

HKMA PUBLISHES REPORT ON BANK CULTURE SELF- ASSESSMENT

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Legal Briefings - By **William Hallatt, Hannah Cassidy, Gareth Thomas, Tess Lumsdaine and Valerie Tao**

On 22 May 2020, the Hong Kong Monetary Authority (**HKMA**) [published](#) a [report](#) on its review of self-assessments on bank culture. This is part of the HKMA's bank culture reform supervisory measures, where 30 authorised institutions (**AIs**) were selected in the initial phase to conduct self-assessments on their culture enhancement efforts and benchmark themselves against the findings of major conduct incidents outside Hong Kong.

The 30 AIs, comprised of major retail banks and selected foreign bank branches with substantial operations in Hong Kong, were required to submit their self-assessment outcomes within six months. The background to the HKMA's bank culture reform and supervisory measures, as well as a preview of the HKMA's initial observations, can be found in our [bulletin of 22 January 2020](#).

The HKMA has now completed its review of the self-assessment submissions and compiled a [report](#) which sets out the following for reference by the industry:

common themes to focus on to improve culture – see below;

practices observed in respect of the three pillars of culture (governance, incentive systems and assessment and feedback mechanisms) – see our summary [here](#).

NEXT STEPS FOR AIS

AIs should review the common themes and the practices observed and consider which areas require enhancement based on their desired culture, values and behavioural standards. This includes the AIs that were not covered in the first phase of the self-assessment exercise, which are also expected to reflect on their culture enhancement efforts.

Although the 30 AIs involved in the initial phase of self-assessment were all licensed banks, the common themes and the practices observed also apply to restricted licence banks and deposit-taking companies.

The HKMA recognises that there is no “one-size-fits-all” approach to assessing and enhancing culture. The examples of the practices observed are not exhaustive and AIs may explore different culture enhancement initiatives based on their desired culture, values and behavioural standards, as long as the initiatives are effective in driving cultural change.

HKMA’S PLAN GOING FORWARD

Going forward, the HKMA intends to:

conduct focused reviews to dive deeply into the incentive systems of front offices in the business of distributing banking, investment and/or insurance products in retail banks;

continue its culture dialogues with AIs, which it commenced in 2019 (it will inform selected AIs of the details individually);

continue to gauge the progress of bank culture reform in Hong Kong and share insights and practices with the industry as and when appropriate;

explore other culture initiatives, taking into account overseas experience and emerging themes that may arise.

COMMON THEMES

The HKMA observed that the 30 AIs involved in the self-assessment had implemented a range of culture initiatives and made significant progress in promoting sound bank culture over the past two years.

The common themes which have been identified from the self-assessments are as follows:

Further work is needed to ensure that incentive systems are designed to promote sound culture and prevent incidents of misconduct

The HKMA noted that AIs' culture efforts in the area of incentive systems remain a "work-in-progress" as the coverage of incentive systems in the self-assessments was relatively limited. While there is an increasing trend away from incentives being based solely on financial factors to a greater use of balanced scorecards, there remain questions as to:

whether there is an appropriate balance of "what" (financial factors) and "how" (non-financial factors), or whether there is still a stronger focus on the "what";

whether the right non-financial factors (including behaviour factors) are embedded with a greater focus on customer outcomes;

whether there is a consistent application of consequences regardless of staff financial performance.

The HKMA expects to see more initiatives in relation to incentive systems which are designed to promote bank culture and prevent incidents of misconduct. Its expectations and observations of AI practices in this regard are set out in our [summary note](#) (see "Pillar 2: Incentive systems").

Stronger links are required to connect AIs' Hong Kong operations with the culture efforts of their headquarters or upstream entities as well as their downstream operations, as appropriate

The HKMA observed that culture enhancements are often driven by the headquarters of AIs which are part of a larger banking group incorporated outside Hong Kong. However, the links of these AIs to their headquarters (global or regional) or upstream entities in relation to culture efforts vary, with some of these links being weak.

There is generally limited coverage in the self-assessments on:

how the formulation of global culture initiatives have taken into account feedback from regional operations and different contexts across geographies (including Hong Kong);

how adjustments have been or will be made by these AIs when implementing their global culture initiatives in Hong Kong with regard to local circumstances, especially how to ensure the buy-in of local staff for the culture promoted at the regional or global level;

how any implementation issues would be escalated to the headquarters for consideration and resolution;

how the headquarters are providing support to their operations in Hong Kong in implementing culture enhancement initiatives.

Similarly, the links to downstream overseas operations from regional headquarters in Hong Kong appear generally weak or non-existent. The HKMA expects AIs to cascade down their desired culture to downstream operations outside Hong Kong, taking into account the local circumstances. This is particularly important for larger banks that span numerous geographies and business lines, and can have a large number of different sub-cultures develop over time.

Deeper analysis is expected to benchmark against the findings from the reviews of major overseas misconduct incidents

The HKMA considers that the AIs had not put adequate effort into benchmarking themselves against the findings of the reviews of major misconduct incidents outside Hong Kong, such as the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* in Australia. For example, while some AIs had made reference to the findings of major misconduct incidents outside Hong Kong, most did not go beyond simple sharing of the facts with their staff.

Although the HKMA does not expect AIs to monitor each and every misconduct incident in all jurisdictions, AIs are encouraged to keep track of key international developments and draw lessons from major overseas misconduct incidents as far as possible.

The HKMA plans to share with the industry relevant overseas developments (including any overseas misconduct incidents) from time to time through channels such as circulars and regulator's dialogue.

More focus is needed to facilitate the undertaking by relevant staff of continuous professional development to complement the effort of promoting sound culture

The HKMA noted that none of the AIs had mentioned in their self-assessments the use of continuous professional development as a tool in promoting sound bank culture.

The HKMA encourages AIs to set out goals and concrete targets in respect of continuous professional development, including those under the Enhanced Competency Framework or those offered by other professional bodies, with a view to supporting the strategy of promoting sound culture within their organisations.

More effort is needed to tackle the key challenge of culture assessment to identify gaps between current progress and desired culture

Many AIs acknowledged challenges in assessing culture or indicated that developing tools to assess culture or determining appropriate indicators in their dashboards were key priorities in their culture reform agenda. The HKMA also observed that AIs had further work ahead to identify the gaps between their current progress and the realisation of desired culture within their organisations.

There is no "one size fits all" approach to assessing culture. The HKMA recommends:

incorporating "forward-looking indicators" into the culture dashboard (most AIs had incorporated "backward-looking indicators");

combining both quantitative and qualitative data from multiple sources to allow for the different culture indicators to be triangulated (a few AIs had tended to rely solely on a single source of data, such as results from employee surveys, when assessing their culture).

More work is needed in promoting an environment which provides "psychological safety" to encourage staff to speak up without fear of adverse consequences

The HKMA noted that while most AIs had certain “speaking up” mechanisms in place, not many had identified the need to address the fear of speaking up. There was also limited coverage in the self-assessments regarding the effectiveness of the AIs’ “speaking up” mechanisms.

Only some AIs had incorporated measures into their “speaking up” mechanisms to protect staff who chose to speak up against bullying or retaliation. While most AIs had in place formal “speaking up” arrangements and escalation channels, this needs to be complemented by continuous communications to reinforce the message. Effective “speaking up” mechanisms should also recognise the importance of responsiveness as staff will only feel safe to speak up if their voices will be heard.

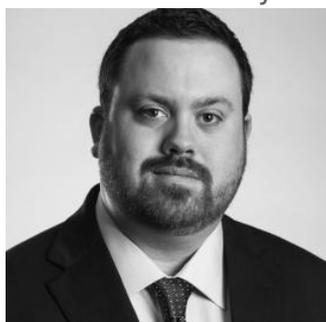
Sustained effort is required in driving cultural changes and AIs should be mindful of “culture fatigue”

Staff can experience “culture fatigue” over time if AIs implement a large variety of culture initiatives in a “form over substance” approach that overwhelms their staff, which may undermine the AIs’ efforts in implementing culture initiatives.

Some AIs acknowledged that a key challenge was to ensure that culture remained at the forefront of staff’s mindset at all times. Some of them indicated that continuous reinforcement through effective communication and promotion at all levels was important to have a lasting impact.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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