an important perspective on their own culture, and addresses challenges that the sector collectively needs to overcome in order to serve both its customers and society well.'

Further findings and information on ongoing work can be found in the BSB Annual Review 2017/2018: <https://www.bankingstandardsboard.org.uk/annual-review-2017-2018/>.

For more information on the BSB Assessment and its work in general, please contact info@bankingstandardsboard.org.uk.