Cultural differences: Blanket assumptions about retail and wholesale banking hamper cultural improvement

Published 19-Feb-2020 by
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Glib assumptions about banks' morality are commonplace. The Christmas film 'It's a Wonderful Life' pitches folksy lender James Stewart against a wicked commercial banker. It is less heart-warming when bankers themselves just assume retail and wholesale banking are culturally different; instead, it has regulatory consequences.

There are clear differences in each sector's function but the issue is whether that extends to their approach. Mockery of retail colleagues' unprofessionalism or the venality of those in wholesale (including investment) suggests practitioners often believe it does. In mid-January, a Breaking Views article on Santander's aborted recruitment of a new chief executive from UBS said the affair highlighted 'the clash of cultures'.

Despite the Financial Stability Board (FSB) and regulators such as the UK's Financial Conduct Authority (FCA) pressing firms to improve their cultures, there is no agreed definition of an organisational culture. Most versions revolve around the shared values and standards of behaviour that shape how a firm functions. Similarly, the FCA has said there is no single model of good culture and it does not prescribe what any firm's should be.

That haziness around what constitutes a good culture can leave firms and employees looking elsewhere for pointers. Longstanding assumptions can seem helpful, especially ones that play on a bonding sense of 'we're good, they're bad' like the divide between retail and wholesale banking. Its roots may lie in pay differences, pride and acrimony over the 2008 banking crisis but it affects the debate over cultures.

Demanding specialism

Generalising, the wholesale sector regards itself as a demanding specialism that pays commensurately. It regards retail as simpler and its practitioners as less professional: one banker described it as the difference between architects and builders. Retail sees wholesale as recklessly self-interested and itself as sensible and customer-focused. In short, each views itself as meeting the criteria of its preferred 'good' culture while the other does not.

Having different cultures is fine under the FCA's 'no universal model' approach but can lead to complacency about how much cultural improvement needed. Moreover, picking out cultural differences can obscure areas of problematic common ground.

"There's not necessarily a cultural difference between the two sectors," said Rafael Gomes, leader of Accenture's UK regulatory and compliance group in London. "The retail arm of a major bank often has more in common with its wholesale arm than with another retail bank. Tone from the top, incentives and accountability are bigger drivers of culture than whether a bank or unit is wholesale or retail."

People often assume wholesale cultures are worse, especially concerning risk-taking and tolerating high-earners' misbehaviour. Reward there is normally higher in absolute terms but retail employees may be able to boost their income more proportionately. Problems at Wells Fargo and the major UK and Australian banks stemmed from incentive schemes encouraging miss-selling, overcharging or opening accounts without consent. It was no less culturally reprehensible because they were retail operations.

"Reward obviously drives behaviour and tends to be higher in wholesale than retail but the key question is what is being rewarded," Gomes said. "Though wholesale sector incidents received more attention, retail firms have been penalised heavily for problems resulting from incentive schemes. Recently they've changed sales targets from just rewarding quantity of sales to put more emphasis on the quality of sales."

Gomes said the largest banks, especially those the FSB deems global systemically important banks (G-SIBs), are under the greatest regulatory scrutiny because of their ability to swing capital markets, regardless of whether they are predominantly wholesale or retail. The FSB has designated both Santander and UBS, the institutions in the Breaking Views article, as G-SIB Bucket 1 institutions.

Culture evaluation across retail/wholesale divide

Moves are being made to evaluate bank cultures across the putative retail-wholesale divide without measuring them against a single expected model. The Banking Standards Board (BSB) is an independent body established in 2015. Its aim is to promote high standards of behaviour and competence at banks and building societies operating in the UK, issuing guidance and conducting confidential assessments of firms. The results are used to provide an annual overview assessment.

Thirty-three firms are BSB members, ranging from G-SIBs such as Citi and HSBC to a one-branch building society. Its assessments do not judge their achievement of one type of 'good culture' but their performance in nine main characteristic groups. That approach has gained the BSB wide respect and many organisations beyond UK banking have found it valuable. Last year, the Federal Reserve Bank of New York underwent a voluntary BSB assessment.

In January, the BSB published the results of its 2019 assessment, the fourth it has done. The findings suggest it is naïve to assume big firms are worse than small ones at cultural improvement. Taken together, the scores of large complex firms trended sideways in 2018 and 2019, holding onto earlier improvements. The aggregate scores of smaller firms tended to decline over the past few years, albeit from a higher starting point than larger firms on many questions.

"We are continuing to analyse the results," a BSB spokesman said. "It should be emphasised also that this aggregate pattern is not necessarily replicated at the level of each individual smaller or larger firm. We can only say at this stage that we have observed this as a trend. At the level of individual firms and business areas within firms, variation and change is even more evident."

Nevertheless, it is noticeable that despite the number of wholesale banks operating in London, only Morgan Stanley is a current BSB member. Around 40 firms operating in capital markets are members of the FICC Markets Standards Board (FMSB), however. This is another independent voluntary body of UK origin but unlike the BSB, the FMSB focuses on conduct in particular market activities.

Statements of practice

To date, FMSB has issued five standards and ten statements of good practice. Members annually commit to adhering to the core principles established by those standards across their organisations. The good practice materials are intended to reduce uncertainty about acceptable practice in opaque and unregulated areas. Although not directly addressing culture, the FMSB's work is aligned to the cultural improvement agenda.

"Organisational culture and good conduct are inextricably linked, and these topics are high on the agenda for regulators, central banks and standards setters in a post-crisis world," an FMSB spokesman said. "While FMSB is not dictating or measuring culture in markets, our work is likely to have an impact on organisational culture over time."

Both the BSB and FMSB described their work as separate but related and complementary. The BSB is also a partner member of the FMSB, attending meetings of its standards board. Although the FMSB has not conducted BSB-style annual assessments, it seems to be moving towards assessing its work's effect on firms.

"In 2020, one of our priorities is to look at the impact of our standards and statements of good practice on the day-to-day business practices of our members," an FMSB spokesman said.

"By looking within the organisations that commit to adhere to standards we can understand in better detail what that means in real terms."

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Produced by Thomson Reuters Accelus Regulatory Intelligence 19-Feb-2020