Strengthening Bank Culture: Regulatory driven reform

Bank Culture Reform is a key focus area for the Hong Kong Monetary Authority (HKMA). Commencing in March 2017, with the initial circular and subsequent announcement of ongoing supervisory measures, the HKMA continues to highlight the requirement for banks with operations in Hong Kong to adopt a holistic and effective framework for fostering a sound culture at all levels, with a particular focus on the three pillars; Governance, Incentive Systems, and Assessment and Feedback mechanisms.

Why is the regulator focussed on culture as an enabler of sound risk management?

Despite recent efforts by banks' senior management to increase the focus on behaviours required by employees, there continues to be instances of poor behaviour that impacts the organisation or customers. This indicates that further work is required to ensure a supportive yet accountable culture is achieved.

What do we mean by Culture?

To some it is a nebulous concept; however, culture is tangible and measurable. By asking the right questions you can see what is important to an organisation, and ultimately understand the core assumptions that drive the way things get done. Furthermore, you can assess if the core assumptions that underpin culture are aligned to the behaviours and values that are important to the organisation.

Key regulatory areas of focus

Governance

*The Board and senior management must **lead by example**, and set an appropriate "tone from the top"*

Oversight & Communication

- Dedicated board-level committee for culture matters
- Regular review & assessment of culture enhancement initiatives
- Ongoing communication from the top
- Clear ownership of culture with defined roles across the bank

Incentive Systems

*The **reward** system should recognize **adherence to the bank's culture** and behavioural standards.*

Rewards & Consequences

- Avoid over-reliance on sales and revenues targets
- Adequate consideration of behavioural indicators
- Separate performance rating for adherence to bank's values
- Sanctions for misbehaviour, and rewards for positive behaviour

Assessment & Feedback Mechanisms

*Appropriate **tools to monitor compliance** from business units and staff to the bank's culture standards.*

Monitoring & Escalation

- Dashboard of key indicators to monitor culture
- Gather staff feedback
- Customer satisfaction surveys
- Sharing lessons learned from misconducts
- Clear escalation channels

KPMG have developed **a risk culture assessment model** that analyses the factors that affect a company's corporate culture. By establishing a future target state and then testing the current state through "top-down" analysis and "bottom-up" engagement, a bank can develop a framework that manages, measures and monitors their corporate culture against the desired ways of working.

Questions for understanding your culture

Leadership & Direction

- Are **senior leaders setting expectations** for the organisation relating to good **risk ownership** and articulating the way in which **strategy and direction influence conduct and culture?**

Individual Commitment

- Are you enabling an **individual employee to demonstrate a positive attitude** and **behaviour** towards the management of issues affecting conduct and culture?

Joint Ownership

- How are the different functions within the **organisation interacting, cooperating** and taking **joint ownership** and **accountability** for the **management of conduct and culture?**

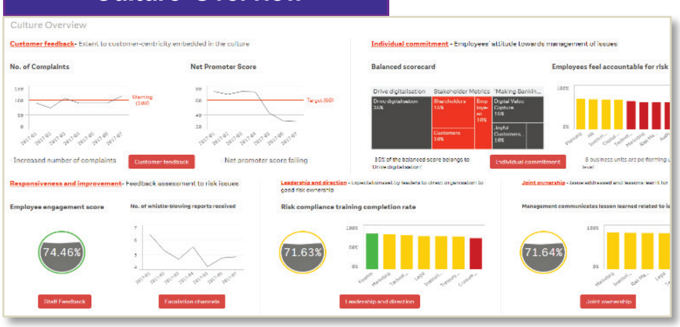
Responsiveness & Improvement

- What happens when there are conduct-related incidents and breaches within the organisation? How are issues **addressed** ? What and how are lessons **learned** for **future improvement?**

Client

- What is the extent to which **client-centricity** is embedded in the culture?

Culture Overview



As part of our ***Risk Culture Model***, KPMG have developed a dynamic scorecard that enables a bank to report on how they are progressing against their target state.

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