



# *Culture: a lynchpin of Responsible Banking Conduct*



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# Agenda

- I. What is culture?
- II. Rule 4.539
- III. Governance framework
- IV. Conduct Supervision
- V. Some cases
- VI. Final remarks

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- I. **What is culture?**
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## The issue

*"Widespread **misconduct** in the financial sector on a broad scale creates mistrust, weakening the ability of markets to allocate capital to the real economy. This in turn may give rise to systemic risks, which is why addressing misconduct is part of the Financial Stability Board's (FSB) work programme."*

Source: Financial Stability Board, Strengthening Governance Frameworks to Mitigate Misconduct Risk, april 2018

## The root cause

*Culture has been clearly perceived as the main driver for employees behavior*

*Even in despite of all policies, rules and regulations a firm may establish*

**Table 1: Key cultural drivers of misconduct**

| <b>Leadership</b>  | <b>Decision-making</b>  | <b>Values and behavioural norms</b>   |
|--|---|---|
| <ul style="list-style-type: none"> <li>• Lack of accountability for misconduct</li> <li>• Lack of attention, skills and knowledge regarding misconduct risk</li> <li>• Domineering leadership style</li> <li>• Mismatch between leaders' words and actions (e.g. not leading by example)</li> <li>• "Tone from the middle" inconsistent with the tone from the top</li> <li>• Mindset/ambition that does not take account of all relevant stakeholders, including customers, markets and society</li> <li>• Failure to resolve staff engagement issues</li> <li>• Lack of will to cooperate or to share information</li> </ul> | <ul style="list-style-type: none"> <li>• Failure to resolve competing priorities</li> <li>• Lack of challenge and debate</li> <li>• Confusion regarding strategy or risk appetite</li> <li>• Weak connections between leadership levels</li> <li>• Poor communication</li> <li>• Decision-making dominated by the business lines</li> <li>• Lack of diversity and inclusion, resulting in "groupthink"</li> </ul> | <ul style="list-style-type: none"> <li>• Normalisation of misconduct</li> <li>• Lack of psychological safety within the firm</li> <li>• Reluctance to accept bad news</li> <li>• Limited adverse consequences for misconduct</li> <li>• Ineffective identification of, and response to, errors</li> <li>• Lack of transparency upwards</li> </ul> |

Source: Financial Stability Board, Strengthening Governance Frameworks to Mitigate Misconduct Risk, april 2018

## Definition

*What is culture?*

*“Habitual behaviors and mindsets that characterize an organization”*

Source: Transforming Culture in Financial Services, FCA, UK, March 2018

## Definition

### *Mindsets*

*"This financial product is not what I expected"*

**Bank "A":**

*"This client just doesn't get it!?"*

**Bank "B":**

*"How can I improve the communication to my client?"*

# Definition

*How we identify it?*

*Trough a firm's:*

- *Purpose*
- *Leadership*
- *Approach to rewarding and managing people*
- *Governance arrangements*

Source: Transforming Culture in Financial Services, FCA, UK, March 2018

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# Brazil – Rule 4539, November 24th, 2016

## Greater awareness and accountability

Board should set principles and guidelines in order to...

Promote a culture that fosters a cooperative and balanced relationship with customers and users



Fair and equitable treatment to customers and users

Assure Compliance and legitimacy of its products and services

# Brazil – Rule 4539, November 24th, 2016

## Framework

Demands a formal policy valid throughout the entire life cycle of a product/service  
Previous, during and after the purchase

Sets general principles, guidelines and minimal standards (as consistency with routine and operational procedures)

Requires a risk monitoring, control and mitigation effort, including Internal Audit

# Brazil – Rule 4539, November 24th, 2016

## Framework

Requires a risk monitoring, control and mitigation effort, including Internal Audit

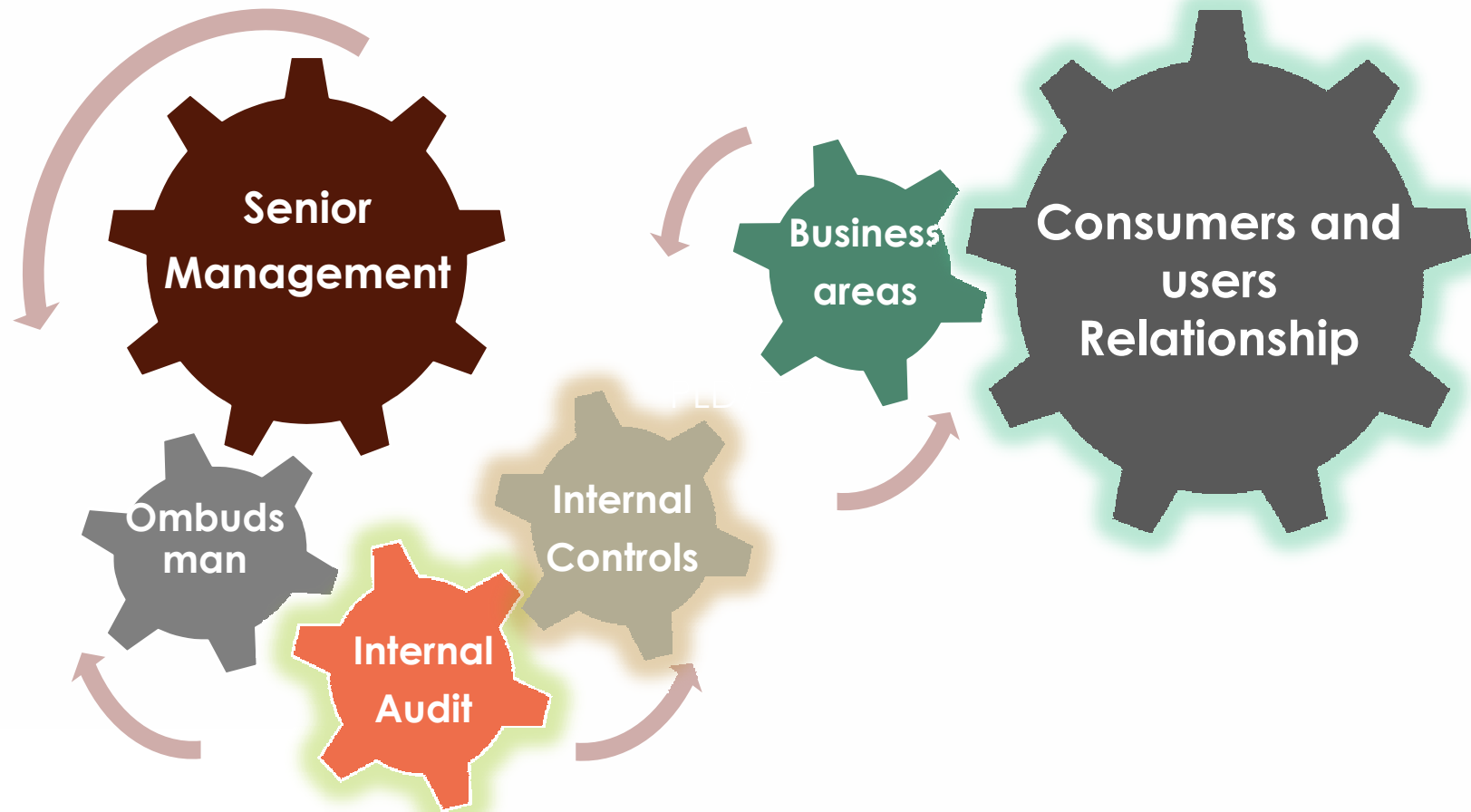
Such controls should assure to the Financial Institution Policy:

- It's successful implementation;
- Monitoring of its Compliance (including through the use of KPI's)
- An assessment of its effectivity
- Correction of possible deviations

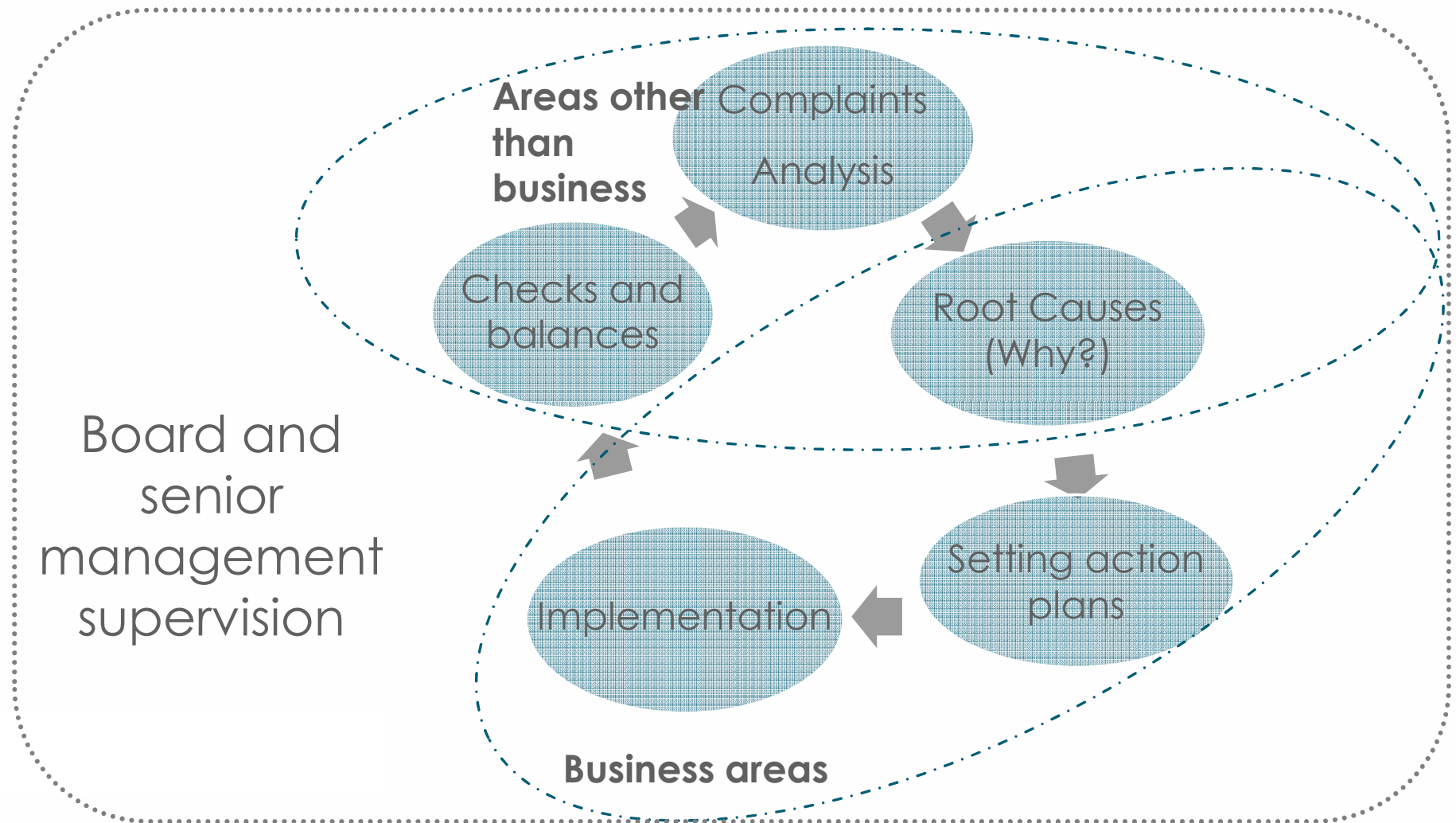
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# Consumers relationship governance



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# Consumers relationship governance

Recurrent complaints regarding misselling of a specific product

Qualitative analysis

Review on processes

**Product-oriented actions**

**Behavior-oriented actions**

Review on incentives schemes

Review on product features

Review on target market

Review on consequences framework

Training staff

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# Conduct Supervision

Ongoing conduct oversight:

- Financial Consumer Protection
- AML/CFT

Preventive and intensive approach aiming to be present the whole year inside a Financial Institution addressing any issue wherever it may arise

- Risk based approach Supervision
- Governance driven
- Customized inspections and exams
- Level-playing field

# Conduct Supervision

At the beginning...

- Regulatory gap until Res. 4539/2016
- IFs' evasive stance
- Soft power approach
- Responsiveness according goodwill

# Conduct Supervision

First conclusions

- Incentives are key
- Double bond (individual break even point)
- Connected to the Corporate Culture

Approaches:

Compensation

Consequences management

Performance assessment

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# Case 1

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- One of the largest retail banks
- Some goals were poorly designed
- People will do what you set not what you expect
- Postsales checking
- Started to set complaints reduction targets for each business beginning 4Q2017

**Recent result:**  
**A 22% decrease in non-Compliance rated complaints at the 1stQ2018**

## Case 2

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- One of the majors retail banks
- Huge challenge (high volume of complaints regarding misseling)
- Multifatorial model (employee score)
- Changes in comercial guidance and training (market positioning strategy)
- Gradually brought solutions and improvements to the new tool
- Began to use it at all incentives schemes

**Recent result:**  
**A 38% decrease in “non-Compliance” rated complaints in the last 2 years**

# Case 3

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- Small local retail bank
- Customers mainly elderly and low income people (pension payments)
- Accused of pushing expensive and unnecessary banking services, loans and credit cards
- Strong intervention from District Attorney Office, coming to halt it's loans operations for two months
- After a deal at the Court, it got back to business
- Created a intensive incentive scheme (complaints and cancellations decrease bonuses up to 10%)
- Trained, warned and even fired staff within the first two months

**Recent result:**

**A 47% decrease in non-Compliance rated complaints after at last quarter of 2017**

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# Final remarks

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- Conduct Supervision next step is definitely audit of culture
- Culture management involves changing habits and mindsets
- If you don't manage the culture of your firm, the culture will manage the firm instead of you
- People will always try to bend rules and achieve targets with less possible effort **until their mindsets change through habit**
- Each firm should have its own standards of acceptable conduct

A Responsible Bank culture is the safest way to avoid growing hazards from customers relationship risks and it definitely pays off



**BANCO CENTRAL  
DO BRASIL**



**THANK YOU!**

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