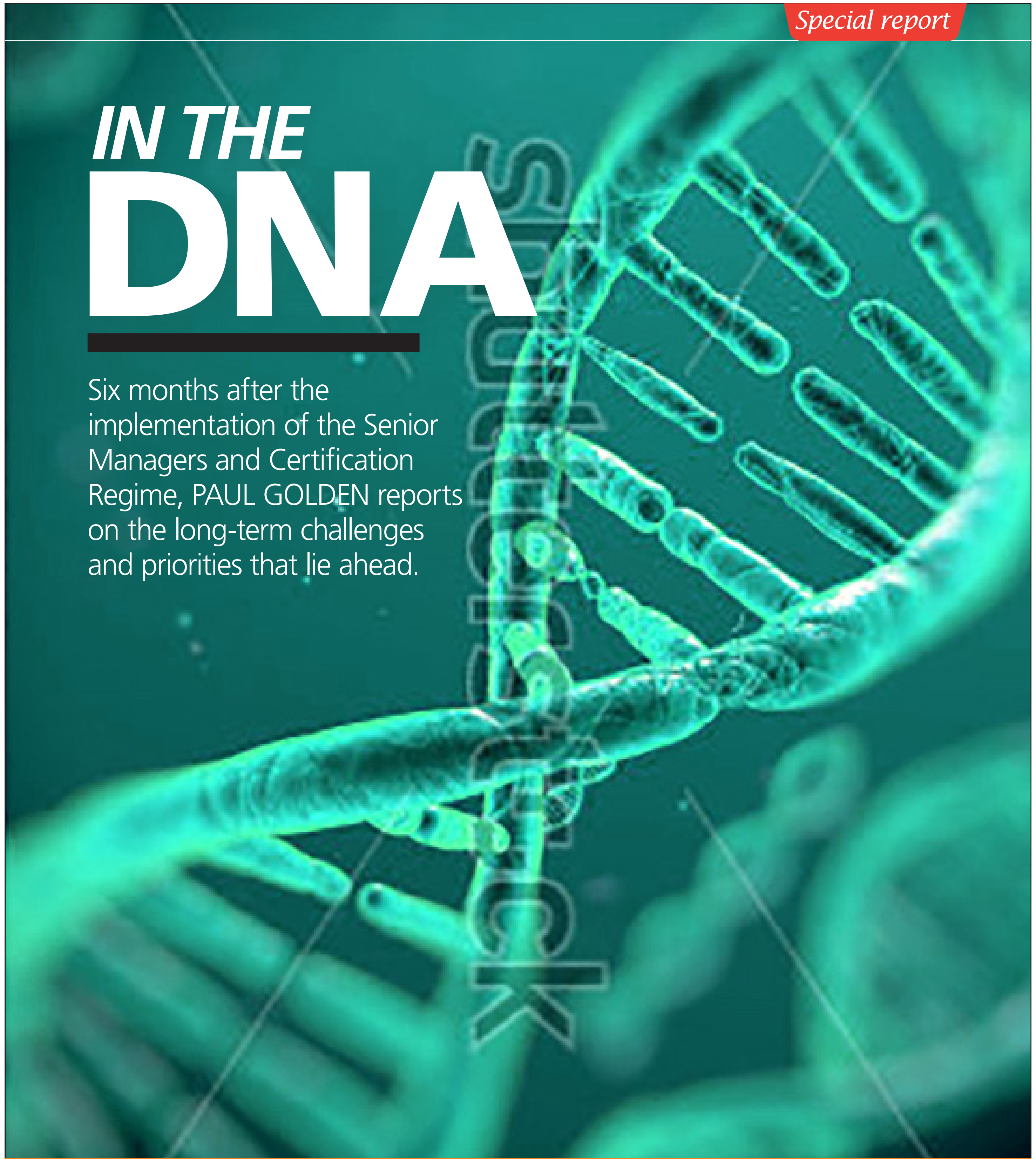

IN THE DNA

Six months after the implementation of the Senior Managers and Certification Regime, PAUL GOLDEN reports on the long-term challenges and priorities that lie ahead.

How can banks remain regime-ready as they move past the implementation phase and get to grips with the true implications of the Senior Managers and Certification Regime?

A culture of COMPLIANCE

The majority of programmes relating to the Senior Managers and Certification Regime (SMCR) have focused on the mechanical elements of compliance, ensuring that the right documentation was completed and submitted to get the organisation 'over the line' in time for the March deadline.

While this is perhaps understandable, Stuart Campbell, Director of consulting firm Protiviti, suggests that most institutions have concentrated on complying with the letter rather than the spirit of the new regime and that there has been insufficient focus on the people and behavioural changes required to ensure that the requirements of the SMCR are truly embedded into the operational culture.

Nick Hawke, Head of Governance, Risk and Compliance at Lysis Financial, agrees that while some banks are using the regime's responsibilities map and role descriptions to improve accountability, others have perceived SCMR as a one-off compliance exercise whose impact has not been fully understood.

TOO MUCH INDIVIDUAL FOCUS?

The original intent of the regime has been lost in places as it gets broken down and reduced to a tick-list by banks, particularly in relation to collective accountability. That is the view of Hay Group Director Marcus Downing, who believes that the legislation has focused too much on the individual.

"For banks to operate in the best way for customers it is vital for top teams to operate as teams and for individuals to be 'enterprise leaders' rather than silo/functional leaders looking at their own patch," he says. "The concept of culture – in particular risk culture – now also has more resonance and meaning within banks, whereas in the past it was regarded as just a fluffy matter overseen by HR."

Lynsey Moore, Director of Kind Consultancy, offers a more optimistic assessment, referring to anecdotal evidence that banks are fully aware of the focus on individual responsibility and are making sure that there is total clarity around who is specifically responsible.

"People can't hide behind vague job descriptions anymore and I think organisations are making sure that everything is made very evident," she says. "It is much too early to really tell how effective or well embedded the SMCR is, but I think most banks are moving in the right direction."

While banks have gone through the process of documenting accountabilities and clarifying responsibility boundaries for their senior managers, the process of embedding the new regime will continue for some time and senior managers' responsibilities and especially what 'all reasonable' steps might mean in reality will likely be tested in courts at some stage, says Jamilia Parry, Senior Director of Governance, Risk and Regulation EMEA Financial Services at FTI Consulting.

One option for ensuring future compliance with SCMR is to implement a responsibility assignment or RACI matrix, which delegates responsibility into four categories:

RESPONSIBLE – who is co mpleting the task?
ACCOUNTABLE – who is making decisions and taking actions on the task(s)?
CONSULTED – who will be communicated with regarding decisions and tasks?
INFORMED – who will be updated on decisions and actions during the project?

COMMERCIAL FOCUS

Parry warns that lapsed management vigilance and pressure to make decent returns on capital in the current environment present significant risks. "As banks continue to embed the recent changes and respond to new regulatory challenges, senior management needs to continue to focus on accountability for and ownership of compliance risk by the front line of business and develop strong and commercially-minded risk and compliance functions to give the business the necessary guidance and challenge."

Sustained compliance can be achieved by strengthening the hand of those whose job it is to police the system, says Campbell. "This can be achieved by ensuring that corporate governance is strong and that functions like internal audit, compliance and risk management have the authority, skills and experience needed to review and measure cultural aspect of the organisation."

But Elise Trenerry, Associate Director at Protiviti, believes that culture needs to be reinforced by appropriate incentive and reward systems. "Banks need to recognise that policies, rules and regulations may become counterproductive when applied without judgement. There is anecdotal evidence that some organisations are beginning to find they perform better, with happier and more satisfied customers, when they give staff the autonomy to act, the ability to get better at something that matters and allow them to apply their own wisdom."

Downing recalls working with a bank that celebrated reducing the number of steps and actions in its processes so that it could become compliant more efficiently. After considering the difference between compliance and efficiency – and what it takes to be a great place for staff, customers and other stakeholders – it reconsidered its initial reaction, he says.

BANKS REQUIRE WIDER VIEW

Banks have not been great at transformative thinking (in part because we are regulating them so heavily) and how to change and adapt for the future, Downing observes. "The more successful organisations have reached outside the sector and learnt from the experiences of those that were in the same position the banks now find themselves in. They have distilled lessons from these organisations and contextualised them into their own plans and actions.

"THE CONCEPT OF CULTURE – IN PARTICULAR RISK CULTURE – NOW ALSO HAS MORE RESONANCE AND MEANING WITHIN BANKS, WHEREAS IN THE PAST IT WAS REGARDED AS JUST A FLUFFY MATTER OVERSEEN BY HR."

Some of the priority areas for banks to ensure they remain compliant in the future include:

1. An organisational structure that encourages employee engagement
2. Reliable, accurate and automated management reporting linked to key performance indicators
3. Regulatory briefings to ensure new legislation and regulation are understood and adequate arrangements are made to accommodate changes
4. Staff training and awareness programmes at all levels
5. Regular personnel and customer reviews

Compliance is important, but sole focus on just this will lead to just a slow death of the bank."

Keeping the responsibility maps up to date and analysing where gaps have appeared is going to be the hardest task in order to maintain compliance, believes Head of Regulatory Intelligence at Behavox, Alex Viall. "With paranoia running high regarding personal liability, the first applications of SMCR will be fascinating from an enforcement perspective. Banks will have to react appropriately to these lessons and keep a regular dialogue with the regulator to ensure they are current and focused on their own approach and the way that is viewed by the regulator."

The other main issue that compliance professionals have brought up in discussions, says Moore, is the way in which new regulation projects are carried out. "New regulatory projects often work in a very isolated manner within a bank, leading to issues with duplicating work being done by compliance staff elsewhere and making it difficult to introduce any changes across the whole organisation."

There is a consensus that banks need a forward-looking compliance framework, she concludes. This is particularly evident as global banks look for solutions to the potential passporting issues following Brexit.

"Compliance teams should have their eyes trained on events coming over the horizon. They need to use external and internal resources, and their own skills and experience to identify and tackle potential regulatory changes when they are still years from coming into effect." CB

Setting the TONE

Individual commitment and appropriate performance indicators will be crucial to senior bankers responsible for setting the cultural tone of their organisation.

In a speech at the City Week 2016 Conference in May, Andrew Bailey, CEO of the Financial Conduct Authority (FCA), acknowledged that culture was a product of a wide range of contributory forces. The stance and effectiveness of management and governance was just one.

However, the regulator's most recent business plan conveys an expectation that boards take responsibility for their firms' culture, place it high on their agenda and ensure that it is replicated throughout the firm.

So how should senior bankers go about evaluating the culture within their organisations? According to Stephen Pinner, Managing Director of Goodacre, they should start by recognising that problems still exist. "Have we really seen a different and more effective culture from senior bankers since the global financial crisis?" he asks. "Some bankers have made efforts but there now seems to be an acceptance that regular and hefty fines are part and parcel of staying in business. Historically, a fine from the regulator was seen as something to be avoided at all costs – is it still such a deterrent?"

STAFF NEED ENCOURAGEMENT

Pinner suggests that senior bankers need to determine if their employees have the confidence to speak up when there is a problem and should also consider if staff receive sufficient encouragement from the top.

"A good start would be to organise an anonymous survey of employees, carried out by a third party," says Pinner. "This will identify issues and while the feedback might make for uncomfortable reading, it should at least be both accurate and truthful. From here, senior management will understand whether staff respect the firm's hierarchy and fairness towards employees and clients. Designed properly, the survey would also establish prevailing levels of trust and integrity." Introducing protection for whistle-blowers may also provide assurances to staff by having a company policy where anonymity is guaranteed, demonstrating real commitment on the part of the board.

Steve Coleman, Development Director at Perivan Solutions, says senior bankers need to ensure compliant processes and behaviours are built into corporate procedures and cannot be circumvented and should reward good corporate behaviour, making sure everyone knows that corporate governance is prized above short term performance or profits.

"Continual monitoring should become established practice, with measurable KPIs attached to all staff – whether considering those subject to the certification regime or wider groups of staff who are held to the bank's code of conduct," says Robin Poynder, Director at FMR Advisory.

Having put in place a set of measurable parameters and ensured that the organisation is broadly aware of culture improvement being a key measurable, the outcomes require action, he continues.

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Senior bankers might consider adopting the RAG (red/amber/green) system of management reporting to help them identify potential problem areas in their corporate culture. Under this system, project managers are asked to indicate how well a culture change is progressing through the use of traffic lights – red indicates that the project requires remedial action to achieve objectives; yellow suggests that problems have been identified and are being addressed; and green implies that the project is on target to succeed.

Paul Naybour, Business Development Director at Parallel Project Training, offers the following steps for creating an affective RAG system:

- Define a template status report including indicators of the levels for each colour – this typically includes status indicators and the underlying data such as budget and schedule performance
- Seek agreement from senior managers and project managers of the behaviours to be expected when a project reports using RAG status reporting
- Establish a consistent reporting cycle
- Establish an assurance programme to confirm the status reports being presented are a true and fair representation of project status.

"HISTORICALLY, A FINE FROM THE REGULATOR WAS SEEN AS SOMETHING TO BE AVOIDED AT ALL COSTS – IS IT STILL SUCH A DETERRENT?"

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ACT ON OUTCOMES

"Change will not take hold if the outcomes are ignored or perceived as a paper tiger," says Poynder. "Culture should be at the top of the agenda at all meetings, at all levels. If senior managers are seen to care about culture and ask for demonstrations of progress, then teams will find ways to show that progress."

Senior bankers are typically interested in culture in relation to conduct risk, but there is an opportunity to better align the management of conduct risk from a regulatory compliance and risk perspective to a more joined-up approach across wider groups of stakeholders, business processes and key performance indicators.

That is the view of Melanie Newton, Financial Services Partner at Baringa, who recommends that each organisation is considered through four elements of a culture change framework: vision and leadership; roles and competency; governance, policies and processes; and incentives and accountability.

She agrees that employee, manager and leadership team questionnaires provide insight into culture and can be repeated at regular intervals to provide an objective measure for the extent of culture change, while culture can also be measured through existing KPIs.

Once minimum standards of service have been agreed and set, the only way to ensure they are maintained is to ensure a regular monitoring process is in place, suggests Pinner. "The first part of this process would be an internal programme where performance in all areas is measured and reported to senior management. Other possible actions include regular third party employee reviews, the creation of 'mystery shoppers' and formal regular client interviews, again preferably conducted by a third party."

> **"SENIOR MANAGERS** HAVE TO BE MINDFUL THAT WHAT THEY SAY PUBLICLY AND PRIVATELY FORMS THE SOURCE OF MORE STORIES, SO 'CULTURE CHAMPIONS' MUST BE CHOSEN CAREFULLY."

KEY CULTURAL BARRIERS TO COMPLIANCE INCLUDE:

1. **Motivation** – are individuals rewarded, recognised and potentially chastised in a way that drives the right outcome in behaviours?
2. **Knowledge** – are you providing the right training and coaching to ensure employees have the skills, knowledge and experience necessary to fulfil their roles and responsibilities?
3. **Leadership** – leaders are the single most influential element in the workplace and role modelling the 'right' behaviours is an essential part of any leadership role from the board down.

NO 'ONE SIZE FITS ALL'

Stuart Campbell, Director at Protiviti, suggests that business leaders are beginning to understand that more than one culture can exist within an organisation (especially large, complex global organisations) and that understanding the rationale for such is a key step in shaping any enhancement programme.

Nick Hawke, Head of Governance, Risk and Compliance at Lysis Financial, recommends codifying the cultural decision in a very short statement. "An explicit (but very brief) statement of what that decision looks like includes how you are going to treat customers, how you will manage risk and ensure business compliance and ethics, how you are going to support employees and how you are going to treat vendors. Making a decision once isn't enough – you need a clear way to refer back to it."

Recruitment is also important. "Change your hiring practices to reflect your (newly) stated values," he continues. "Stress the purpose of employment at your organisation and the conduct expected and come up with a sustainable reinforcement plan – maybe a few minutes every day discussing just one of your cultural values or service standards, with the meeting led by a different employee every time."

Marcus Downing, Director at Hay Group, refers to the importance of communication, noting that bank staff closely watch the behaviour and messaging from the top team. "Senior managers have to be mindful that what they say publicly and privately forms the source of more stories, so 'culture champions' must be chosen carefully. When senior people systematically pick out staff members for praise, giving clear reasons for doing so, this can make a desired culture real."

According to Poynder, culture must be reflected directly in the remuneration scheme. "Whilst culture may not be the largest element of a pay or bonus structure, it should be a threshold parameter," he concludes. "Meeting the threshold (or not) should have a direct and substantial impact on remuneration." CB

The ROAD TO REBUILDING TRUST

The Institute has a vital role to play in helping banks to progress down the route to a sustainable, customer-centric culture.

As firms turn their attention from meeting short-term regulatory deadlines, to measuring and embedding long-term change, senior figures must ensure that they have the knowledge and expertise to navigate the road ahead.

But with more scrutiny than ever before on culture and conduct – whether internal or from media, regulators, or customers themselves – those leading their firm down the road to cultural reform must be sure that they are making real progress.

KNOW THE CODE

The definition of a 'right' and 'wrong' culture should not – and likely cannot – be defined by regulation, but written codes, such as the Institute's revised Code of Professional conduct, play an important role in the effort to preserve and strengthen culture. By setting out expected ethical and professional values, attitudes and behaviours – as well as their commercial implications – they can help to guide and prompt bankers until these industry-wide or institutional standards become instinctive.

Of course for real change to take root, it must also run deep to the core of an institution's day-to-day operations. To this end, the Institute has been leading the re-professionalisation of banking to complement and support the agenda of regulators and the efforts of banks themselves to move towards a more customer-centric culture. The Institute's targeted qualifications support professionals at every stage of their career, whether they're leading the change from the top or working to make the right decision for customers on a daily basis.

Two recent collaborative relationships have added to the way in which the Institute is able to support and complement the Senior Managers and Certification Regime in the UK in particular.

STANDARD-BEARERS

In partnership with the Institute of Banking, the Chartered Banker Institute has now launched a programme of study that aims to help equip bank directors with the skills they require to discharge their responsibilities professionally and effectively, while building a strong community of professionals in the UK and Ireland.

"Our vision for the Certified Bank Director Programme is not only to enhance the knowledge and expertise of bank directors – it is also to develop a strong community of professionals in the UK and Ireland able to play significant roles in rebuilding our industry," says Simon Thompson, Chief Executive of the Chartered Banker Institute.

The programme comprises nine modules, delivered over a period of 10 days. Subject area experts lead each individual module; the bank regulation module will be delivered by Martin Stewart, Head of Bank Policy at

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the Prudential Regulatory Authority, for example. The programme has been designed with a strong focus on enhancing participants' skills through a learning forum where challenges can be explored and insights dissected and shared.

ARE YOU 'FIT AND PROPER'?

Following the introduction of the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA)'s Certification Regime, firms will still be required to assess and certify the fitness and propriety of some individuals who are not part of the Senior Managers Regime.

To help firms through this difficult and time-consuming task, the Institute has partnered with its colleagues at the Chartered Institute for Securities and Investment (CISI) to offer a standardised approach and methodology for assessing and certifying individuals. Those who meet our requirements will received an annual Certificate of Professionalism, which verifies their behaviour, fitness and propriety.

Individuals are expected to demonstrate their competence, fitness and propriety by meeting the following minimum standards:

- Professional Knowledge: individuals must hold a relevant professional banking qualification either awarded by or recognised by the Institute.
- Continuing Professional Development: individuals must complete, and provide evidence of a minimum of 35 hours per year of CPD which is applicable to their role, maintains and/or develops their relevant professional qualification, and contains a minimum of 5 hours of professional ethics education and development activities; and
- Commitment to Code of Professional Conduct: individuals must make a personal commitment to the expected values, attitudes and behaviours set out in the Chartered Banker Code of Professional Conduct and be a member in good standing of the Chartered Banker Institute.

DRIVING PROFESSIONALISM FOR 140 YEARS

The extension of the Individual Conduct Rules to cover all bankers is one of the most positive of recent regulatory changes, says Simon Thompson, Chief Executive of the Chartered Banker Institute.

"But setting ground rules for all bankers to act with integrity, due skill, care and diligence and to observe proper standards of market conduct are what we've expected for bankers since our foundation in 1875. And it's what we anticipated when, with leaders of the UK's major banks, we jointly launched the Chartered Banker Professional Standards Board (CB:PSB)."

The CB:PSB was created in October 2011 as a voluntary initiative led by eight founding banks – which together employ over 70% of the UK banking workforce – and the Chartered Banker Institute.

Today, it continues to reinforce professionalism in banking by developing, implementing and sustaining professional standards.

The Institute's revised Code of Professional Conduct, which launched 1 September 2016, sets out the key attitudes and behaviours expected of banking professionals and underpins the professional standards set by the CB:PSB detailing the ethical and professional values, attitudes and behaviour expected of all professional bankers.

The Code is consistent with the terminology in the FCA/PRA individual Conduct Rules and exceeds regulatory requirements by setting out how individuals should follow best practice and demonstrate their personal commitment to professionalism in banking, by:

- Treating all customers, colleagues and counterparties with respect and acting with integrity
- Developing and maintaining their professional knowledge and acting with due skill, care and diligence; considering the risks and implications of their actions and advice, and holding themselves accountable for them and their impact
- Being open and co-operative with the regulators; complying with all current regulatory and legal requirements
- Paying due regard to the interests of customers and treating them fairly
- Observing and demonstrating proper standards of market conduct at all times
- Acting in an honest and trustworthy manner, being alert to and managing potential conflicts of interest
- Treating information with appropriate confidentiality and sensitivity.

KEY TAKEAWAYS

For more information on how the Chartered Banker Institute can help your organisation, and relevant individuals, continue to meet the requirements of the Senior Managers and Certification Regime, go to http://www.charteredbanker.com/cultureandconduct