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The Financial Conduct Authority Considers Using Assessment as a Tool to Understand Culture

On Friday 24 January 2020, the UK's Financial Conduct Authority ("the FCA") hosted an insightful [webinar](#) on "using assessment as a tool to understand culture". Alison Cottrell, CEO of the Banking Standards Board, and Dr Ben Hardy from the SOAS School of Finance and Management, joined Jonathan Davidson, the FCA's Executive Director of Supervision for Retail and Authorisations for the panel discussion.

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Mr. Davidson noted the FCA's increased focus on culture, referring to the FCA's January 2020 '[Dear CEO](#)' letter to wholesale general insurance firms. In that letter, the FCA identified poor culture as "*a key root cause of major conduct failings*" and confirmed that non-financial misconduct "*will be a key focus for our supervision of firms and of senior managers*". Going forward, the FCA's expectation is that management of culture and discipline should be as well understood in financial services as developing strategy or analysing market risk.

The panel accepted that it was difficult to specifically define culture, but agreed that it is broadly understood to refer to how people behave in groups. The panel acknowledged that measuring and assessing culture within an organisation can be challenging, but noted that a healthy firm culture should have the following attributes:

1. It will be **purposeful**: People are not usually motivated solely by financial gain; they want to feel that they are doing something meaningful.
2. **Psychological safety**: Employees should feel able to speak up when they feel something is not right. Mr. Davidson observed that he would go further, and encourage organisations to nurture a 'listen up' culture, where people are also interested in what others have to say.

The panel agreed that, whilst culture is inherently unique to each organisation, there are certain universal drivers of good culture, including effective leadership and governance, and offering employees 'tramlines' to follow in terms of compliant behavior. Ms. Cottrell noted that a good culture will almost always equate to good outcomes.

Ms. Cottrell and Dr. Hardy engaged in some friendly debate in relation to the utility of surveys in gathering data to assist with understanding a firm's culture. Dr. Hardy highlighted the limitations of relying on technology to provide a readout, and noted that individuals responding to surveys often do not have an accurate perception of their own thinking, despite their self belief that they do. For example, if a large group of people are asked if they are trustworthy, almost all will respond that they are, but this may not reflect reality. Ms. Cottrell, however, noted that the banks she works with have had success with simple, targeted and truly anonymous surveys asking employees whether they feel that the characteristics an organisation sees as integral to its culture are actually reflected in the way it does business. Such surveys can help identify gaps between the firm's values and its day-to-day operation.

The panel went on to provide some simple suggestions to assist firms in assessing culture. Dr Hardy advocated talking to new hires, who will often notice existing behaviours within a firm to which others have become accustomed. He also noted that sentiment analysis of emails may provide a useful readout to help a company understand the feelings employees have about the culture of their workplace.

It is clear that firm culture remains high on the FCA's agenda. Whilst the regulator does not prescribe how culture should be measured and assessed, firms are encouraged to undertake a realistic and honest review of their existing firm culture and how this can be improved for employees, customers and the firm as a whole. This could include undertaking a culture review, which may include surveys and data analysis in relation to compliance breaches and monitoring. It could also include implementing behavioural science techniques that look at how people actually behave and implementing solutions that seek to 'nudge' them towards compliance. Firms need to be proactive in seeking to understand their firm culture and addressing any elements that require development or change. Failure to do so could result in compliance failings and regulatory sanction.

Ropes & Gray have extensive experience in cultural reviews and investigations. We are thought leaders in the area of behavioural science and compliance. Our recent podcast with Richard Bistrong on behavioural science and compliance can be found [here](#).