RMA New York Event Focuses on Making CULTURE AN ASSET

BY FRANK DEVLIN

Perhaps the first step to improving your financial institution's culture is truly accepting that it has one—and that it has significant impact.

"You're going to have a culture," said Thomas Diamante of Corporate Counseling Associates. "Every organization has patterns of behavior around it—decisions, focus, priorities, how you treat customers, what you do and what you don't do."

The question, Diamante said, is whether your culture is "an asset or a liability." Culture needs nurturing, management, and controls so it "is something that works for you and it sustains your product," he said.

The best ways to make culture an asset were discussed at a recent program by the New York Chapter of RMA, "Risk Culture – Expectations and Practical Approaches." The event, moderated by Chapter Co-President John Noto of eDelta Consulting, was held February 8 at the PricewaterhouseCoopers building on Madison Avenue. The discussion ranged from the basics of implementing a program to improve culture to the latest thoughts on how to measure culture and compliance, including through the use of metrics and surveillance.

Michael Walsh, deputy head of the Compliance Risk department of the Federal Reserve Bank of New York, noted the New York Fed's strong interest in culture, pointing out its series of symposiums on the subject that began in 2014. "We think assessing conduct and culture is similar to assessing any kind of corporate compliance program," said Walsh, who noted that his comments did not necessarily reflect the view of the New York Fed. "We want to see that there is good governance. And we believe larger banks are paying a lot of attention to this. They are creating new governance structures. They are broadcasting a tone from the top that's very positive in terms of conduct and culture."

Carlo di Florio, chief risk officer and head of strategy at the Financial Industry Regulatory Authority, said FINRA has also identified culture as a priority and conducted a thematic review in this area. He noted that a number of firms have made good progress strengthening their cultures through a variety of processes, tools, and techniques.

What FINRA has learned from discussions with financial firms has been encouraging, he said.

"Firms are doing some really good work in taking a conceptual objective and supporting it with rigorous strategy, governance, process, performance management, metrics, technology, and data," di Florio said.

"One of the more interesting things we've seen is firms using surveillance technology to surveil not just in silos around trading, e-mail communications, text messages, or telephony, but rather to look across those and integrate data and see what the tapestry starts to tell you about conduct in a particular business, trading desk, or geography," he said.

Noting the use of chat rooms to facilitate the forex and Libor scandals, Robert A. Kloby, managing director and global head of Risk and Compliance – Investment Management at BNY Mellon, recommended that firms "make monitoring employee communications part of your program."

"Look at e-mails. Look at chat rooms. Do voice surveillance on a random basis on the people who matter the most—the portfolio managers and the like," he said. "Organizations that identify issues and fix issues build up strong cultures and programs."

"You can actually proactively help people, and the overall organization and culture, by identifying the small [infractions] and dealing with them—creating a culture of nonconfrontational, nonaccusatory surveillance and maybe preventing people from ever committing serious infractions because they know there is a process in place to watch and record," said John Lucker, advisory principal and global advanced analytics market leader at Deloitte & Touche. "People build up from small to big in terms of their conduct violations. It's very unusual for a major conduct incident to happen and be committed by a person who has never shown up on the radar screen in the past."

Firms might even consider being proactive to deter potential violations, he said, by assigning "individual risk scores" based on an analysis of correlative individual and organizational internal information coupled with external information. A person experiencing credit problems, stressful life-stage changes, or who is known to frequently forward e-mails home or download company information onto a thumb drive could be at higher risk to commit a violation, he said. The same applies to someone who is falling short on goals, mandatory training, or administrative compliance.

> "IF YOU REALLY WANT TO IDENTIFY KEY INGREDIENTS OF A CULTURE, IDENTIFY WHAT'S NOT BEING SAID."
>
> **THOMAS DIAMANTE,** CORPORATE COUNSELING ASSOCIATES

Such monitoring is "an inherently uncomfortable topic for organizational leadership and for employees," Lucker said. One way to get more comfortable with the idea, he said, is to implement it in a way that does not call to mind a police state. "It's not going to be a summary firing type of an activity," he said, and "you don't want this to be branding people in some way."

Another way to get more comfortable with the idea, he said, is to remember that "the survival of our organizations depends on appropriate conduct."

Organization-wide, Diamante said, the nature of calls to employee assistance lines (where emotional issues and stress are revealed), the inability to manage conflict maturely, failing to adapt to change, blame hunting, and measuring money but not morality are all nonfinancial markers of unwanted risk. Of course, spikes in legal activity or discrimination claims ought to capture the attention of management as well. "Those sorts of things are red flags," he said. They say "this place is not being managed too well."

Walsh said that monitoring "has to be explored."

"The risk is if people think it's the only tool." If you rely solely on monitoring and data, "a lot of things will be hidden" as people who have not taken the culture to heart find workarounds to avoid detection. "We need to have systems to prevent this," Walsh said. "A lot of this is having a good inventory of laws and regulation" and ensuring employees understand how it applies to their business.

Kloby agreed that "it's not all about metrics." Sometimes, ensuring compliance and culture is "about getting your C-suite in a room to do a business practices review," he said.

"Talk about difficult topics. Try to drive the right decisions. Talk about sensitive topics like undisclosed fees or use of affiliate service providers or use of proprietary products, and really have an open conversation between senior management and the control groups. Come to a decision as to whether that's the way you want to do business or not do business. By having those types of conversations and transparency you will help your organization make the right choices and build a better culture."

"You need to discuss undiscussables," Diamante said.

"If you really want to identify key ingredients of a culture, identify what's not being said," Diamante said. "It's the unspoken rules which seem to drive and motivate behavior." To fit in with the culture, he said, "people know what to do and what not to do even if it's not on paper.

"You can identify that an element in your culture exists when you walk head-first into it and it hurts," he said. "You may not see it but you'll feel it. You'll say something you shouldn't have said. You'll have an opinion you shouldn't have had. You'll make a recommendation people didn't want to hear."

When Noto asked why good companies do bad things, Diamante said it was "because these topics need to be discussed" but aren't.

While some organizations are making strides in their ability to measure and assess culture, others might still be getting started in even addressing it. "A lot [of institutions] are in the early stages," Walsh said. "There is a lot of work to be done."

Several panelists gave advice on how to increase an organization's focus on culture.

Di Florio recommended reading the 2015 document by the Group of Thirty, "Banking Conduct and Culture: A Call for Sustained Comprehensive Reform." Di Florio said the piece from the group of international financiers and academics contains numerous "case studies of effective practices on how to implement this program inside your organization."

Robert Neff, EVP and head of Enterprise Risk Management at CIT Group, said, "You have to start by talking to the CEO. Identify a small team who is going to focus on this including risk, communications, and HR. You have to have a sense of what do we want our culture to be. What are our corporate values?

"What I've seen in culture is you have to advertise and reinforce it," he said. "You can't just say it once. Different messages have to be reinforced in different forums."

"You need to have a culture where people are invested in the company and proud of the services they are delivering," Walsh said. "We have to get to the culture of when you see something, you say something. The banks need to work on those escalation processes."

In addition, he said, "you have to have good remediation." Once a problem is identified, "you've got to get on it quickly. There is a huge cost to remediating some of these problems, but at the end of the day it's a positive if you can avoid fines or losing business or your reputation," he said. "It's profitable to get to it early."

As for getting started on measuring culture, Kloby suggested looking at items that are "easily measurable."

Answer the following questions, he said. "Do people complete their risk and compliance training in a timely manner? Are people doing their mandatory time away in a regular and proper fashion? Do people use unapproved marketing materials? Did they sell a product where they weren't licensed?

"These are all things you can track over time and make part of a program," he said.

"You could also add a tone-at-the-top measure where you track employees that are tiered up to a particular manager to see if they accumulated an excessive amount of red flags," Kloby said. If so, he said, "obviously the message from that supervisor is not as strong with regard to culture as it should be."

Di Florio noted that more "organizations are doing a good job at holding employees at all levels accountable" instead of letting more senior employees operate under a different set of rules. One challenging area for firms is how to instill the firm culture among traders, who sometimes identify more with the culture of the community of traders they are working with across firms than with the culture of their employer.

Neff said a strong risk culture needs strong challenge functions. "Loan review is a great example," he said. "In our organization loan review reports to the Risk Committee of the Board. They have a direct line. It's important to empower a group like that. Does your board, CRO, or CEO value the function of loan review? Do they have a high degree of respect or are they treated like a check-the-box requirement? How your loan review function is treated is an example of what creates a risk culture over time."

Many firms are thinking holistically about how culture should inform "who we hire, how we orient them, who we choose to promote," di Florio said, and "how we give bonuses and compensation, how we investigate and escalate incidents, and how we ensure consistent enforcement."

"All of these positive firm efforts are also opportunities for them to demonstrate their commitment to culture and conduct," he said. ®

"WHAT I'VE SEEN IN CULTURE IS YOU HAVE TO ADVERTISE AND REINFORCE IT. YOU CAN'T JUST SAY IT ONCE. DIFFERENT MESSAGES HAVE TO BE REINFORCED IN DIFFERENT FORUMS."

ROBERT NEFF, EVP AND HEAD OF ENTERPRISE RISK MANAGEMENT, CIT GROUP

Frank Devlin is senior editor of *The RMA Journal*. He can be reached at fdevlin@rmahq.org.