

White Paper

Culture is Key for Australian and New Zealand Banks

Conduct and culture is the new hot topic. But what does it really mean? And more importantly what does it mean in practice?



**THE AUSTRALIAN ROYAL COMMISSION INTO MISCONDUCT IN THE
BANKING, SUPERANNUATION AND FINANCIAL SERVICES INDUSTRY
WILL RESHAPE THE FINANCIAL SERVICES INDUSTRY ON BOTH SIDES
OF THE TASMAN FOR YEARS TO COME.**

The highly anticipated Royal Commission report has made a series of structural recommendations to address issues of conduct, commissions and incentives as well as a lack of consumer focus.

- Governments in both Australia and New Zealand are currently reviewing all 76 recommendations from the Royal Commission.
- ASIC has revealed it's contemplating more than 40 court cases — including criminal prosecutions.
- ASIC has announced they have adopted a new approach that emphasises court-based enforcement.
- In New Zealand, the FMA and RBNZ have released their report on bank conduct and culture. The regulators identified significant weaknesses in the governance and management of conduct risks and highlighted issues that require urgent remediation.
- The New Zealand Government has told the banks they are "on notice" and must do more to ensure that consumers' rights are protected.
- The FMA and RBNZ have also released a report on life insurer conduct and culture in New Zealand. The regulators found extensive weaknesses in life insurers' systems and controls, with weak governance and management of conduct risks across the sector and a lack of focus on good customer outcomes.

"Australian banks are determined to learn the lessons, to fix the problems and to make it right - and every part of the industry is as committed to that as any other."

Anna Bligh
CEO Australian Banking Association

"We have got to work as an industry proactively to make sure we get in front of issues and that if we do identify an issue that we remediate on it and do the right thing by customers and I think every banker in NZ would want to do that."

Roger Beaumont
CEO NZ Bankers Association

Culture is Key

At the core of all these issues is Culture

It is widely acknowledged that financial institutions (FIs) must change their culture if they are to address many of the issues identified in the various reports – and whilst many FI’s are expressing a positive shift in their view of the importance of culture there is much to be done.

In this climate, it is tempting to equate culture with practices that just promote ethical behaviour. But a healthy culture encompasses far more. It not only minimises bad conduct but also aligns behaviour with the FI’s strategy and can, when done well, support accelerated performance.

Understandably Boards and CEO’s across the Australia and NZ financial services industry are viewing such comprehensive culture change as daunting. It is complex, it has many moving parts, and for large institutions it involves thousands of employees many of whom are located across their distributed branch networks. Most challenging of all, it’s not just about changing policies and processes, it’s about changing peoples’ mindsets and behaviours. But if the culture is to be sustainable to allow for delivering good customer outcomes, the effort must be broad, aligned and it must go deep. It must be broad in the sense that it reaches across businesses, functions, geographies, and all levels of the organisation to align its public purpose, values, strategy and incentives etc. It must be deep in the sense that it reaches down to the fundamental assumptions, beliefs, and motivations of each individual so that employees personally embrace the new culture and live it daily.

“Of particular concern is that many of the banking and financial services institutions covered by this review publicly state that their core values include being customer focused, “doing what is right” for customers, and acting with integrity.

We encourage the institutions reviewed in this report to consider how their culture may have supported these systemic failures, and why their stated commitment to providing excellent service to customers is not translating into good outcomes for customers in the many instances we identified in this report.”

ASIC

Visibility Drives Behaviours

Below is a framework of how leading Financial Institutions are using the [SeeEverything](#) platform to align and embed their culture into their day to day business and what other FI's can learn from them.



Staff Capability – driving the right behaviours, culture, conduct and performance

It is imperative that organisations have an ongoing focus at all levels to improve staff capabilities - a consistent “customer-first” mind-set - including a continued focus on ethics driven not by fear but by a clear purpose. This requires embedding cultural awareness and stewardship at all levels of the organisation, with a particular focus on middle management and frontline personnel. This needs to be a permanent and integral part of how business is conducted.

Colleagues are coached and rewarded to serve customers well and deliver good customer outcomes. People leaders have real-time visibility and transparency across the organisation to understand what is going on.

A key component is the ability to capture and track agreed staff goals and actions and monitor individual progress and commitments.

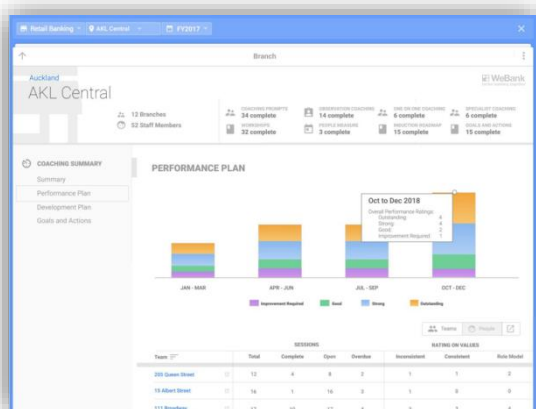
Performance Management and Incentives

Many Financial Institutions have now removed sales-focused incentives for frontline staff, opting instead for alternative metrics integrated into a balanced scorecard with the ability to evaluate both the “what” and the “how”. These typically include capturing quality of customer service, product knowledge of staff, alignment of values and personal conduct that together deliver good customer outcomes, Organisations need to track and monitor these new metrics through ongoing observations and combine this with coaching interventions.

Day to day coaching and observations need to be linked to the broader performance management framework.

Colleagues can then be coached and rewarded to serve customers well which delivers good customer outcomes and provides people leaders with real-time visibility and transparency across the organisation to understand what is going on.

Regular check-ins as part of your performance management framework allows people managers to align ongoing coaching & observations activities.



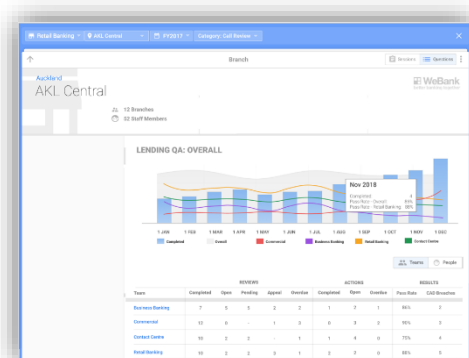
Governance

Effective governance remains a top focus for regulators, with new requirements to capture end-to-end customer interactions with evidence of discharging all compliance obligations.

Regulators are signalling a new age of governance and accountability - through Board effectiveness, as well as new regulations that specifically focus on behavioural controls and ongoing second-line oversight of conduct and culture risks. This means the ability to:

1. Observe real-time interactions “what actually happens?”
2. Capture (with evidence) all issues and breaches with detailed corrective actions
3. Dynamic controls linked to activities - Capturing commitments and organisations responsiveness

These higher expectations call for an alignment of governance and control frameworks, coupled with effective use of real-time data to precisely and consistently capture execution of controls. This will allow for top-down integration, end-to-end visibility, internal comparability and continuous compliance and QA improvements including people accountability and behaviours.

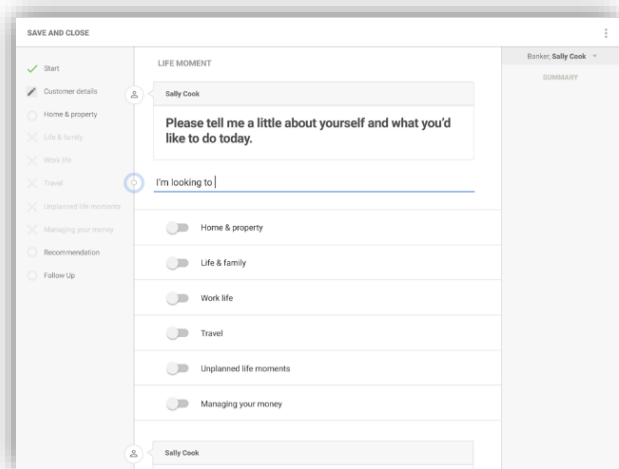


Capturing Customer Needs

Leading Financial Institutions are also redesigning their 'customer conversations' with customer interests at the heart of their interaction.

This means:

1. Ensuring that products and services that are recommended and sold align and meet the needs of the customer
2. Where a customer receives advice, the advice is genuinely suitable and takes account of their identified needs and circumstances
3. Customers understand what they are buying and are provided with clear information and are kept appropriately informed before, during and after the sale process
4. Customers are provided with products and services that perform as the FI has led them to expect
5. The FI can track the disbursements of all regulatory compliance obligations as part of the customer conversation.





SEE EVERYTHING

accelerating compliant growth