

## Cultural revolution

### Guest view: Urgent action needed on bank culture

21 August 2015 | By William Rhodes

As one case of wrongdoing by banks hits the headlines and is followed by yet another, public confidence in the soundness of the banking system is further undermined. Pressures on banking authorities to add still more regulations are rising, but corporations alone can change their core cultures. They alone can ensure that sound values guide all employees and that public trust is earned by acting with integrity.

Many major banks are striving to bolster the way they do business and improve employee conduct. Yet, a number of them are failing in this critical endeavor. And, in many instances, the reform rhetoric by chief executives is not leading to across-the-board implementation of needed changes. Comprehensive cultural and conduct reform is now urgent.

Over the last 18 months, I have co-chaired a steering committee of the Group of 30 to develop a reform agenda. We have been influenced by the confidential statements provided to us through nearly 80 interviews in 16 countries with public and private sector leaders of finance.

My colleagues and I at the G30, who include former central bankers, finance ministers, supervisors, regulators and commercial bankers, concluded that too many reform efforts so far have been piecemeal. We have just published our report, *"Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform,"* which provides banks with a reform roadmap.

Approaches that the banks must embrace need to go well beyond legal compliance and the search for legal loopholes. Corporate cultures must be built and embedded that place values and ethics at the forefront, from compensation to recruitment, from serving customers well, to respecting employees who want to blow the whistle on workplace wrongdoing.

The golden rule in banking over many decades was that good ethics made for good banking with sustained profitability. The priority for financial institutions was to serve their customers and their communities. At some banks this has not been, and is not, the dominant view. Too many bankers, from the trading rooms to the executive suites, have become addicted to short-term pay and bonus maximization absent considerations of the core of the traditions of their institutions.

But how can we effect this change, and what will force banks to now pursue these essential reforms?

It is important to first understand why introducing and implementing cultural reforms has failed at a number of banks. Our G30 research found a lack of sufficient focus and engagement from boards; inconsistent leadership by senior managers; relatively small cuts to CEO and executive team compensation when faced with persistent conduct and values problems or failures in the firms. Moreover, even when the tone from the top is correct, it is not being sufficiently communicated and influencing conduct in middle management, let alone down to the teller level.



William Rhodes, a former Citigroup executive, is currently president and CEO of William R. Rhodes Global Advisors and co-chairman of the Group of 30's Steering Committee on Banking Conduct and Culture.

At the outset in developing comprehensive reform, the leaders of banks need to challenge the conventional wisdom on legal impediments - barriers that often lead to too little being done in the case of serious breaches of cultural norms. Boards of directors need to be bold in deciding to dismiss even the most senior executives when wrongdoing is found.

Compensation performance reviews for all employees should be weighted so that at least half of the evaluation relates to good conduct in line with the corporate value objectives. Substantial sanctions should be imposed on staff that fails to walk the cultural walk.

Too many bankers have moved from one bank to another without the banks pursuing serious due diligence to determine how they conducted themselves at their previous employers. The frequent switches from one bank to another by traders have notably added to problems in this regard.

Too few bankers have been promoted for arguing against a new business transaction that could deliver short-term profits, but that may be inconsistent with good ethics. Boards of directors have too rarely introduced scorecards as a means of evaluating performance by the several hundred senior managers at their institutions. Such scorecards are essential.

Comprehensive reform should include regular exchanges of views on conduct and culture between CEOs, members of the boards of directors, and banking supervisors. Regulators need the training to ask the right questions and to demonstrate that in this area of banking their guideline is trust but verify.

To strengthen the world's financial system after the financial crisis governments and banking authorities introduced tough new regulations covering capital, leverage, liquidity and resolution. Reputational risk concerns remain. Our new report was prompted in part by leading central bankers, who wanted an impartial group to develop a comprehensive cultural reform agenda for major banks. I believe pressures on the authorities to develop additional regulations can only be reduced now by swift and forceful leadership at the banks themselves.

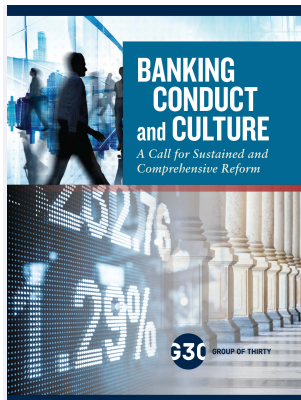
Moreover, I believe increasing numbers of institutional shareholders are losing patience with the bad practices at major banks – they see the vast fines, the rising litigation costs and the continuous distractions for management in resolving one crisis after another instead of focusing on their core businesses. Comprehensive cultural and conduct reforms, therefore, make good business sense.

*The author, a former Citigroup executive, is currently President and CEO of William R. Rhodes Global Advisors and co-chairman of the Group of 30's Steering Committee on Banking Conduct and Culture.*

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<http://www.breakingviews.com/guest-view-urgent-action-needed-on-bank-culture/21213240.article>

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- The Group of Thirty has recently released its third report in the corporate governance work stream: **Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform.**

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