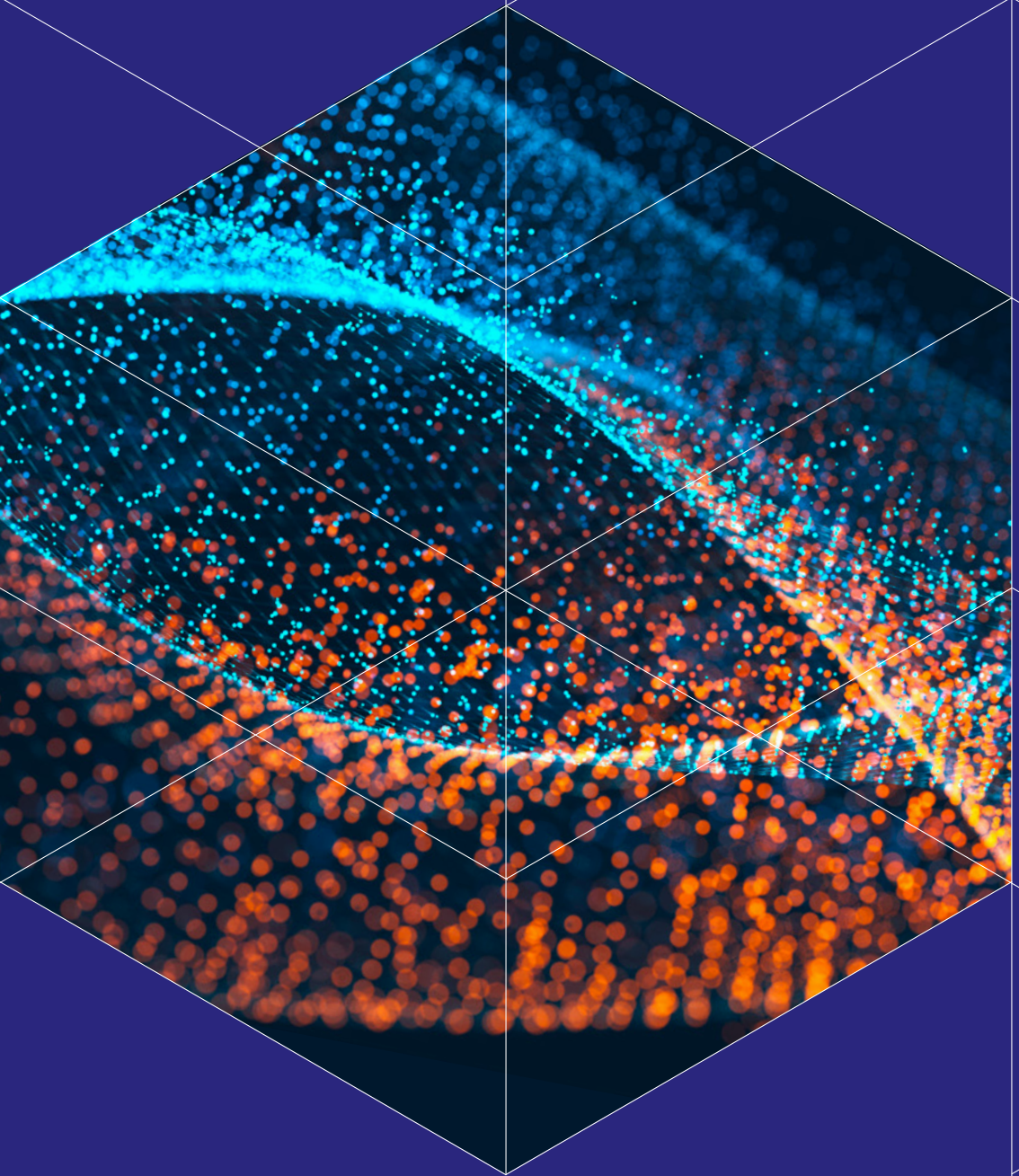
FMSB
FINANCIAL MARKETS STANDARDS BOARD

Conduct & Culture MI

Boundaries of Current Practice

Spotlight Review
July 2023



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One of the central recommendations of FEMR was that participants in the wholesale markets should take more responsibility for raising standards of behaviour and improving the quality, clarity and market-wide understanding of trading practices. Producing guidelines, practical case studies and other materials that promote the delivery of transparent, fair and effective trading practices will help increase trust in wholesale markets.

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Oliver Wyman

We are grateful for the support of FMSB Partner Member Oliver Wyman in the preparation of this Spotlight Review. They contributed to the development of the Information Request, collation and analysis of submissions, one-to-one discussions with Member firms, Working Group sessions and the preparation of this review.

We would particularly like to thank the following contributors:

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Purpose of this review

The 2008 financial crisis brought global attention to the management of conduct and culture in financial institutions. Financial services firms have invested heavily in risk management frameworks, technical infrastructure and data to support analysis of conduct and culture and to help bring about positive change in their organisations. Managerial focus has been intense and conduct, as recent events have demonstrated, continues to be a material challenge for governance.

This Review seeks to establish current practice around conduct and culture management information (MI) among a selection of large firms in global financial services. In May 2023, FMSB Members compiled and submitted information on the strategic rationale for addressing conduct and culture, data and metrics used, organisational arrangements, reporting formats, what's required to improve and more. They also submitted redacted versions of current dashboard-style management reports revealing the specific metrics and related information provided.

Our analysis of this information provides useful context for individual firms and the industry as a whole on what might be needed to gain a better understanding and insight into the progress so far, what more can be achieved and the challenges faced in the effort to get there. This Review identifies emerging tools and considers what can be done to support and enhance healthy organisational environments, avoid losses and further build trust. It does not provide an analysis or detailed commentary on the individual metrics used.

Executive summary

Around 2014, firms were quick to establish metrics around known areas of misconduct and sources of risk. Root causes were then addressed including both operational and behavioural weaknesses. Organisation-wide risk management frameworks were expanded and supported by extensive new oversight committee structures as well as dedicated conduct reporting.

The early, accelerated pace of development of conduct risks metrics has shifted to more broadly include culture and behaviour. Dashboard metrics most popular with management are those dealing with controls, breaches and sanctions. Some firms are content to maintain hundreds of metrics prepared to suit individual audiences. External information like complaints or some social media feeds are now included along with limited amounts of newly created data to address organisationally-specific issues. Taxonomies are well-developed and analysis is progressing to include more advanced, potentially predictive measures. However, reporting remains comprised of a patchwork of regional and function-specific initiatives rather than a singular, more cohesive approach for the firm as a whole.

In this Review, three stages of development are provided for reference and reflect progress on various aspects of oversight such as: outcomes-focused rather than just rule adherence, targeting specific behaviours for change, sophistication of analytics and implementation of change and inter-personal development programmes. Most firms are spread across Stages 1 and 2 with a few firms now exploring Stage 3.

Organisations are beginning to explore how best to support staff at large to demonstrate good behaviour as the norm. This is recognised as an emerging area of potential competitive advantage.

The word 'behaviour' can often substitute for 'culture'. This serves more readily to focus attention on specific behaviours, topics and goals than the general concept of culture.

Having established the boundaries of current practice, firms can now more confidently self-assess their relative progress and prioritise next steps in what will be a continuous, long-term effort to foster and maintain a healthy culture. Conduct and culture is not an exact science and metrics can most usefully be thought of as sources of insight into behaviour rather than measurement like a thermometer.

Definitions

- Conduct is mostly defined as expected behaviours and actions of employees that ultimately lead to positive outcomes for customers and markets.
- Culture definitions focus on the drivers of behaviour that give rise to conduct outcomes.

Key messages

- Conduct metrics have remained largely unchanged over the past five years.
- Culture metrics will benefit from expanded focus on the drivers of behaviour.
- Firm-wide and end-to-end coordination of data collection, analysis, reporting and follow-up can help deliver more complete reporting.
- Including external data sources and creating data in support of new metrics can drive more informed results.
- Behavioural science is becoming more widely embedded with some firms endeavouring to build in-house expertise.
- Regulatory recognition of behaviour-led strategies for firm-wide culture development and targeted improvements is helping drive industry-wide progress.

PART ONE

Review and assessment

Background

Regulation and supervision of financial services firms traditionally emphasised prudential factors such as capital, leverage and liquidity as well as credit quality and organisational housekeeping. This evolved in tandem with the growing complexity of products, business models and the technological infrastructure that underpins the industry. Since the turn of the millennium, attention has increasingly focused on management responsibility and leadership.

Following egregious misbehaviour, regulators embraced the concept of conduct which invokes more strongly the spirit not just the letter of the law, but also a sense of fairness and accountability at both the personal and organisational level.

The study of adverse events such as trading and operational losses, customer complaints and staff misbehaviour has evolved from basic post-event analysis to, for some, sophisticated data mining efforts using advanced analytics in the search for predictive patterns. Efforts to manage conduct were initially focused entirely on breaches and have gradually expanded to overall support for cultural development and wellbeing for the whole organisation. The number of metrics tracked has, for some firms, grown into the hundreds and underlying data sources have also expanded dramatically.

Recent bank collapses that had root causes in conduct and culture have resulted in leadership attention on culture coming full-circle to the link with prudential and other more traditional supervisory matters. Large financial firms have reached a good point to take stock of where the industry finds itself leading to the compilation of this review.

Conduct & Culture Management Information (MI)

Sticks Vs. Carrots

75%

of conduct metrics track sticks (e.g. breaches) but the shift in focus to carrots (e.g. safety, well-being) is growing

Data & Analytics

Top strategic priorities are improved availability and usage of advanced analytics and better access to data (internal and external)

Psychological Safety

45%

of firms still treat psychological safety as a topic outside of conduct. However, all firms track this somewhere in the organisation

Data Sources

60%

actively create data needed for oversight, where it would otherwise be non-existent. The other 40% rely on readily available information

Strong Governance

100%

have comprehensive organisational oversight committees and reporting structures in place. Drivers of behaviour are now a key focus

Metrics

125

different metrics were used by the firms in their conduct and culture dashboards

Conduct and culture context

The industry initially responded hesitantly when regulators began to focus on conduct and the cultural foundation on which it rested. Regulators provided limited direct guidance but underlined the importance for firms to undertake the exercise to create a definition of conduct for their organisation and then implement developmental programmes.

Conduct

All firms submitting information for this review had a working definition of "conduct". For most firms, a conduct definition coalesced around behaviours and actions of employees that lead to adverse outcomes for clients or markets or that undermined the firm's culture.

Less than half the group used neutral language (behaviour in line with corporate values). Only three firms framed their definition of conduct using positive terms ('deliver suitable and fair outcomes').

A limiting factor for progression is the predominant use of the term conduct risk rather than conduct as a standalone term which captures both good and bad behaviour.

Culture

Culture was generally defined by firms as values, beliefs and norms that shape behaviour. It formed the background for organisational life exemplified by prevailing attitudes, patterns of behaviour and the degree of emphasis on key values such as transparency, psychological safety and commitment to staff wellbeing.

Firms refer to their cultural consistency or strength but also acknowledge that they are a composite of many cultures, as exhibited by different sub-groups within the firm, melded together.

It may be useful to substitute the word behaviour for culture to enable a practical focus on what people actually do and what might need addressing.

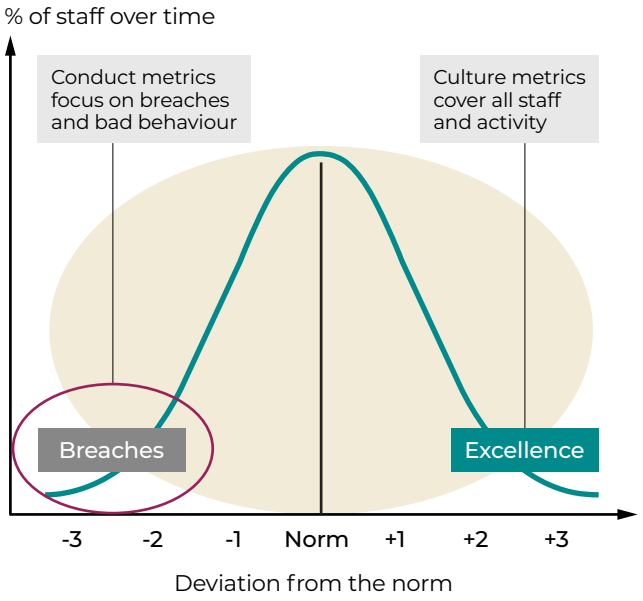
Conduct and culture context continued

Staff behaviour curve

For graphical context, staff can be described as exhibiting habitual behaviour that ranges across undesirable traits to those who are consistently exemplary in, for example, treating customers fairly. The distribution in Figure 1 is intended to describe this concept without suggesting it is an actual, observable curve. The 'norm' in the centre would reflect social mores, corporate policy, company law, rules and regulations and such other reference points for expectations of behaviour and the 'letter of the law'. Exemplary behaviour is depicted further to the right and those committing breaches or tending in that direction are on the left.

This curve could apply to most of us as individuals to the extent that we might be tempted occasionally to breach some rule. For example, driving with the flow of traffic you might suddenly realise that you and others are actually well over the speed limit. In addition, an important point in understanding human behaviour is that while we tend to be average, we think of ourselves as being above average and reframe our rule-breaking activity as normal.

Figure 1: Distribution of good and poor conduct/behaviour



Following the 2008 financial crisis and again in 2015 when conduct discussions were gaining ascendancy with regulators, the attention of risk, legal, human resources (HR) and compliance functions (among others) focused on the far-left side of the curve which dealt with breaches and misbehaviour. In 2020 under COVID-19 pandemic conditions, attention of management and staff turned to protecting and ensuring wellbeing across the whole curve.

The balance of effort and metrics remains heavily weighted around breaches on the far-left. In our Information Request (Question 4) we inquired about whether firms are focused on such misconduct or transgressions (aka 'sticks') versus cultural support and reinforcement for staff more generally (aka 'carrots'). Firms clearly acknowledged their current overweighting on 'sticks' and the circled area on the left versus the right on Figure 1 respectively. While sticks and carrots serve to illustrate a point, a more complete picture of behaviour drivers would include the wider environment, process designs, interacting sub-cultures and much more.

Current practice

Information request highlights

The Information Request for this document included seven groups of questions ranging from the strategic rationale for looking at conduct and culture to the challenges that lie ahead. As many of the questions were open-ended, one-to-one discussion with firms helped to clarify meanings and enable more consistent comparisons across the group. We also were provided with dashboards, that are used to update boards, management committees and senior managers. A detailed presentation of the results is provided in Part Two but a summary of existing practice is provided here.

1. Overall strategic drivers (Questions 1-4)

Theme: Why does your firm strive to understand and influence conduct and culture?

Importance: The underlying rationale and the steps taken can indicate how deeply and ambitiously a firm might pursue its objectives including targeted changes in behaviour.

Current practice: The impetus for attention on conduct and culture is from the board and CEO level but also includes business management, risk, compliance and HR. The five most common reasons for focusing on culture and conduct highlighted by firms are:

- the identification of risks,
- spot trends in behaviour across their organisation and insight into future actions,
- prioritise initiatives related to conduct and culture,
- providing oversight for executive management, and
- achieving positive outcomes for clients and markets.

Conduct definitions focused on employee behaviours that lead to positive outcomes for customers and markets. Culture was most often defined with reference to the values, beliefs and norms that shape general or desired behaviour. While definitions sought to prompt good behaviour they were most often framed as avoidance of bad behaviour. A small number of firms did not have a formal definition of culture and thought that referencing their corporate purpose statements or key values was sufficient.

Six main categories for future progress in conduct programmes emerged:

- improvement in data,
- analytics and reporting,
- organisational alignment,
- improvement of overall governance,
- firm-wide communication on the topic, and
- employee development.

Conduct as a topic was prompted by bad behaviour, breaches of various kinds and the need to measure, monitor and reduce adverse outcomes. Organisational responses often took the form of penalties for the bad actors attracting the label of 'sticks'. Over time firms began to introduce programmes for the whole organisation that sought to support good behaviour and wellbeing generally which attracted the label of 'carrots'. Firms reported that their conduct and culture MI was still focused more on sticks than carrots with only a few having what they thought was an equal balance. One firm observed it had now shifted more to carrots than sticks, although a closer review of their dashboard revealed many metrics around misconduct transgressions.

Current practice continued

Many firms stated that positive metrics do not get enough senior management or board attention. Metrics discussed at board level are mostly related to controls and sanctions (e.g., # employees sanctioned for internal rule breaches, # limit violations, # fines incurred from incidents, etc.).

Observations

- If firms are to shift meaningfully towards more positive aspects of culture development, then senior management attention will need to shift and broaden as well.
- Firms were well engaged across all levels and functions on purposeful conduct and culture initiatives, with staff driven partly by fundamental personal agreement with the changes and also by organisational encouragement and incentives.
- Many firms did not include programmes such as volunteering, corporate social responsibility and positive client feedback in their culture framework. Firms considered these to be in separate categories.
- The number one category for progress and future achievement was more organisational coherence in data management and consolidated reporting across the firm.

2. MI process governance (Questions 5-6)

Theme: How is the topic dealt with at the top as well as across functions and the middle layers of management in the organisation?

Importance: Clear, empowered organisational structures and active follow-up of findings is a hallmark for stage by stage progression.

Current practice: Data usage, report content and governance in most cases involves several layers including board, business heads, risk, compliance and HR together with a range of committees. Most firms have heads of 'Conduct' or 'Conduct Risk' in some form, although a few prefer to see this responsibility distributed across staff and the leadership.

Board reporting is typically quarterly supplemented by monthly reports on an exception basis and an annual report with more depth on such topics as the risk management framework and remuneration. Business heads typically review information on a monthly basis and serve as both a recipient and generator of conduct and culture related data. Risk, compliance and HR all feed into the metrics used and HR typically has a number of processes more specifically related to staff behaviour.

In addition to executive processes there was a wide range of committees evident with names variously including: Board Compliance; Conduct & Culture Forum; Culture, Integrity and Conduct; Conduct Risk; Conduct Breach Review; etc. Many committees had a limited focus or remit but outputs typically reached a higher consolidation point supporting wider oversight of the organisation. While complexity appeared high, 13 firms declared their approach to be capable and effective and 10 firms reported that their infrastructure was somewhat effective or needed development.

Current practice continued

Observations

- The general approach to oversight is robust but benefits from board and senior management scrutiny in its design and implementation.
- Senior executive and budgetary support could help organisations align their overall conduct-specific effort, reduce costs and improve effectiveness.
- Common taxonomies were often in place but some organisations were not yet fully joined up and processes were not always or consistently performed.
- With definitions of conduct and culture as a starting point, it is important to seek to better understand the drivers of the behaviour exhibited in the firm.
- Some firms particularly emphasised the importance of ensuring that escalations could move efficiently upwards in the structure as needed.
- Firms scoring themselves highly still accompanied their response with a fulsome list of areas where improvements were planned or underway.

3. Data Sources and collection (Questions 7-11)

Theme: What data to look for, where to find it, and how to share it within the firm are all material, continuing challenges.

Importance: The range and quality of captured data is a key determinant of progress.

Current practice: Most firms are reliant upon a substantial array of internal data summarised under seven categories in this sub-section including: staff surveys; breach and conduct events; HR data; risk/compliance/legal/audit data; transactions; communications; ESG and other targets. Every firm drew from a number of these categories but not all. Half the firms were creating data to fulfil unique new metrics. Firms are ultimately looking for predictive trends or patterns, a goal that proves to be elusive, but have been able to identify areas worthy of management attention.

Making use of external data was seen as increasingly important and these included complaints; adverse events or trends; external newsfeeds; benchmarks; and industry or regulatory publications. Some firms considered complaints to be an internal rather than external data source but there was unanimous agreement on value.

Overall, 80% of firms stated that they shared data consistently across teams, locations and functions with access based on need to know and/or seniority in the organisational structure. Reluctance to share was often based on sensitivity or regional applicability.

Every firm evidenced that they measure and analyse diversity and inclusion (D&I or DEI for Diversity, Equity and Inclusion) data. However, some firms do not include it in conduct and culture reporting simply because D&I is treated as a standalone topic and process. The most common D&I metrics mentioned are female representation: in the overall organisation, in senior roles, or with international profile together with minorities (%), gender pay gap, and the disability equality index.

55% of firms include psychological safety in their conduct & culture MI reporting. Most others track it to some degree but report results elsewhere. Training to encourage speaking up and employee surveys are the two primary methodologies used to assess psychological safety in the firm.

Current practice continued

Observations

- The collection and use of external data has materially developed.
- Less than half of the firms actively create unique data that would help them address a particular behaviour they would like to influence.
- While data and reporting on D&I were often done outside of the conduct and culture universe, as this topic becomes more embedded across organisations, opportunities to make use of the insights may emerge.
- There continues to be a high dependence on rudimentary staff survey information. The ability to directly observe staff in ethnographic terms could be beneficial.
- Framing good questions in the pursuit of understanding behaviour is key.

4. Approach to modelling data (Questions 12-15)

Theme: How capable are firms at extracting useful information from data and other observations?

Importance: Data analysis at scale is noisy, rife with quality issues and requires time, experience and tools to master.

Current practice: For many firms, data modelling is at an early stage of identifying levels and trends over time. A few firms have used more sophisticated mathematics for trends, correlation analyses and outliers. Even fewer are able to track quarterly comparisons against reference points such as management approved tolerance thresholds.

About half the group use external software to model data or calculate and generate visualisations for dashboard reporting. Most firms create thresholds as part of conduct and culture reporting and this is summarised in some detail in Part Two under Question 14.

Circa 25% of the group rated its data modelling as capable and effective. Most considered themselves to be partly effective or in need of development.

Observations

- There is limited use of data analytics.
- Data base management and analysis tools are needed especially in the context of the large number of metrics being monitored and the use of disjointed data sources that can be prone to high levels of noise.

5. Conduct and culture reporting and decision-making (Questions 16-19)

Theme: What reports are generated, where do they go and does action result?

Importance: Report sharing and decision-making follow-up reveals how well conduct is embedded in the organisation's own culture.

Current practice continued

Current practice: All participants report conduct and culture metrics in one or more dashboards. Generally, firms are using dashboards at global and regional levels, and reporting quarterly at board level is a widespread practice across the participants. About 90% of the group have independent committees dedicated to conduct or working groups formally covering this topic directly within various business units. In most cases, there was a mix of traditional and dedicated conduct risk committees managing conduct risk.

There is a wide variation in the number of metrics used and the range covered but strong commonality across the group dashboards. A list of 36 commonly used dashboard metric groupings is provided in Part Two below. The focus for most firms was on breaches and problem areas with only tentative steps into wider aspects of staff behaviour. Predictive results remain an elusive goal.

Conduct metrics require a degree of consistency but 60% of firms indicated that variation is allowed across the firm under circumstances such as the pertinence to a particular business unit or geographic location and local regulatory context.

Observations

- Organisational infrastructure for monitoring and managing conduct and culture is well developed for considering outputs, initiating action-oriented responses and following up on results.
- The committee infrastructure is well resourced and may have capacity for deeper analysis and the delivery of more outcomes or results if given the benefit of additional behavioural and related expertise.
- Proactive engagement with regulators, who are on the same learning curve, is likely to be beneficial.

6. Integration with broader risk processes (Questions 20-21)

Theme: Is conduct and culture seen as part of, or supplemental to, other risk processes?

Importance: Integration is another measure of conduct and culture metrics and outcomes being maturely embedded across the organisation.

Current practice: Conduct and culture metrics from various sources generally feed into or otherwise integrate with broader risk management frameworks, senior governance structures and the human resources function. This includes specific risk threshold reporting, board-level governance, business-level management, audit and compliance prioritisation, HR processes and, in a few cases, recruitment and training plans. The information was historical and not forward-looking.

Current practice continued

Firms were generally satisfied so far with the degree to which they had integrated conduct and culture MI with other risk management and governance processes related to conduct and behaviour.

Observations

- Many firms described aspects of their analysis and reporting to be conducted independently by various units but with data and results not consolidated in a coordinated manner.
- Teams communicate and share information but the degree of siloed activity suggests the organisational approach is not yet mature.
- Some firms noted the high value-add of direct linkage with various periodic risk self-assessment processes and the development of firm-wide taxonomies.

7. Overall assessment and future priorities (Questions 22-24)

Theme: What is the firm's sense of progress so far and future priorities or direction of travel?

Importance: The sense of achievement and ambition may impact future competitiveness.

Current practice: Turning to the overall effectiveness in driving and supporting positive change, the majority of firms self-assessed their MI and related programmes as neutral/somewhat effective. Continuing challenges and top priorities included a mix of topics around data collection, impactful reporting, consistency of approach across the whole organisation, the availability and use of tools or further automation and the need to develop a stronger ability to generate useful insight from the data and analysis.

Number of firms indicated as their top priorities

Data and analytics and Business Intelligence

All but one firm said the tally of breaches across risk thresholds, controls and sanctions was deemed as most helpful in identifying the majority of conduct risk in the firm. Other metrics considered to be highly informative dealt with adherence to HR processes, transaction data (especially personal trading), client complaints and the results of staff surveys.

Observations

- Future priorities are focused on improving and expanding the limited topic area of breaches and misbehaviour.
- Closer attention is needed on the drivers of behaviour.
- Less than half the firms have progressed to the stage where they can look at the wider topics of culture development across the whole organisation.
- Benefits could likely derive from implementing a joined-up overall approach to data, analysis and reporting.

Dashboard metrics

In addition to completing detailed Information Requests, many firms provided redacted versions of their dashboard reports on conduct and culture. Some firms provided a listing of the metrics used in such reports.

While often wide-ranging in detail, the metrics typically fell into six broad categories. A more detailed list of 39 typical metrics is provided at the end of Part Two of this Review. In total, 125 different metrics were evidenced across the dashboards submitted.

Dashboard Metric Categories

- Breaches, controls & sanctions
- Business performance
- Client complaints
- Culture & incentives
- Governance
- HR process adherence

The dashboards were often limited to one or two pages at board-level but many were replicated at several levels of the organisation, by oversight committee, by region or by business or product resulting in a substantial pack to compile as well as review. This workload was amplified as firms reported that, notwithstanding some automation, many components of the package were compiled by hand which therefore resulted in substantial manual effort to assemble the complete package.

A key challenge in compiling the reports is ensuring consistency of the data collected and the analysis applied. It was often the case that different functions were involved in providing various statistics and these could vary as to population and time periods covered or even the timeliness of making the data available.

Some firms had partial drill-down capability where a mouse click could expand the information available on a particular element. Adding drill-down capability is a key technical objective for firms once basic data sourcing and computational objectives have been met.

Some firms supplemented the statistical content with substantial free-text commentary providing what is essential context for events, identifying emerging trends or explaining changes since the last report. Most reports had established thresholds for risk appetite and reporting which often resulted in Red/Amber/Green (RAG) flags as well as basic trend reporting.

Notable dashboards included full reports on the linkage to follow-up programmes on such topics as accountability, recruitment, and training and development.

Dashboards

More advanced global dashboards include:

- data from all business and functional units,
- data across the full range of firm activities and controls,
- consistent global risk taxonomy,
- contiguous or integrated data sets,
- seamless periodic production process conducted by dedicated staff in the same function in every location,
- enable clickable drill-down into businesses, other functions or processes, and
- action-oriented discussion by its readership.

Gauging progress

Development stages

Conduct and culture grew dramatically in importance for monitoring and management purposes from about 2012-13. UK efforts were in response to its Parliamentary Commission on Banking Standards and the publication of its "Changing Banking for Good" report and included the creation of the Financial Conduct Authority. The Federal Reserve Bank of New York launched its Governance and Culture Reform programme.

Attention for conduct risk immediately focused on the 'breach' zone, as described in Figure 1, and attempts to identify potential areas of weakness both organisationally and with particular individuals. Analyses initially used available internal data looking for concentrations or trends. Over time the breadth of data collection expanded, analytics strengthened and visual presentations improved, all at different speeds across the industry.

For the purposes of this review, we created a schematic (Figure 2) with three steps or stages of development as reference points for assessing the progress of firms in their efforts to monitor and manage conduct and culture.

As described, Stage 1 represents the common starting point where firms sought to analyse available data and launched communication (Tone from the Top) and training programmes to explain conduct risk and adapt risk management frameworks to address it. In Stage 2 firms begin utilising expanded data sets, demonstrate action-oriented feedback loops, and begin to harness the value of both corporate purpose and psychological safety. Stage 3 reflects a clear shift toward effecting outcome-focused behavioural change, the creation of new and unique data to support monitoring and management and clear linkage to such areas as recruitment and staff development.

The distribution of firms was split mostly across Stages 1 and 2 with a few firms exploring Stage 3.

Figure 2: Three steps or stages of development as points of reference

STAGE 1
- Responding to harm after the fact
- Use basic existing data focused mostly/entirely on breaches
- Limited coverage of the businesses or geographies
- Spreadsheet analysis & tabular (RAG) representations
- No significant linkage to action, assessment, training, career path
- Enterprise efforts on conduct & culture not clearly joined up

STAGE 2
- Purpose and outcome focused
- External data supplements (complaints, Glassdoor)
- Managerial feedback loops evidenced
- Some advanced analytics used
- Some specific behaviours identified
- Data and MI are shared and consistent across the firm

STAGE 3
- Behaviour and inter-personal development focused
- Use of randomised control trials
- Use of advanced analytics
- Action oriented and fully embedded and connected via governance loops
- Results feed recruitment, training and staff development
- The emphasis is on seeking to understand behaviour rather than just measuring things

Looking ahead with new tools

Since 2013, three fields have offered significant new ways to improve our understanding of behaviour and culture. These are behavioural science, the increase in computing power allowing for the analysis of more complex data; and the emerging use of experimental scientific methods to study human behaviour change. The additional tools will enable more complex topics to be assessed.

Behavioural science

During the past half-century, behavioural science has brought concepts from psychology to our understanding of how people make choices and decisions. It is now an important aid to business thinking, for example, by drawing attention to biases.

Behavioural science helps us to understand 'how humans really make decisions rather than how we would like them to make decisions'. The science urges us to observe employees' actions and behaviour directly, to better see the reality of what is happening.

Our recent publication on the 3 Lines Model noted that behaviour can disrupt carefully planned policies and procedures. Over-emphasising the board's ultimate responsibility for risk management frameworks or change programmes may detract from the need for every person in the firm to change and perform.

At the recent Federal Reserve Bank of New York Conference on Governance and Culture Reform, Michael Barr, Vice-Chair of Supervision, noted the need for regulators to build in-house behavioural expertise for supervisory purposes.

Data and analytics

A number of products designed to address data and analytical challenges around conduct, culture and behaviour have become available and are actively being explored and deployed. The strength of such tools may be the identification of patterns or trends hidden amidst the noise of other data. That said, not all problems are explained solely by behaviour and may have more to do with poorly designed processes that invite circumvention or infrastructure that is not fit for purpose.

Culture and behaviour touch every aspect of an organisation and the data and analytics that may serve well today may no longer be suitable in the near future. It is therefore necessary to move towards a data and information ecosystem where notionally independent or siloed systems can be integrated at the outset with an organisation's broader infrastructure.

Looking ahead with new tools continued

Experimental methods

This Spotlight Review may serve as a helpful benchmarking tool but firms could also go beyond this. What has proven highly successful in one firm or group of firms may not achieve the same results everywhere, or possibly, anywhere else. One way to introduce changes that deliver the outcome sought is to use randomised controlled trials (RCT). Other approaches include natural field experiments and ethnography.

The RCT process is an important and effective tool for policy making and approaches to bringing about change. Rather than introducing a change to the entire organisation at once, it is introduced to a randomly selected sub-set of the whole, a 'trial' group. Those not having a change introduced are labelled the 'control' group. The two groups are then observed to see if the results differ and if the change produces the sort of results sought.

The RCT approach can offer a better understanding of what works or doesn't and quite possibly why.

Some firms have undertaken 'natural field experiments' for example, by collecting data on staff behaviour exhibited during the COVID-19 pandemic.[1] A third approach to explore is ethnography which is the careful observation of people while they conduct their day-to-day work.[2] This yields more direct information than self-reporting via staff surveys. These three approaches are a welcome expansion of conduct and culture toolkits.

1 Work-from-Home and the Risk of Securities Misconduct, Douglas J. Cumming, et al, 2023.

2 Taking the Trading Floor: Morals and Management in a Wall Street Trading Room. Daniel Beunza, 2019.

Framing ambition

Organisations describe their efforts to improve conduct, culture, behaviour and performance as 'continuous'. They often emphasise the journey rather than being descriptive about a particular destination. While bearing in mind that topics involving personal development are never 'completed', it is important to frame ambition in terms of the drivers, desired key behaviours and positive outcomes as well as avoidance of misbehaviour and breaches. A visibly positive culture is more likely to rebuild trust, result in achievement of corporate goals and, ultimately, competitive advantage.

A key challenge for improving future reporting of conduct is to find ever better ways to observe unobtrusively what people actually do — rather than relying on what people self-report that they do or are considering doing. Behavioural scientists have established that empirical (direct) observation is the gold standard for describing and reporting on behaviour. Carefully designed and consistent observations (by which we mean engagement not surveillance) could help our industry to move beyond its dependence on sentiment-based survey methods. The discipline has since developed methods that can help enable realistic reporting on the alignment between organisational values and patterns of behaviour. We note that some firms have built up in-house expertise and started to adopt such empirical methods.

Indications that management is able to assess and positively impact specific behaviours and address organisational culture matters in a way that supports achieving good outcomes is key.

Regulators appreciate the fundamental importance of conduct and culture and have closely followed developments across the industry including the contribution of behavioural science. Firms might reasonably expect the wider community of stakeholders to also show continuing interest in these initiatives. It has become evident that corporate health and competitiveness is dependent on management's ability to assess and positively impact specific behaviours and address organisational culture in a way that supports achieving good outcomes. As John Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York recently reiterated "Culture is not just about avoiding bad behaviour, it's actually about incentivising, supporting and fostering behaviour that helps the organisation to be successful on a sustained basis and can help the bottom line".[3]

3 Federal Reserve Bank of New York Conference on Governance and Culture Reform, June 2023.

Conclusion and next steps

Conduct outcomes reflect the infinite variety of human behaviour more than the statistical probabilities measured by a model. In the early stages of addressing conduct and culture, firms and regulators sought to understand and address the root causes that were giving rise to significant adverse conduct outcomes. Definitions of conduct and culture evolved as did the range of metrics to help in the search for insight, trends and potentially predictive results. Firms are now increasingly ambitious, seeking to strengthen their analytical abilities and improve their understanding further.

The initial areas of focus for poor conduct such as breaches or specific behavioural failings have been well mapped and firms are exhibiting healthy progress in defining data needs and then collecting, analysing, reporting and acting on their analyses. There continues to be steady growth and experimentation with additional metrics on culture and behaviour.
It is appearing less likely that a small number of highly predictive measures alone will yield the insights that management desires (there is no silver bullet). However, there is a realisation that a large number of small signal generators, drawn from an inter-connected data ecosystem can supply a stream of useful, health-related conduct and culture information that serves as useful context.

Conduct metrics are already moving beyond early prototype 'misbehaviour detectors' towards a more wide-ranging set of tools for assessing 'cultures of responsible risk-taking' as well as customer-oriented measures. By making use of direct observations of routine behaviours along with a range of measures, staff can be constructively drawn in to a continuing conversation about exemplary conduct in their everyday business activity. A cross-functional approach would be needed which is open, collaborative and ultimately constructive.

Having established the boundaries of current practice rather narrowly on management information, FMSB may extend this initiative with a focus on exploring how conduct and culture more broadly drives better outcomes for all market participants and the steps that firms can take to further evolve existing practices.

PART TWO

Information request responses

This section is a summary of the content of the Information Requests, sample dashboards or other redacted reports provided and direct discussions with participants. It reflects general observations as well as statistical results across the participant group. The results and comments are anonymised and some observations reflect a wider view of the industry and recent academic research. In this Review we use management information and MI interchangeably.

SECTION 1

Overall strategic drivers

Q1

What do you fundamentally want to achieve from monitoring and seeking to manage conduct and culture?

When answering this question, firms each suggested 3-5 reasons or objectives. If we were to convene all of the firms together and review the items on the list below, it is likely that all firms would confirm them as pertinent. Therefore, the result should be considered as what was top of mind for the firms in the context of responding to this questionnaire.

This was an open-ended question so the responses were assessed in order to conform with the proposed list of ten topics below, which we discussed in direct meetings with the firms.

Topic or Outcome Sought (What is 'Front of Mind')	# Firms
Identifying inherent and residual risks	12
Identifying trends and behaviours within the organisation	11
Identifying areas of focus, actions and future initiatives	10
Providing executive oversight	8
Achieving positive outcomes for clients and markets	8
Ensuring alignment with overall firm strategy	6
Evaluating the strength and efficacy of controls	5
Reinforcing the firm's values	3
Driving coordination within the organisation	3
Identifying best practices	2

Note: 22 respondents; 69 topics noted.

Observations

All firms stated more than one target, typically choosing 3-4. The majority of firms (71%) emphasised some aspects of conduct and culture monitoring to identify, evaluate and report trends, to generate initiatives and, ultimately, to deliver value to clients and markets.

SECTION 1

Overall strategic drivers continued

Q2

How do you define 1) conduct, and 2) culture in your organisation? Are these definitions consistent across divisions, locations, functions?

Conduct

Conduct is mostly defined as expected behaviours and actions of employees that ultimately lead to positive outcomes for customers and markets:

- "Behaviour expected from employees when acting in both a business and personal capacity".
- "Manifestation of culture through the behaviours, judgment, decisions, actions and inactions of the organisation and its employees".
- "Behaviours and practices that deliver suitable, fair and clear outcomes for our customers and that support market integrity".
- Definitions were typically framed as avoidance of bad behaviour rather than encouragement of good behaviour although good behaviour was clearly the goal.

Culture

Culture is mostly defined as values, beliefs, norms, ways of working that shape behaviour:

- "Values and practices context within which the firm operates".
- "Shared attitudes, beliefs values and norms that shape behaviour".

Consistency

Some firms were quite focused on the distinction between conduct and culture. Firms generally indicate that definitions of conduct and culture are common across the organisation; however,

- Some firms have customization at business line/location level:
  - "Conduct and culture strategy is defined at a global level, which is typically then embedded more granularly within each business line and location/region (e.g., allowing for local nuances, etc.)".
  - The level of awareness and understanding of these definitions might change across regions and lines of business.
  - "Definition is consistent across the enterprise — given that it's defined in the "group-level risk management frameworks"; however, the level of awareness and understanding of these definitions varies across regions and lines of business".

About 30% of the firms do not have a formal definition for culture but do have corporate programmes that are aligned to the concept of supporting culture (e.g., institutional programmes around purpose).

A few firms notably engaged their staff in developing both purpose and culture and believe that this created more enduring buy-in.

SECTION 1

Overall strategic drivers continued

Q3

What progressive steps or achievements do you have planned that would exhibit progress?

Firms are dispersed across a wide range of relative progress. At one end, ~10 firms are focused on breaches, grappling with data issues, limited prioritisation and with inconsistent coverage and support around the organisation. More advanced firms have one or more of conduct and culture MI fully integrated with enterprise-wide risk reporting infrastructure, employing advanced data analytics and directly linking outcomes to communications, training and recruiting action plans.

Achievements for some and planned steps for other firms are consolidated in five main categories with specific follow-on points:

1. Data, analytics and reporting

- Extrapolating qualitative and quantitative data sources across multiple business units and functions.
- Evolving tools and analytics to deepen insights into patterns of misconduct (e.g., pattern analysis to identify individual risk scores across the front office units).
- Enriching dashboards with new KPIs and more comprehensive data (e.g., including metrics related to positive conduct/behaviours exhibited by employees).
- Aggregating conduct metrics in different divisions/functions into a single group view.

2. Dedicated organisation and alignment

- Standardisation of teams for consistency (e.g., realigning front office control teams responsible for conduct risk across different divisions).
- Dedicated conduct and culture champions across the businesses and functions to promote and support good conduct/good culture.
- Conduct committees and working groups, other (e.g., monthly conduct risk council, conduct risk taskforces represented by every line of business, conduct & culture ambassadors, etc.).

3. Governance and processes

- Inclusion of an ethics, risk, compliance & conduct-related assessment in employees' performance reviews.
- Strengthening risk frameworks & processes, clarifying accountability, and improving the group's risk culture.
- Expansion of the conduct framework to all European geographies; identifying and embedding core components of the working conduct framework into all European and global geographies.

4. Communication

- Clear tone from the top and the middle leading to development of tone from within.
- News and industry benchmark sharing (e.g., monthly conduct digest sharing industry related conduct news).
- Conduct embedding within business team meetings; ensuring front of mind conduct and risk considerations during BAU.

5. Employee development

- Broad and dedicated market and conduct risk training (e.g., market and client conduct risk training in the front office, then testing of employee knowledge of the expected behaviours).
- Risk culture workshops to improve understanding of risk culture and how to identify/manage changes/deltas that can indicate increased risk.

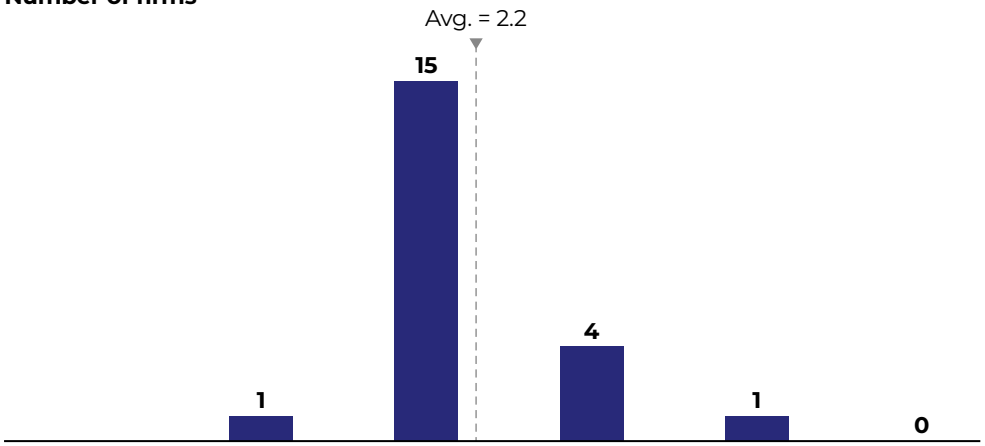
SECTION 1

Overall strategic drivers continued

Q4

How would you rate the drivers on a scale where 1 means MI is solely focused on misconduct transgressions (aka "sticks"), 5 is focused on cultural support and reinforcement (aka "carrots"), and 3 reflects an equal balance between these two.

Number of firms



Scale	1 Mostly "Sticks"	2 Favours "Sticks"	3 Relatively Equal Balance	4 Favours "Carrots"	5 Mostly "Carrots"
		Median			
% of firms selected answer	5%	70%	20%	5%	–

Overall, the firms believe that the drivers of their conduct & culture MI favours "sticks", averaging 2.2 on the 5-point Likert scale.

- Only ~20% of responses indicated their respective drivers were balanced
- Only one firm said its weighting had shifted significantly toward carrots but its dashboard metrics were still mostly sticks

Examples for positive metrics (carrots)

- Volunteering, recognition & rewards, CSR (Corporate Social Responsibility), number of self-declared breaches, internal mobility, escalated phishing attempts, positive client feedback, D&I (% female employees, % international profiles, % diverse hires).
- "Staff who have escalated a material event that would otherwise not have been identified are highlighted to senior markets management for recognition".

Challenges and improvement areas

- Some firms stated that positive metrics do not get enough senior attention. Metrics discussed at board level are mostly related to controls & sanctions (e.g., # employees sanctioned for Code of Conduct related incidents, # fines incurred from incidents).
- Some firms stated they have limited resources, therefore, they focus on "things going wrong rather than things going right".

These results generally reflect the fact that training and other cultural initiatives fall outside data capture for conduct MI leading to under-representation of the 'carrot' activity.

SECTION 2

MI process governance detail

Q5

Please describe your high-level governance process for conduct & culture MI including determination of needs or requirements, data collection, report production and distribution (including frequency), final sign-off/ by whom:

Governance processes almost universally includes the board, business management, risk, compliance and HR.

There is a wide array of committees that include conduct and culture as agenda topics but the full alignment of the infrastructure across the organisation was reported as difficult to achieve.

Design of oversight structure was often delegated to a single function several levels below the board and senior management; wide challenge may be preferable.

Process production and governance in most cases involves several layers including board, business heads, risk, compliance and HR together with a range of committees.

Board reporting is typically quarterly supplemented by monthly reports on an exception basis and an annual report with more depth on topics including the risk management frameworks and remuneration. Business heads review information on a monthly basis and serve as both a recipient and generator of conduct and culture related data. Risk, compliance and HR functions all feed into metrics and HR typically has a number of processes related to staff behaviour.

In addition to executive processes there was a wide range of committees evident with names variously including Board Compliance Ctee, Conduct & Culture Forum, Culture, Integrity and Conduct Ctee, Conduct Risk Ctee, Conduct Breach Review Ctee, etc.

Some firms chose to not have a specific 'Head' of conduct risk on the basis that it is included in everyone's responsibilities. In such cases it was considered very important to ensure inclusion of managers at various levels in the feedback and reporting loops.

SECTION 2

MI process governance detail continued

Q6

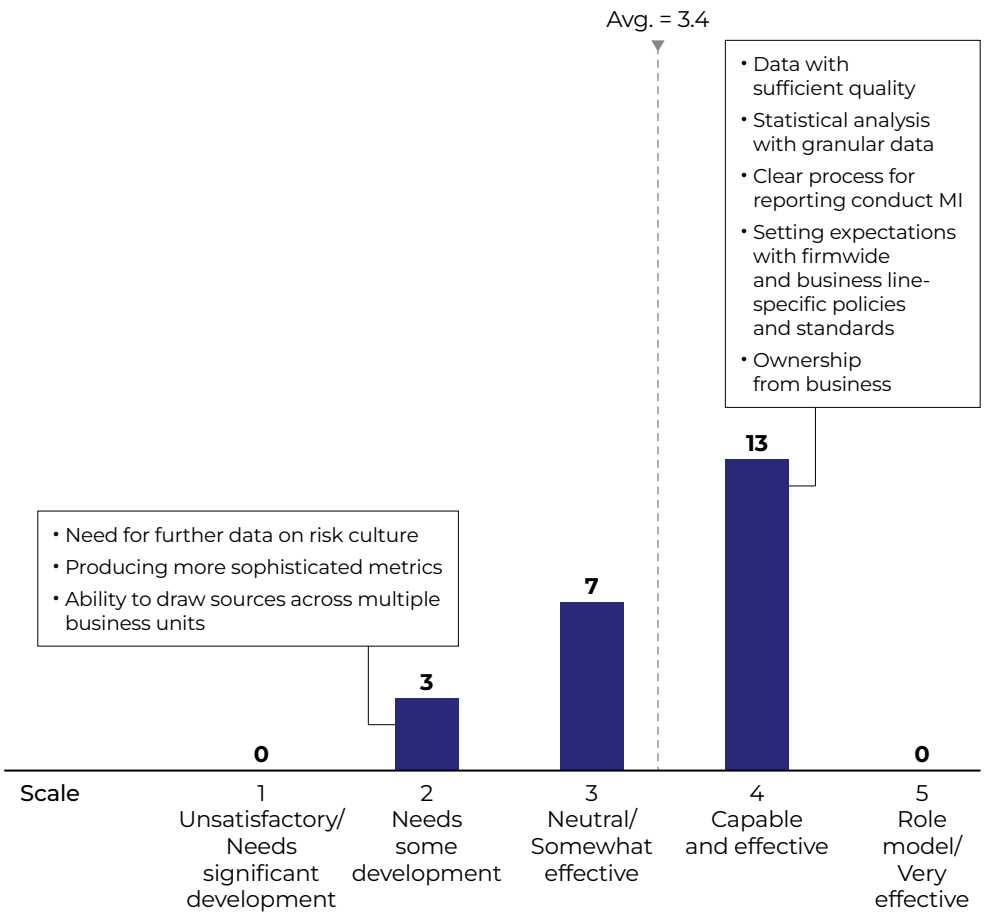
How would you rate the effectiveness of the overall governance of conduct & culture MI?

Overall, participants believe that the governance of their conduct and culture MI is effective, averaging 3.4 on the 5-point Likert scale.

Firms appreciate the need to continually review, evaluate and evolve their governance in order to maintain its effectiveness.

- Only 15% of responses indicated their respective governance required development, mainly in extrapolating the data and producing more metrics.
- To move from "4. Capable and effective" to "5. Role model / Very effective", firms mostly aim to:
  - Increase data quality, diversity, and granularity.
  - Improve consistency of data collection across businesses, functions and geographies.
  - Improve analysis to drive detailed insights (e.g., behavioural analytics, etc.).
  - Improve dashboard structure (e.g., showing historical trend and future insights for a specific metric via drilldown functionality, etc.).

Number of firms



	1	2	3	4	5
% of firms selected answer	–	15%	30%	55%	–

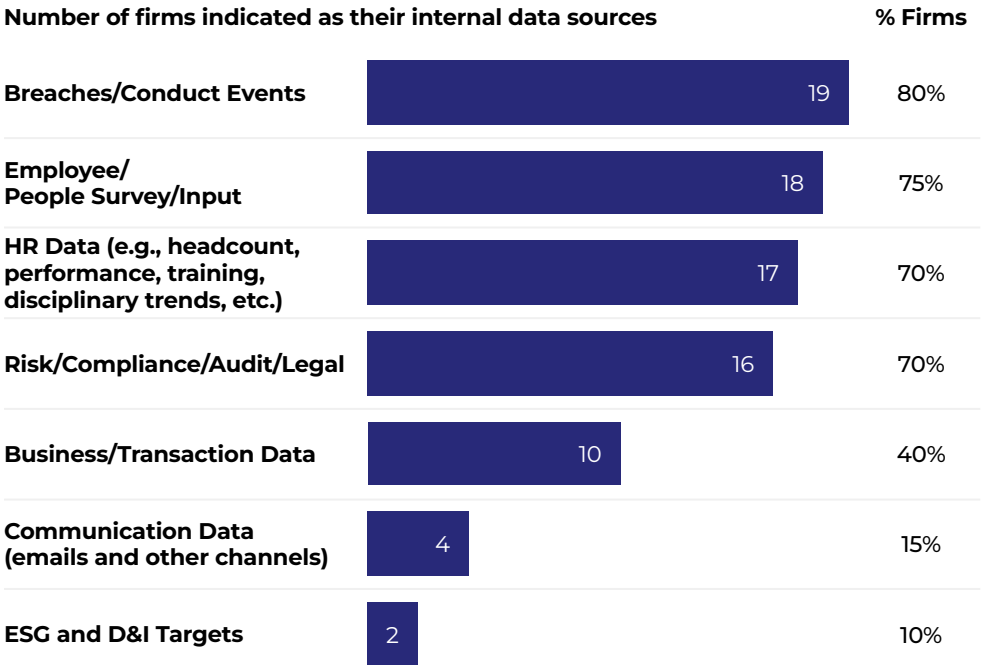
SECTION 3

Data sources and collection

Q7

What internal data sources are used to source information for conduct & culture MI including any data specifically created for the purpose?

The most commonly used internal data sources for conduct & culture MI are: Breaches/Conduct Events and Employee/People Survey/Input, with more than 75% of participants using each.



Note: Each firm stated at least one data type.

Challenges and improvement areas

Currently firms are mostly utilizing historical data to understand the impact of conduct and culture programmes. However, they are also looking at how they could use data to provide forward looking, real-time and/or predictive insights.

For example, communications monitoring looks for key words and phrases, monitors emails, chats, phone calls for market abuse or inappropriate behaviour. However, it does not use data for predictive analysis.

SECTION 3

Data sources and collection continued

There are seven main internal data sources used to monitor and manage conduct and culture.

Each firm indicated the use of more than one data source.

Internal data is used to understand the historical trends, but firms believe that external data sets will help to provide forward looking, real-time and/or predictive insights.

Target	Example internal data
1 Breaches/conduct events	Surveillance breaches, sign off breaches, KYC breaches, credit breach, whistleblowing claims received, data leakage incidents, number of disciplinaries reported, issues without action plan, product design reviews overdue
2 Employee/ people survey & input	Annual people survey, employee complaints, employee satisfaction survey, townhalls, speak up data, exit interview, feedback sessions
3 HR data (e.g., headcount, performance, training, disciplinary trends, etc.)	Completion of mandatory training, onboarding attendance, turnover/ attrition, block leave not taken, mandatory absence, gift & travelling claims, recognition & awards, resignation, employees sanctioned, warnings/ termination, promotions, employee performance, head count data
4 Risk/compliance/audit/legal	Compliance policy violations, audit results (e.g., unsatisfactory/failed audits), fine from misconduct cases
5 Business/transaction data	Personal trading/outside activities, stop loss limit breach, unapproved trades, pricing/dealing errors, late trades
6 Communication data	Communications surveillance violations, employee emails and other communications channels (e.g., phone, chats, etc.), % targeted employees having opened attachments in phishing exercise, social media posts
7 ESG and D&I targets	% staff participating in skills based volunteering, carbon footprint reduction, board level representation of women, women % in senior management level, % female employees, % international profiles, diverse hires %, internal hires/ total hires, median gender pay gap

SECTION 3

Data sources and collection continued

Q8

What external data sources are used to source information for conduct & culture MI, and which of these have you found to be most useful?

About 80% of the firms use external data sources for conduct and culture MI, but the type of external data used is limited.

Client input (e.g., complaints, NPS, etc.) is the most common external data used, followed by external conduct events. Some firms treat client complaints as 'internal'.

Key emerging insights

- Most firms use external data in broader conduct monitoring, but they do not include it in conduct and culture MI.
- Client input is the most common external data used by the firms.

Some rationales provided for the use of external data

- Reviewing events in the markets, including fines by regulators and mapping these back to internal risks to inform where thematic risk assessments and enhancements may be needed.
- Participating in cross-industry panels, round tables and forums to consider whether the same risks apply to the firm and determine if there are opportunitiesto evolve risk management frameworks.

Typical external data categorisations

Type of external data	
Client input	• Client complaints • Formal client feedback • Net promotor scores (NPS) • Customer advocacy and satisfaction tracker (CAS) • Adverse news on clients, delivered by news provider
External conduct events	• Past conduct events with results (e.g., fines, people resigning, enforceable undertakings) • Cross-industry panels • Round tables and forums • Fines by regulators
External news & indexes	• External news sources • Bloomberg gender equality index • Net-zero banking alliance
Industry benchmarks/ Consulting	• Recent conduct events • External conduct events • Benchmarks for frameworks & governance
Institutions and publications	• Industry guidance bodies (FMSB, ICMA, AFME) • Regulatory publications and codes (Global FX Code, LBMA Code)

SECTION 3

Data sources and collection continued

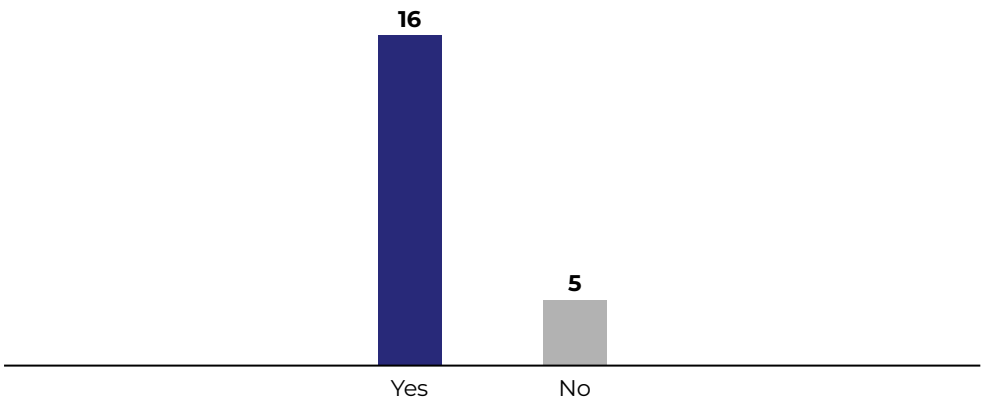
Q9

Is all data shared, leveraged and used consistently across all teams, locations, functions?

80% of firms share data consistently across all teams, locations and functions.

- The core elements of data are standardised across all teams, locations and functions; some components are localised due to the business undertaken and local factors.
- In most firms, all data is shared and handled on a strict "need to know" basis with data availability typically based on the role and reporting lines in the organisation.

Number of firms



	Yes	No
% of firms selected answer	~80%	~20%

Approaches by firms for sharing data

- The core elements of the data are standardised across all teams, locations and functions; some components are localised due to the business nature and location (e.g., nuances around disciplinary outcomes or compensation adjustments, where firms need to consider local laws and regulations, etc.).
- In most firms, all data is shared and handled on a strict "need to know" basis. The conduct MI dashboard is global, and visibility is defined depending on role — for example, a regional head of a business can see conduct data for staff in that business/region.
- In some firms, there are large discrepancies between wholesale and retail banking and different geographies.
- Some firms have consistent group survey questions to help assess culture across businesses and functions.

Challenges and improvement areas

- Firms that answered "No" used the notion of sensitivity as a primary reason to not share data widely, or that regional dashboards are a challenge that prevents the wider sharing of data.
- Some participants experience duplication of data across functions (e.g., silos in data creation), preventing single 'golden source' for data.

SECTION 3

Data sources and collection continued

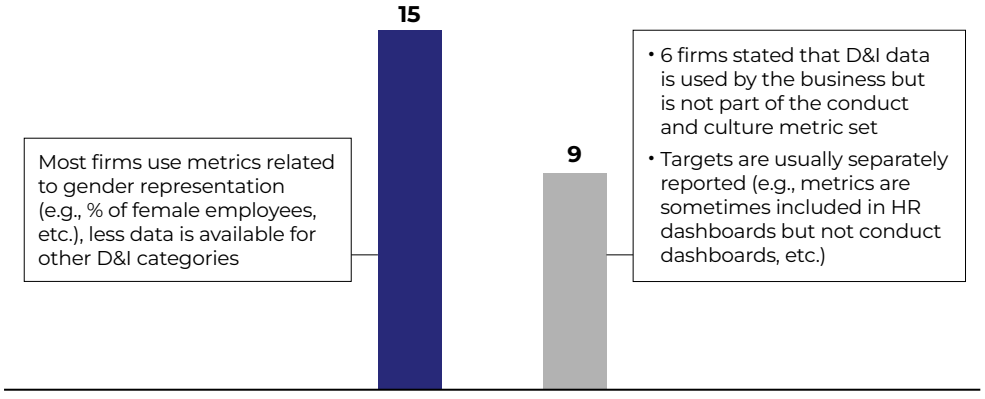
Q10

Do you include data and analysis of diversity and inclusion (D&I) in conduct and culture reporting?

Every firm measures and analyses D&I data. However, some do not include it in conduct and culture MI reporting because D&I data analysis is treated as a separate topic and process.

The most common D&I metrics mentioned are female representation: in the overall organisation, in senior roles, or with international profile together with minorities (%), gender pay gap, and disability equality index.

Number of firms



	Yes	No
% of firms selected answer	~65%	~35%

Approaches by firms for D&I data and analysis

- **Management oversight:** D&I data is included in executive meetings to support decision making (including sentiment data from engagement survey, demographic data, progress against targets, new hires and turnover diversity data).
- **Anonymous feedback:** D&I survey is conducted anonymously to ensure employees felt free to speak out.
- **Actions based on feedback:** Employee input is used to drive social and environmental programmes within the company such as:
  - Charity drives, e.g., Christmas outreach programmes, International Women's Day events, parental support sessions (including support for gender diverse children), leadership talks, cultural events to celebrate Diwali, Black History and Pride, LGBTQIA+ ally and mentoring programmes, gender pronouns information and awareness sessions.
- **Creating awareness:** Creation of communities within the intranet and internal social channels enables space for employees to join in and voice ideas. Lunch and learn sessions, e.g., unconscious bias, neurodiversity, the importance of pronouns etc.

SECTION 3

Data sources and collection continued

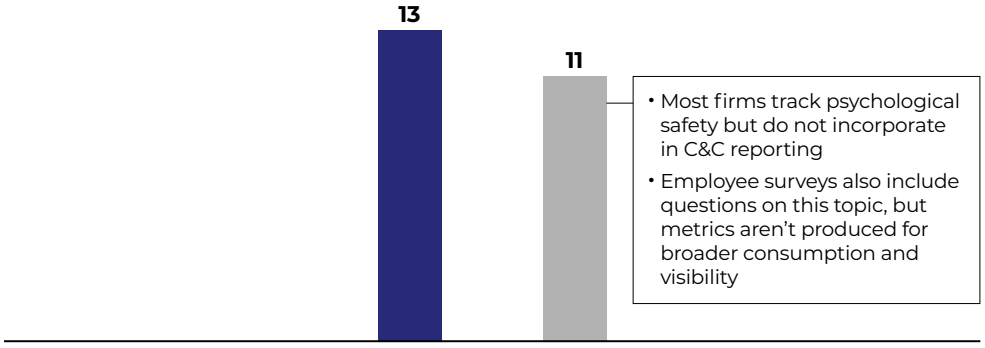
Q11

Do you include data and analysis of psychological safety in conduct and culture reporting?

About 55% of firms include psychological safety in their conduct and culture MI reporting. Most others track psychological safety to some degree but do not incorporate it in their reporting.

Training to encourage speaking up and employee surveys are the two primary methodologies used to collect data and analyse psychological safety in the firm.

Number of firms



	Yes	No
% of firms selected answer	55%	45%

Psychological safety is not yet well-developed as a common link or foundation for a range of culture initiatives (carrots) such as speak-up, collaboration and diversity.

Methodologies to capture psychological safety data

- **Training:** Regular training in place to encourage "speak up" and run periodic electronic staff surveys to capture views of staff.
- **Regular employee input:** Employees provide feedback about their experience at the firm through the Employee Opinion Survey (EOS), pulse surveys, various onboarding & exit surveys.
- **Annual surveys:** An annual survey collates employee MI on categories such as wellbeing, inclusion and mindset.
- **Speaking up about breaches (i.e., self-disclosed incidents):** This is used to monitor changes in speaking up culture over time.

Example questions from Global Employee Opinion Surveys

- "I feel like I belong at our firm".
- "Someone like me can advance and succeed at the firm".
- "My manager values my background and experience".
- "On my team, I feel safe to acknowledge my mistakes".
- "I trust my manager is held accountable to support inclusivity".

SECTION 4

Approach to modelling data

Q12

How do you model your conduct and culture data to understand trends and hotspots?

The use of advanced analytics is very limited across the industry.

Most firms stated that they do not have/use data modeling or big data techniques on conduct & culture MI with existing analysis limited to Excel and presentation software.

- The closest example for analytics is building pattern analysis into the firm's front office supervision MI, expanded to cover HR and compliance information (such as PA Dealing) in order to identify individual risk concentration scores across the front office to support further investigation.

Selected observations made by firms

- **Firm ranked as "Limited/No modeling"**
  - "Modeling is generally at a basic level. Often excel-based and hypothesis-driven. Data is viewed graphically to identify trends (over time, by type of metric, concentration, etc.) but more scientific statistical modelling is not performed in the main".
- **Firm ranked as "Improving capabilities"**
  - "Over the past few years, we have focused on advanced analytics to deepen our insights of conduct trends and areas of elevated concern. Specifically, we have:
    - used standard deviation calculations to identify significant variances in metrics trends;
    - developed a model that applies probability analysis to identify outliers within a wider population;
    - leveraged additional contextual data sets to drive correlation analysis;
    - integrated detailed pattern reviews to assess both individual and group outliers".
- **Firm ranked as "Capable and effective"**
  - "Conduct and culture data is analysed and reported including quarter on quarter movements, with thresholds based on risk appetite for the respective metric, where available".

SECTION 4

Approach to modelling data continued

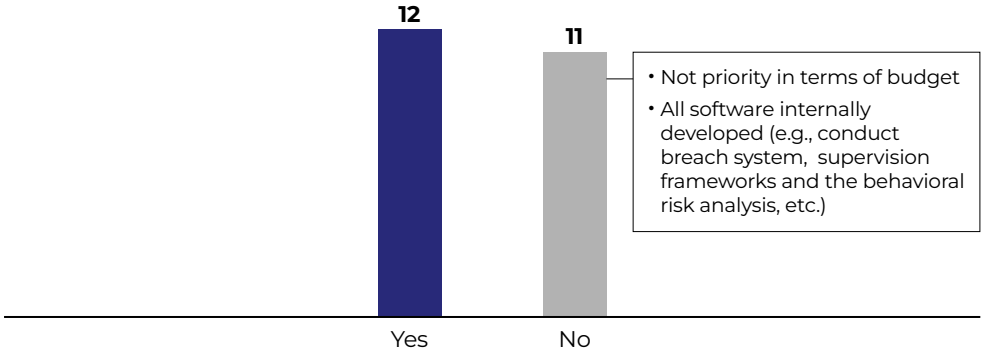
Q13

Do you use external software or platforms, and if so, can you please specify what type (rather than a product name)?

About 45% of firms surveyed do not use external software to model data meaning they solely use internal capabilities.

The most common uses of external software are data preparation/ visualization, analytics, dashboard and survey tools.

Number of firms



	Yes	No
% of firms selected answer	~55%	~45%

Reasons for not using external software are:

- It is not a priority in terms of budget.
- All software is internally developed.

The most common uses of external software are:

- Data preparation tools like ETL (extract, transform, load) to gather and clean data from various sources.
- Data visualization and presentation (e.g., Power BI, OpenLink & Dart).
- Data analytics (e.g., Qualtrics).
- Workflow management, investigations, and surveillance analysis (e.g., with capability to aggregate and analyse large data sets, etc.).
- Dashboard tools to draw insight, and further distribute data to conduct risk managers.
- Survey platforms (e.g., Bi-annual Employee Opinion Survey leverages an external software platform to compile data and provide management reporting).

SECTION 4

Approach to modelling data continued

Q14

Do you set thresholds and tolerances around metrics, and if so, what proportion of metrics is this for and what methodology do you use for key metrics?

About 85% of the firms set thresholds for most of the conduct metrics, the remaining firms have thresholds for a few of the metrics they use.

Most of the firms apply RAG (red, amber, green) thresholds; and periodically report findings to either committees or senior executives.

Some firm commentary

- "Our approach to metric reviews primarily focuses on the magnitude of standard deviation movement over a five-quarter time horizon".
- "Thresholds set are either percentages, days or numbers and tolerance levels vary depending upon the metric".
- "RAG thresholds given a consideration of historical levels, risk appetite or subjective lenses driven by the firm's objective to mitigate against poor conduct outcomes".

Methodology for setting standards

Metrics are set against thresholds that vary based on the type of metric (e.g., Voice surveys have high expectations with >90% completions wanted. When it comes to consequence management it relates to a rating system ABC, A is red, B is red/orange, C is orange).

Different methodologies and statistical indicators are used by the firms to identify the metrics exceeding the thresholds:

- Comparison to a 12-month average (e.g., X% tolerance for the current value of the metric vs. its 12-month average, etc.).
- Average of metrics in the same category checked (e.g., metrics are grouped in four categories, and each come with an average, etc.).
- Magnitude of standard deviation movement over five-quarter time horizon.
- Some thresholds are based on historical patterns of incidents or on stakeholder groupings.

Stakeholders deciding on thresholds

- Group boards approve the formal risk tolerance statements.
- The data owners define their own thresholds which are then validated at executive level.
- Conduct risk managers set up thresholds by considering group minimum requirement, business nature, goals & aspirations.
- Compliance advisory provides check-and-challenge to finalize thresholds and tracking.
- Central teams (e.g., compliance, risk, surveillance, HR) set firm-wide thresholds.

Actions when risk limits breached

- If conduct risk is profiled as amber for six out of the last eight quarters, this constitutes a risk limit breach which is escalated to a group risk management committee.
- If it is profiled as red that constitutes a tolerance breach and is escalated to a group risk committee.
- If thresholds are exceeded, it is escalated to a conduct committee, which feeds into different remuneration committees.

SECTION 4

Approach to modelling data continued

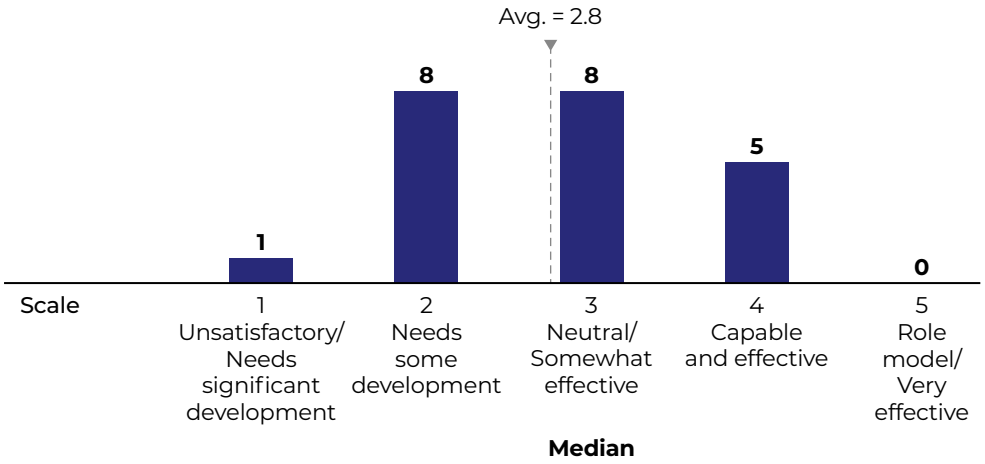
Q15

How would you rate the effectiveness of your data modelling in support of conduct and culture metrics?

40% of the firms rate effectiveness of their data modelling capabilities as "Needs significant/some development".

Key improvement areas most frequently mentioned refer to the use of data from different sources and achieving scalability.

Number of firms



	1	2	3	4	5
% of firms selected answer	5%	35%	35%	25%	–

Observations

- 25% of firms indicated that they are capable and effective in development and distribution of analytical insights gained from conduct and culture MI.
- None of the firms provided an example of a use case for advanced analytics models.

Challenges and improvement areas

- Some firms stated that "extrapolation and ability to draw sources across multiple businesses" is critical to improve analytics capabilities.
- Another firm considers scalability, programmatic analysis, and a broader set of data as critical elements.
- Going forward, some firms want to focus on analysis of different data sources (e.g., behavioural data, communication data) potentially to build predictive models.

SECTION 5

Conduct and culture reporting and decision-making

Q16

Do you report conduct and culture metrics in one or more overall dashboards?

All participants report conduct and culture metrics in one or more dashboards.

Generally, firms are using dashboards at global and regional level, and reporting quarterly to board-level is a widespread practice across the participants.

Observations

- Conduct dashboards are generally more mature in terms of the number of metrics and structure whereas culture metrics are still in development.
- Generally, firms are using dashboards at global and regional level.
  - Metrics in the regional dashboards are decided based on the local business needs, regulations, and management preferences.
  - In some cases, each business produces dashboards in a format to meet their own governance needs.
- Reporting dashboards in quarterly updates to the board is a widespread practice across the participants.

In addition to the board, several forums (including senior leadership) use dashboards to identify trends and decide on the actions to be taken.

SECTION 5

Conduct and culture reporting and decision-making continued

Q17

Please describe the key forums for conduct and culture review and discussion, the levels of information provided at each and how these forums are used to drive any change needed. Please provide any examples of real change and decisions made.

About 90% of the firms have independent committees dedicated to conduct risk or working groups in business units.

In most cases it is common to manage conduct and culture in both traditional committees and conduct-specific committees/groups.

Three types of committees/forums review and discuss conduct and culture:

- Independent committees dedicated to conduct risk,
- Existing traditional risk committees, and
- Working groups in business units.

Conduct-specific committees periodically report to traditional risk committees, and potential actions are decided together.

1. Independent committees dedicated to conduct risk

- Chaired by a top global or functional executive, Members limited to senior management; Responsible for: review and addressing conduct, annual strategy and conduct approach.
- Board members as Co-Chairs (head of investment or corporate banking, chief administrative officer) and voting members including Heads of Divisions and Infrastructure Functions (1st and 2nd Line); Responsible for: strengthening speak up culture and supervisory aspects, with regular and mandatory training having been rolled out to all employees.
- Senior management front-to-back, including representatives from all regions and all 3 Lines; Responsible for: review of breaches of 'key' conduct metrics, along with any themes or trends emerging from the broader suite of conduct metrics.
- Senior executives; Responsible for: review breaches of individuals who meet internal escalation criteria and decide whether further escalation to, for example, a remuneration committee.

2. Existing traditional risk committee

CEO, CRO, selected board members and executives; Responsible for: review and discussion of conduct risk as part of a standing agenda item.

3. Working groups in business units

- Conduct and culture forums in business units; comprised of business unit heads; Responsible for: tracking metrics and where appropriate may also track completion of remediation activities; discussing topics such as unrecorded devices which has resulted in a process change for handling surveillance alerts on an individual basis as well as now providing consolidated MI to executive level.
- Conduct and culture working groups; comprised of: HR, communications, office of the CEO, brand/marketing, operational risk, ESG; responsible for: supporting conduct risk committee; driving implementation of specific actions (e.g., D&I strategy, culture and conduct interviews) with an aligned and collaborative mindset.

SECTION 5

Conduct and culture reporting and decision-making continued

Q18

Do any metrics or reports vary solely because of location? If so, please explain the rationale.

60% of firms surveyed have metrics that vary solely based on location.

The main reasons for disparity are: local regulations, analysis required in different regions, priorities of regional heads, availability of data.

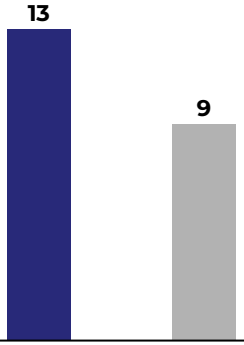
13 out of 22 firms responding said that metrics vary by location. Of those nine that did not, the main reasons for having this disparity are:

- Regional/country heads having varying priorities regarding additional metrics. In some cases, in addition to standardised metrics, some local metrics are added to the dashboards.
- Availability of data (e.g., more MI may be available within the home country perimeter than applicable across all other geographies).

Example strong practice

"Metric definitions and collection are driven centrally. Other than variations to assess trends and concentrations by certain parameters such as country, region or legal entity, the reporting is generally consistent."

Number of firms



	Yes	No
% of firms selected answer	~60%	~40%

SECTION 5

Conduct and culture reporting and decision-making continued

Q19

What do you report to the regulator/externally on a regular basis?

About 80% of the firms indicated that they are regularly and specifically reporting to the regulators on conduct and culture. The remaining 20% of firms report ad hoc.

Five basic types of information are shared with the regulators and/or external parties:

- Conduct risk metrics/dashboard
- Committee/board packs
- Conduct and culture programme updates
- Regulatory breaches, disciplinary actions
- Other (e.g., complaints, etc.)

Topics included in ad hoc reporting by the other firms include:

- Issues and updates on remediation work, and
- Regulatory requirements for reporting specific events such as the UK's Dispute Resolution (DISP) rules for complaints

Type of information reported to regulator/externally

Type of information	Example
Conduct risk metrics/dashboard	• "The regulator receives the conduct risk metrics" • "Conduct risk is profiled monthly and is reflected in the group risk dashboard, and shared with FCA"
Committee/Board packs	• "Executive Committee, and the UK Control Committee" • "Board decks, which contain BAU conduct & culture reporting"
Conduct and culture programme updates	• "CIC updates are being sent on a monthly basis to the ECB and JST in the context of the global compliance report" • "In-house representation of our culture & conduct programme" • "Conduct annual reports"
Regulatory breaches, disciplinary actions	• "Regulatory breaches are reported to regulators when they have occurred and within the required timeframes" • "Annual reports with disciplinary actions"
Other	• "Complaints"

Proactive regulatory engagement is to be encouraged and, as per FCA Principle 11:
"A firm must deal with its regulators in an open and cooperative way, and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonably expect notice."[6]

6 Financial Conduct Authority Handbook, Principle 2.1, Principle11.

SECTION 6

Integration with broader risk processes

Q20

How is conduct and culture monitoring integrated with broader conduct risk processes?

Conduct and culture MI feeds (1) conduct and risk frameworks and assessment processes, (2) governance structures, and (3) HR processes.

1. Conduct and culture monitoring feeds conduct frameworks

- "The evaluation, reporting and escalation of conduct trends is a formal part of the conduct framework, which demonstrates a virtuous feedback loop whereby risks are evaluated continuously and feed risk identification processes (e.g., Risk and Control Self Assessment)".
- "Conduct and culture metrics monitoring is part of our broad conduct risk framework, which also includes things like risk identification, events, remediation and enhancement programmes, controls design & testing, and risk & control assessments".
- "Conduct and culture monitoring is integrated into the risk management framework underpinned by a strong risk culture and a three lines of defense model with customers at the centre".
- "Conduct and culture monitoring is integrated into all our risk identification and assessment processes. We maintain a conduct risk inventory and this feeds into our bi-annual risk self-assessment and quarterly risk identification process".
- "Conduct and culture monitoring is integrated in the firm's compliance risk assessment annual process".

2. Conduct and culture is integrated into firms governance mechanism

- "Overall governance is firmwide with each business unit required to do certain conduct & culture-related activities. Each business unit has a form of conduct and culture committee, and it is expected that conduct and culture is discussed".
- Monitoring of conduct breaches is integrated with broader processes as outlined above, e.g., our governance process for conduct risk enables oversight by a number of committees, with escalation channels which may ultimately lead to consequences as impact on remuneration, etc.
- "Conduct and breach data is a key input to the Market Misconduct oversight programme".

3. Conduct and culture monitoring feeds HR processes

- "Conduct outcomes are linked to compensation through the PCR reports".
- "Where we see trends, we may identify training needs in the form of email reminder, online or classroom depending on the breadth of the topic. Examples of the latter include market conduct and electronic/voice communication training delivered this year".

SECTION 6

Integration with broader risk processes continued

Q21

How would you rate the effectiveness of your integration of conduct and culture MI metrics with other risk oversight and reporting?

Firms believe that the effectiveness of their integration of conduct and culture MI into other risk oversight and reporting is somewhat effective, averaging 3.4 on the 5-point Likert scale.

Only ~15% of responses indicated their respective integration required development.

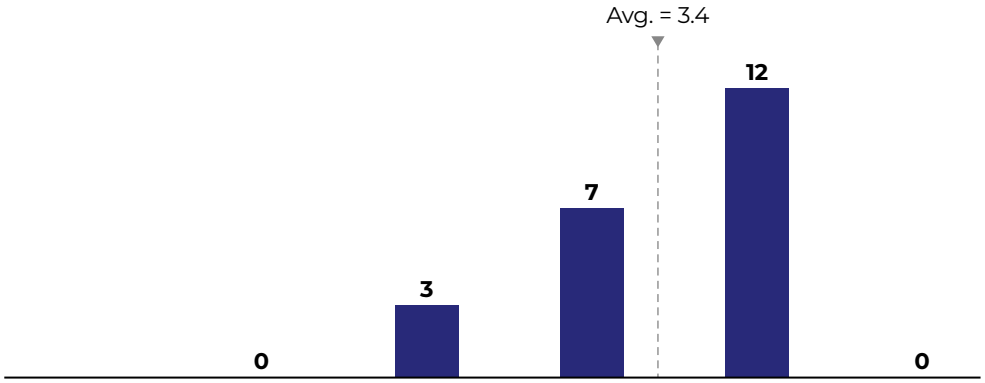
Examples of good practice

- "Conduct and culture reporting metrics have been included in all relevant Senior Management Risk Committees and meetings and are documented accordingly".
- "Conduct risks are mapped into our risk taxonomy and conduct considerations are part of the assessment of all risks".
- "The dashboards also include risk oversight and reporting from risk and control issues, project updates, cultural updates, independent reviews, risk and control issues, operational risk events and key indicators".

Challenges and improvement areas

- Main challenge is finding the correct metrics to measure, for example "complaints are rare in wholesale markets" (they typically manifest as lost transactions or even lost clients).
- "...the need to further integrate risk culture metrics with other risk oversight and reporting, which we are currently working on".

Number of firms



Scale	1 Unsatisfactory/ Needs significant development	2 Needs some development	3 Neutral/ Somewhat effective	4 Capable and effective	5 Role model/ Very effective
				Median	
% of firms selected answer	–	15%	30%	55%	–

SECTION 7

Overall assessment and future priorities

Q22

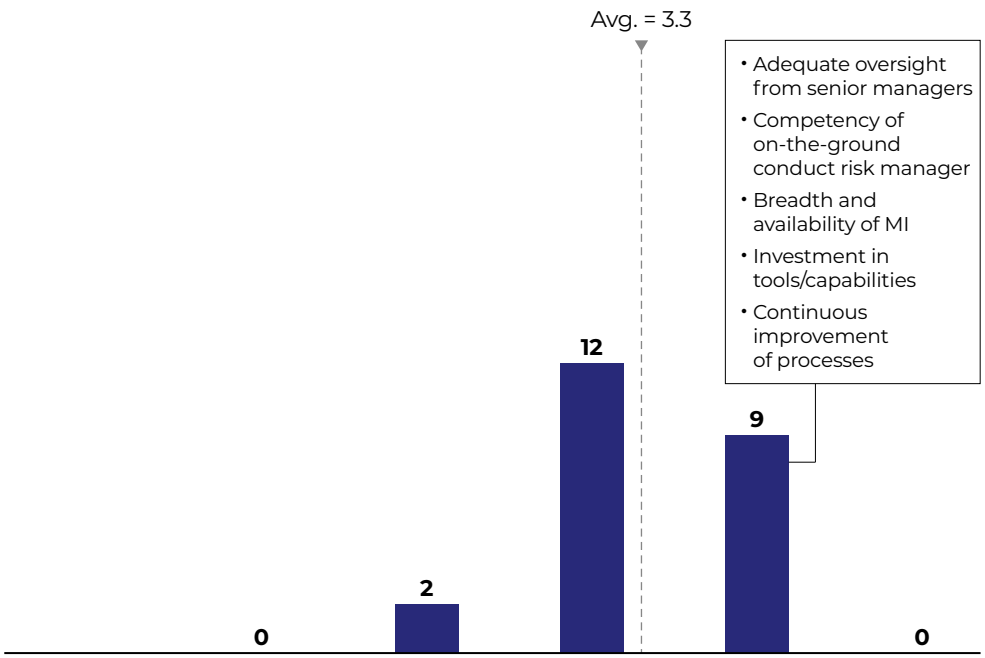
How would you rate the overall effectiveness of your conduct and culture monitoring process (i.e., achieving your desired outcomes from Question 1.)

The majority of firms self-assessed their MI and related programmes as neutral/ somewhat effective.

Challenges and improvement areas

- **Data collection:** "Extrapolating the data and the ability to draw sources across multiple business units" is the primary challenge for most firms.
- **Tools & Automation:** Infrastructure is highly manual and user-driven (e.g., excel). Better data collation tools and reporting to simplify BAU analysis will help to free up resources for more innovative practices.
- **Insights & Data analysis:** Some firms can capture and aggregate large amounts of data that can be used in conduct and culture MI but meaningful insights from this data is very limited.
- **Group Think:** As metrics standardise and coalesce around a limited number of measures, the risk of group think and systemic risk arises in that many firms may have similar blind spots.
- **Illusion of Control:** The buildout of such frameworks can also breed the illusion of control as 'measurement' is not the same thing as 'understanding'.

Number of firms



Scale	1 Unsatisfactory/ Needs significant development	2 Needs some development	3 Neutral/ Somewhat effective	4 Capable and effective	5 Role model/ Very effective
			Median		
% of firms selected answer	–	10%	50%	40%	–

Note: Scores for Q22 are lower than for Q21.

SECTION 7

Overall assessment and future priorities continued

Q23

What are your top priorities to enhance conduct and culture monitoring in the next 1-2 years?

Top three priorities of the firms to enhance conduct and culture monitoring in the next 1-2 years are (1) Improving analytics to drive insights, (2) Enhancing data sources/collection, (3) Improving reporting and metrics.

Number of firms indicated as their top priorities		Example statements
Improve analytics to drive insights	14	"Incorporation of behavioral science to provide further insight and forward-looking metrics"
Enhance data sources/ data collection	13	"Pro-active interrogation at more granular level and making connections across different data sources"
Improve reporting & metrics	11	"Further expand our reporting for regional committees and legal entities"
Enhance organization and processes	9	"More directly mapping our processes/controls/MI to conduct"
Simplify employee conduct policies and better communicate expectations	4	"Initiatives to simplify employee conduct policies and better communicate expectations to employees and managers"
Increase 'conduct risk' discussions in BAU team meetings	4	"Increased 'conduct risk' discussions in BAU team meetings, through training and/or tools"

Data and analytics and Business Intelligence Organisation, Processes and Policies

Note: Each firm selected at least one answer.

Observations

- All firms surveyed included at least one data and analytics/business intelligence priority to enhance conduct and culture monitoring in the next 1-2 years.
- Comments related to improving analytics and insights include:
  - Develop more advanced tools to drill down and visualise conduct trends and hot spots.
  - Continue to discover ways in which we can turn our data into actionable outcomes remain a priority.
  - Incorporate behavioral science to provide further insight and forward-looking metrics.
  - Employ machine learning to mine unstructured data (case description, surveys).

SECTION 7

Overall assessment and future priorities continued

Q24

What are the top five metrics that your firm already measures (or should be measuring) that capture the vast majority of conduct risk in the system?

All firms except one selected metrics related to: "Breaches, risks, control and sanctions" in their top 5 (60% of all metrics listed in the top five are in this category).

Metrics included in the top five in other categories are: Business and transaction, HR process adherence, Client input and Culture and employee input. Note that these metrics are self-reported in the survey rather than analysed from the dashboards received from firms.

Allocation of the individual metrics that ranked in the Top 5

Metric type	Metric explanation	Metric explanation
Breaches, risks, control & sanction	Conduct issues, risks, mitigation activities	• Financial crimes & fraud metrics • Whistleblowing • Red flags • Employee disciplinary trends
HR process adherence	Access, employee activity, employee performance, training	• Communications data • Gifts and entertainment • Overdue/incomplete trainings
Business and transaction	Sales & product, business metrics, transaction	• Personal trading • Outside activities • Operational loss
Client input	Client complaints, feedback	• Client complaints
Culture & employee input	Employee feedback & surveys	• Exit interview surveys • Employee feedback • Employee satisfaction

Other perspectives

"We do not think in terms of the top 5 metrics. At group level there are 1,500+ conduct and culture metrics (not all applicable to all parts of the business). All metrics are valuable and even more so when combined together to give a rounded picture of our current position. To help us interrogate the data, we map our metrics to our conduct outcomes and in some businesses our key conduct risks. This allows us to see if we have any particular 'hot spots' that need additional focus"

Measurement targets

Dashboard metrics by category

Category	Sub-category	Main metric #	Main metric
Breaches, control & sanction	1.1. Breach	1	# Breaches
		2	# Whistleblowing claims received
		3	% issues self-identified by the line of business
	1.2 Mitigation activities	4	Aged/overdue risk events/actions
		5	Number of regulator issues opened in month that were not previously identified internally
		6	Number of disciplinaries reported
		7	# Complaints resolved outside of FCA
		8	# Employees sanctioned for code of conduct related Incidents
		9	# Fines incurred from code of conduct related incidents
Business & performance	2.1. Sales & product	10	# Material pricing errors (>50 bps)
		11	# Mis-servicing issues
Client complaints	3.1. Client complaints	12	Number of client complaints
		13	Post call survey - NPS Score
		14	% Client complaints solved on time

Measurement targets continued

Category	Sub-category	Main metric #	Main metric
Culture & incentives	4.1. DE & I	15	Diverse headcount %
		16	Diverse exit %
		17	Diverse hires %
		18	Median gender pay gap
	4.2. Employee satisfaction	19	Employee satisfaction
		20	Turnover/attrition
	4.3. Volunteering	21	# Staff participating in volunteering activities
Governance	5.1. Governance	22	Complaint procedures up to date to date on website
		23	Percentage of meetings voted in
		24	Number of issues that failed audit validation
		25	Satisfactory board attendance
HR process adherence	6.1. Access	26	Access without permission
	6.2. Employee activity	27	Mandatory absence violation
		28	Out of hours activity
		29	# Communication monitoring escalation
		30	% Targeted employees having opened attachments in phishing exercise
		31	% Staff on sick leave
	6.3. Employee performance	32	Employee assistance programme (EAP) usage (EMEA)
		33	Promotions #
		34	# Employees on formal performance management
		35	Number of recognition awards
	6.4. Training	36	# Employees completing training & attestations

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