

# HKMA Bank Culture Reform







Latest insights based on review of self-assessments

May 2020

As part of its ongoing Bank Culture Reform, the Hong Kong Monetary Authority (HKMA) commenced a self-assessment exercise in 2019, requiring 30 banks (all major retail banks and selected foreign bank branches with substantial operations in Hong Kong) to conduct self-assessments on their culture enhancement efforts. In its review, the HKMA highlighted the importance of incentive systems in promoting a sound bank culture, and stated its aim to conduct focused reviews that dive deeper into the incentive systems of retail banks' front offices. In this publication, we outline the key insights obtained from the HKMA's review of self-assessments on bank culture, and our reflections on the review of the self-assessments, with a focus on incentive systems.

## Key insights

The following themes have been identified by the HKMA as requiring more attention to develop a sound bank culture:





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**Incentive Systems**  
 Further work is needed to ensure Incentive Systems are designed to promote sound culture and prevent instances of misconduct. The HKMA has indicated as a next step that it will conduct focused reviews into the Incentive Systems of front offices in retail banks
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**Realising the benefits of lessons learnt**  
 Deeper analysis is expected based on major overseas misconduct incidents to benchmark and demonstrate adoption of insights and learnings
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**Focusing on local circumstances**  
 Stronger links between Hong Kong operations and overseas headquarters are required to ensure local circumstances are taken into account when implementing culture enhancement initiatives
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**Continuous professional development**  
 More emphasis is needed to equip and ensure that relevant staff have the right skills and knowledge to complement the efforts to embed sound bank culture at all levels
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**Cultivating the "Speak up" culture**  
 More effort is needed to promote the awareness and proper use of whistleblowing policies and frameworks. Focus is needed to cultivate and promote a "Speak up" culture within organisations which encourages staff to speak out without fear of adverse consequences
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**Sustaining Bank Culture Reform efforts**  
 Continuous effort is required to identify the gaps between current progress and the desired sound bank culture, and pacing efforts to avoid "culture fatigue"

## Next Steps



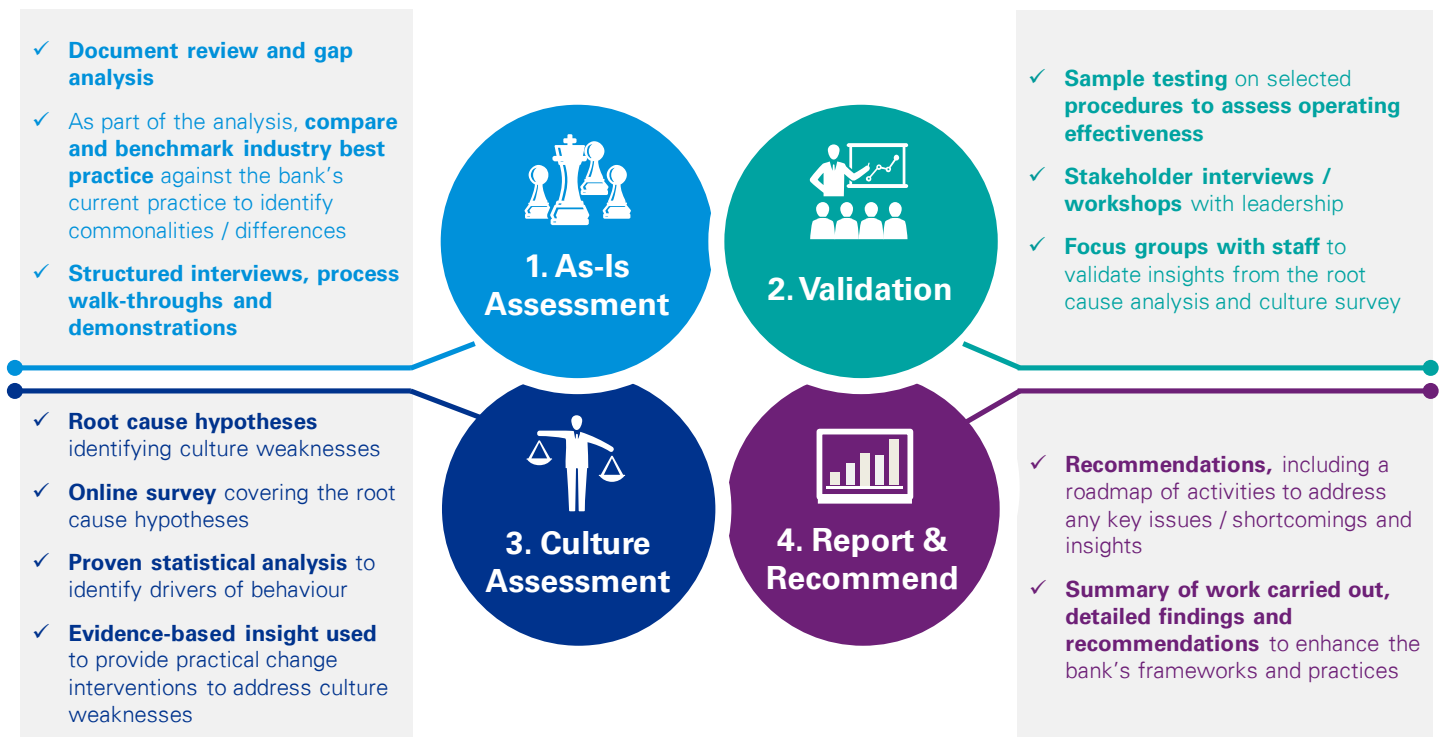
# Deep dive into Incentive Systems

Incentive Systems play a crucial role in driving behaviour. Regulators like the HKMA expect to see an increased focus on Incentive Systems as a driver of sound bank culture, and to prevent misconduct incidents. Global leading regulators expect to see the following key elements:

 <b>Governance</b>	 <b>Performance Management</b>	 <b>Remuneration Policy &amp; Process</b>	 <b>Remuneration Structure</b>
<ul style="list-style-type: none"> <li>• <b>Appropriate monitoring and oversight</b> from the Board / supervisory body</li> <li>• <b>Proper documentation on the decision-making process</b></li> <li>• <b>Regular training</b> of Remuneration Committee (REMCO) members</li> <li>• <b>Appropriate interaction and involvement</b> with the Board, HR, Compliance and Internal Audit function</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Independent determination</b> of remuneration of control functions</li> <li>• <b>Adequate consideration</b> of risk-taking behaviour, risk outcomes and long-term overall business performance</li> <li>• <b>Balanced use of both qualitative and quantitative</b> key indicators</li> <li>• <b>Robust training and development</b> planning for performance managers</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Simple, prescriptive, easily understood and accessible</b> by different levels of staff</li> <li>• <b>Consistent with business</b> and risk strategy, corporate culture and values</li> <li>• <b>Contains performance objectives</b> for business areas and staff</li> <li>• <b>Timely communication and publication</b> of remuneration report with the public and shareholders</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Proportionate balance</b> of fixed and variable remuneration</li> <li>• <b>Inclusion of the use of instruments</b> for variable remuneration</li> <li>• <b>Specification of deferment</b> of variable remuneration</li> <li>• <b>Truly discretionary and fully flexible</b> structure on variable remuneration policy</li> <li>• <b>Regular review, update and communication</b> of the framework</li> </ul>

## How can KPMG help?

Regulatory requirements governing the development and maintenance of incentive and remuneration systems have already been embedded into the broader financial regulatory reform programme in many jurisdictions. KPMG applies a multi-lens approach to help assess a bank's current culture. By collecting and evaluating multiple, disparate data points, we are able to determine the root causes of cultural issues and identify areas of focus. We place a particular focus on analysing Incentive Systems to drive the behavioural change required for a sound bank culture.



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