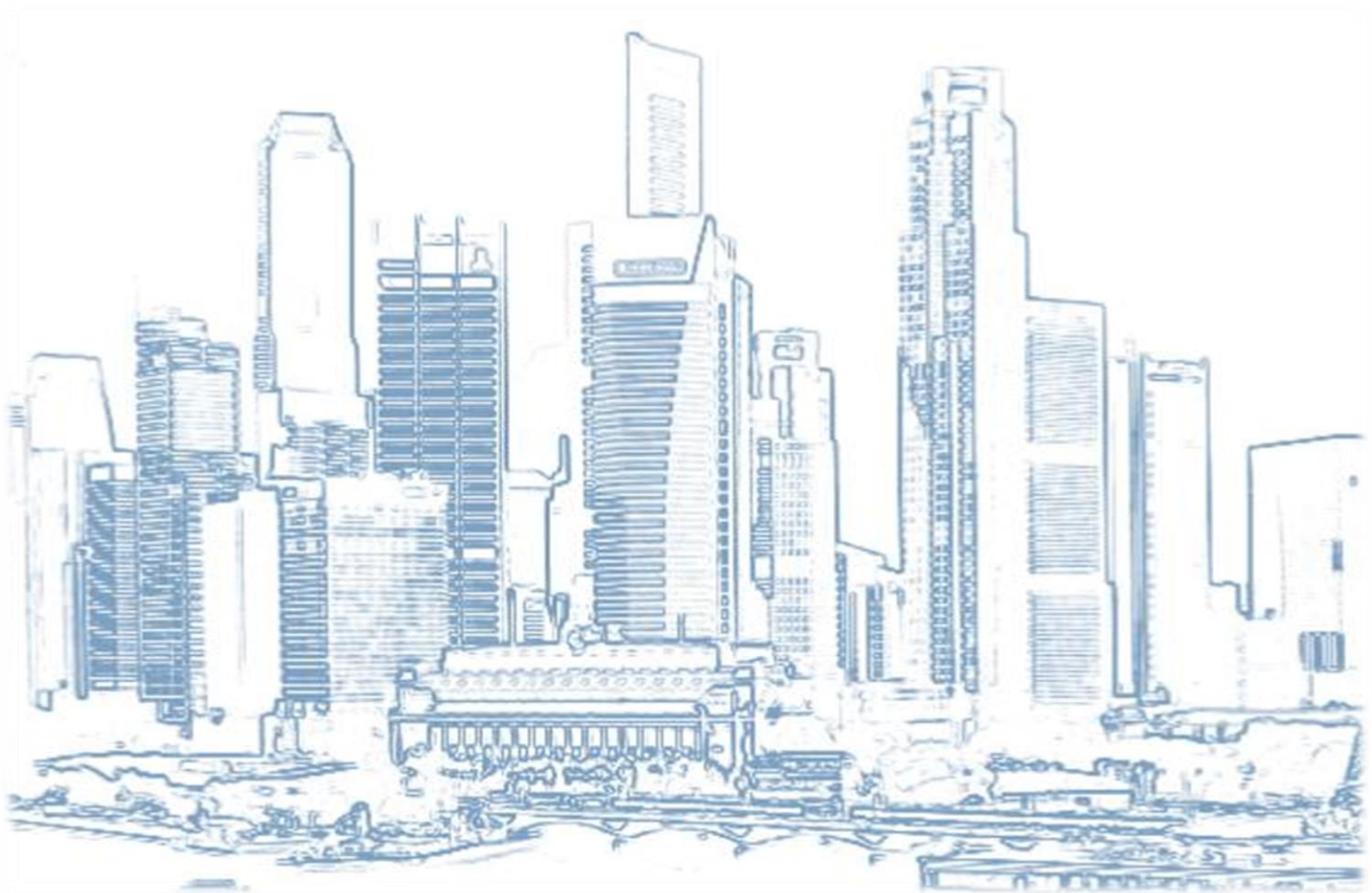




Monetary Authority of Singapore

# Information Paper: Culture and Conduct Practices of Financial Institutions (FIs)

September 2020



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*\*Refer to the outcomes elaborated on in the [Guidelines on Individual Accountability and Conduct](#) and the [Information Paper on Incentives Structures in the Banking Industry](#).*

# Introduction

**Culture is a key driver of conduct.** A sound organisational culture is therefore an effective way to pre-empt potential misconduct. Culture is generally understood as the shared values, attitudes, behaviour and norms in an organisation. It is driven by both the “**hardware**” (e.g. policies and processes) and “**software**” (e.g. beliefs and values) in an organisation.

MAS’ focus on culture and conduct in FIs seeks to achieve two key objectives:



## Ethical business practices

- *To safeguard customers’ interests and ensure fair treatment*



## Prudent risk-taking and robust risk management

- *To support FIs’ safety and soundness*

# Purpose

This paper sets out:



## MAS’ approach towards culture and conduct



## Outcomes FIs should work towards



## Examples of good practices that FIs can adopt

MAS does not seek to prescribe a “one-size-fits-all” approach to achieve the outcomes in this paper. Practices should evolve over time, as FIs gain experience and as their circumstances change. MAS encourages FIs to develop best practices commensurate with their businesses and risk profiles.

*This paper was based on a thematic review of banks, insurers and capital market intermediaries. MAS also held industry engagement sessions to exchange views and ideas with FIs. We thank the participating FIs, the Association of Banks in Singapore Culture and Conduct Steering Group and the Insurance Culture and Conduct Steering Committee for contributing examples of good practices to this paper.*

# MAS' approach towards culture and conduct

## 1. Promote and cultivate

Rules and regulations alone are insufficient to build and maintain a sound organisation culture. The industry must go beyond doing what is permitted legally, to doing what is **right and ethical**. We engage and collaborate with the industry to promote a culture of trust and ethical behavior.



### Dialogues


MAS engages FIs in regular dialogues, to cultivate mindshare and awareness, understand operational challenges, and share good practices.




### Industry collaboration


MAS collaborates with industry associations to promulgate good market practices, and issues guidance to clarify our expectations of FIs where appropriate.

## 2. Monitor and assess

MAS monitors and assesses FIs' culture and conduct as part of our pre-emptive ongoing supervision. 

We go beyond an FI's frameworks, policies, and procedures (i.e. the "hardware"), to also focus on the values, attitudes, and behaviour of the FI's board, senior management and staff\* (i.e. the "software").

Timely identification and strengthening of weak culture and poor ethics can mitigate the impact and risks of downstream control deficiencies and misconduct. 

We evaluate whether an FI has a supportive culture that incentivises the right behaviour. 

We monitor potential red flags (e.g. whether risk and control functions have been sufficiently empowered).

We assess whether incentive structures bring about ethical behaviour and prudent risk-taking. 

We leverage data analytics to perform on-going surveillance of FIs' practices.

## 3. Enforce and deter

MAS takes supervisory or enforcement actions against FIs and individuals where lapses in risk management, misconduct, regulatory breaches or offences have occurred.

MAS can exercise a wide range of actions to achieve a deterrence effect including:

- Issuing warnings or reprimand letters
- Restricting an FI's business operations
- Requiring an FI to put in place business controls
- Referring cases to the Attorney's General Chambers for criminal prosecution
- Revoking an FI's license
- Imposing civil penalties
- Directing an FI to remove its director or executive officer
- Issuing composition sums

\*In this paper, "staff" refer to the employees and representatives of an FI.

# Outcomes FIs should work towards



## GOVERNANCE

1

*The FI's board and senior management have a holistic view of and proactively shape the FI's culture.*

2

*The FI identifies and empowers staff who are responsible for driving the FI's culture and conduct.*



## HIRING & ON-BOARDING

3

*The FI incorporates culture and conduct considerations in its hiring process and training programmes.*



## COMMUNICATION & FEEDBACK CHANNELS

4

*The FI cultivates psychological safety to foster a safe environment for staff to provide feedback and raise concerns.*

5

*The FI's board and senior management communicate tone-from-the-top and walk the talk.*



## MONITORING & ASSESSMENT

6

*The FI considers culture drivers and conduct risk as part of its risk management framework.*



## INTERNAL AUDIT

7

*The FI incorporates assessments of behaviour and culture as part of internal audit.*



## PERFORMANCE MANAGEMENT & INCENTIVE SYSTEMS

8

*The FI has incentive structures that promote prudent risk-taking and ethical behaviour.\**



## INDIVIDUAL ACCOUNTABILITY

9

*The FI holds senior managers accountable and ensures proper conduct among all employees.\**

\*Refer to the outcomes elaborated on in the [Guidelines on Individual Accountability and Conduct](#) and the [Information Paper on Incentives Structures in the Banking Industry](#).





## Outcome 2. The FI identifies and empowers staff who are responsible for driving the FI's culture and conduct.

The roles and responsibilities of the functions within the FI to achieve good governance of culture and conduct must be clearly articulated. These functions should be empowered and guided by a clear mandate to carry out their responsibilities effectively.

### What can FIs do?



#### 1. Delineate clear responsibilities across functions

- The roles and responsibilities for driving desired culture and conduct throughout the organisation should be clear and understood
- Primary ownership of conduct risk should rest with business units



#### 2. Provide sufficient authority and resources

- Functions responsible for driving culture and conduct initiatives should be resourced with sufficient expertise and authority
- These functions should have access to the FI's board and senior management to perform their roles effectively

### Good practices observed



#### Firm-wide executive

- Appointment of a senior executive responsible for overseeing:
  - Development of control standards designed to mitigate conduct risk
  - Risk appetite and risk assessment processes
  - Standards for the identification and escalation of conduct risk issues
  - Reporting to senior management and the board
- The senior executive works closely with business lines in defining and implementing the firm's conduct risk management framework



#### Workshops on conduct tailored specifically for middle management

These workshops on conduct are tailored for middle management, given their close interaction with their teams which facilitates promulgation of messages from senior management, and aim to:

- Highlight the important role middle management plays in driving the FI's desired culture
- Encourage middle management to be proactive in driving culture and conduct and equip them with resources such as conduct dashboard and metrics to manage conduct related issues within the team more effectively
- Sensitise them to conduct related incidents through discussions on case studies, facilitated by Compliance and HR

## Outcome 3. The FI incorporates culture and conduct considerations in its hiring process and training programmes.

The hiring process acts as a key gatekeeping mechanism. It is important to hire people who are aligned with the organisation's purpose and values. Training and induction programmes should give staff an understanding of the FI's desired culture and values, which should be translated into clear behavioural expectations.

### What can FIs do?

#### 1. Incorporate culture and conduct considerations in hiring process

##### WHAT?



Behavioural competencies



Cultural fit



Alignment of values

##### HOW?



Scenario-based questions



Psychometric assessment tools



Case studies



Reference checks



Interviews by business and control functions

#### 2. Design appropriate induction and training programmes

- FIs should develop specific training modules to raise awareness of the FI's Code of Conduct, incentive and disciplinary action frameworks and whistleblowing channels. Case studies of past misconduct may be included to share lessons learnt

### Good practices observed

#### Recruiters and hiring managers are equipped and trained to assess cultural fit

- Interview questions relate to the FIs' core values (e.g. integrity, prudent risk-taking)
- Interviewees are asked scenario-based questions presenting moral dilemmas. Candidates' responses help the FIs to assess their alignment with the organisation's values

#### Senior management is involved in the hiring process

- New hires for certain positions are interviewed by senior management

#### Structured programmes to raise awareness of behavioural expectations

- Online modules on ethics, code of conduct and whistleblowing with tests to assess staff's understanding of the concepts
- Workshops led by Compliance and other control functions on case studies on conflicts of interest and market abuse
- One-on-one training with Compliance on key policies and procedures relevant to a staff's role
- Training materials on ethics are refreshed periodically and certified by the Institute of Banking and Finance (IBF)
- Annual/biennial refresher courses on FI's code of conduct. These may include case studies of breaches by staff
- IBF-certified in-house trainers



## Outcome 4. The FI cultivates psychological safety to foster a safe environment for staff to provide feedback and raise concerns.

Psychological safety amongst staff is key to fostering a safe environment, where staff are empowered to speak up without fear of reprisal. Managers should also respond to feedback earnestly.

### What can FIs do?



#### 1. Institute “Speak Up” programmes

- Organise dialogue sessions across functions for “Speak Up” advocates to share their roles and gather feedback
- Monitor “Speak Up” volume via a Culture and Conduct Dashboard to evaluate effectiveness of the initiative



#### 2. Encourage staff to report risk events

- Self-reporting can be encouraged as an opportunity for management and staff to work together to:
- Identify the root cause for lapses
  - Put in place mitigating measures
  - Share the learning experience from the incidents with all staff to minimise recurrence



#### 3. Establish effective whistleblowing programme

An effective whistleblowing programme facilitates reporting of incidents in a safe environment, and allows for escalation and rectification before undesirable practices take root. Key elements include:

- **Contact points** – contact details made available on main directory
- **Operator of whistleblowing hotline** – use of external vendor or operated by an internal independent function
- **Investigation and reporting** – centrally investigated (e.g. at HQ instead of business-unit level) and tracked by control functions

### Good practices observed

#### Alternative facilities for staff to raise concerns where normal channels are inappropriate

- Alternative facilities available via phone, web portal, e-mail and letter

#### Investigations of ethical lapses are shared quarterly

- Highlights where ethical lapses have occurred
- Demonstrates that staff’s concerns are investigated and leads to meaningful corrective action

#### Forum provided for staff to share feedback anonymously with management

- Opportunity for management to understand staff’s views and answer their queries
- Feedback from staff can provide insights into state of culture within organisation

# Outcome 5. The FI's board and senior management communicate tone-from-the-top and walk the talk.

The desired culture and conduct should be defined and communicated throughout the organisation. The tone-from-the-top needs to be aligned with echo-from-the-bottom.

## What can FIs do?

### 1. Establish open channels for communication



- Small group discussions between management and staff



- Email broadcasts/newsletters to share positive/negative behaviour



- Staff sentiment survey



- Meetings to share desired culture/vision



- Performance appraisal sessions

### 2. Appoint culture and conduct champions and ambassadors



- Culture and conduct champions take on varying roles, such as serving as role models, raising ideas and flagging possible concerns proactively, and providing a resource point for staff who have queries

### 3. Recognise positive behaviour



- Actively recognise staff who have displayed good conduct or values

## Good practices observed

### Staff recognised for exemplifying FI's values

- Staff are formally recognised at awards ceremonies, and may be featured on the FI's intranet and newsletters

### Regular communication between CEO and staff through dialogues, letters and small group discussions

- Practices performed by CEOs include conducting monthly culture and vision sharing meetings with middle management and fortnightly dialogues with staff
- Periodic letters are also sent to share personal anecdotes and insights on culture and conduct issues

# Outcome 6. The FI considers culture drivers and conduct risk as part of its risk management framework.

There should be robust mechanisms to monitor culture and measure conduct or behavioural outcomes, with corrective actions taken where necessary. When exploring new tools to be used, FIs should also consider the associated ethics and privacy issues.

## What can FIs do?



### 1. Establish conduct risk framework

Create governance framework on conduct risk covering:

- Risk appetite statement (refer to outcome 1)
- Policies and procedures on conduct risk
- Formal monitoring, reporting and escalation mechanisms, with relevant indicators reported to a committee charged with overseeing conduct risk



### 2. Actively identify and manage conduct risk

- Use communication and trade surveillance tools to identify conduct risk
- Incorporate conduct risk assessment into risk control self-assessment
- Require business units to assess compliance against risk appetite statements, report breaches, potential risk areas and action plans to board and senior management

## 3. Implement mechanisms to monitor culture



### Surveys

- Surveys and exit interviews used to understand perceptions on-the-ground on organisational culture and identify potential issues



### Pulse checks

- Conducted more frequently than surveys, and with a smaller set of questions, targeted at specific topics
- To address trends and issues observed in a timely manner



### Focus group discussions

- Encourage open dialogue to assess behaviour and mindset at operational level



### Culture and conduct dashboard

- To monitor culture and conduct effectively, multiple sources and indicators should be triangulated to form a holistic view. A dashboard could be created to consolidate indicators
- **Common indicators:**
  - Staff sentiment
  - Number of self-reported breaches
  - Number and severity of misconduct cases and corresponding disciplinary actions
  - Whistleblowing statistics
- **General key principles for designing dashboards**
  - Sufficiently granular data
  - Use of leading and lagging indicators
  - Linkage between indicators tracked and FI's values and risk appetite framework
  - Desired targets, trends over time with insights on deviations

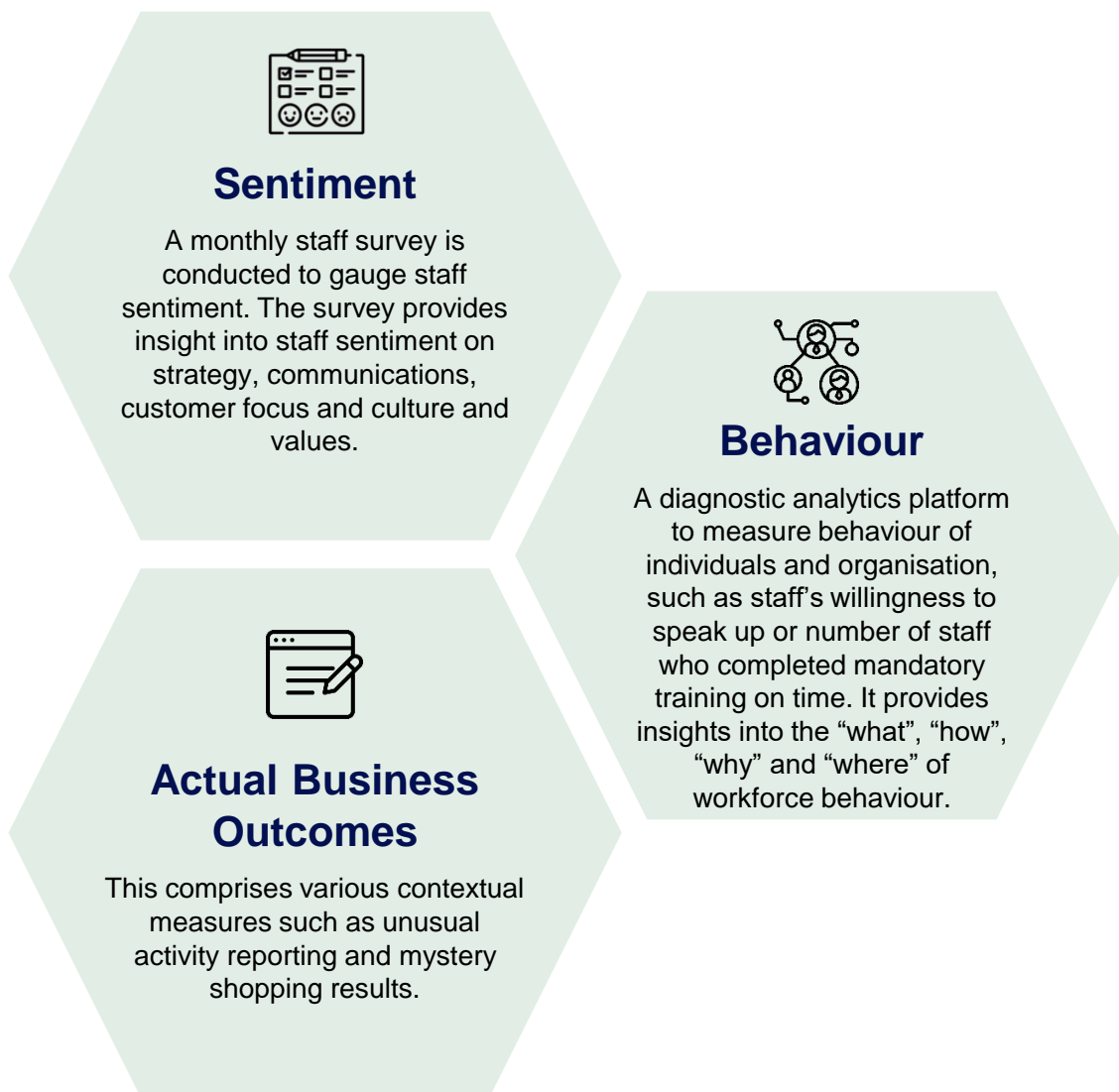




## Outcome 6. The FI considers culture drivers and conduct risk as part of its risk management framework.

### Good practices observed

One FI monitored the relationship between how people **feel** (Sentiment), how they **behave** (Behaviour) and Actual Business Outcomes.



**Sentiment and Actual Business Outcomes are further monitored and assessed through a quarterly Culture Dashboard.**



## Outcome 7. The FI incorporates assessments of behaviour and culture as part of internal audit.

Internal Audit can provide independent assessment of the state of culture and conduct in an organisation. The function can play an important role in the early identification of potential areas of concern, and flag them for management attention.

### What can FIs do?

#### 1. Assess management's approach towards conduct risk

- Incorporate assessments of management's conduct risk and control awareness, as well as receptiveness to audit findings
- Can be qualitative or include the assignment of a rating or grade

#### 2. Implement targeted culture audit programmes

- These audits should explicitly target "soft" aspects like leadership, group dynamics, quality of decision-making
- FIs can consider engaging organisational psychologists or behavioural scientists to design and implement culture audit programmes

### Good practices observed



#### Culture of business units assessed as part of internal audits, or in thematic audits on behaviour and culture

##### Assessments take into consideration several factors, such as:

- Tone among senior management
- Ownership and accountability
- Effective communication and challenge
- Risk and resource management

##### Assessments may be informed by the following:

- FI's culture dashboard
- Interviews with senior and middle management
- Surveys on culture mindset
- Root cause analysis of control lapses found
- One FI developed a set of questions to guide auditors in formulating their assessment. Training sessions on the assessment methodology using sample scenarios were conducted for auditors
- Findings are presented to the Audit Committee regularly



# Outcome 8. The FI has incentive structures that promote prudent risk-taking and ethical behaviour.

Refer to [Information Paper on Incentives Structures in the Banking Industry](#) for details of outcomes that MAS expects to see in all FIs (including non-bank FIs) to foster sound behaviour and conduct. All FIs should incorporate the learning points from the information paper in a risk-based and proportionate manner.

## Governance over incentive structures

### Outcome 8.1

Board and senior management exercise active oversight and monitor the effectiveness of incentive structures.

### Outcome 8.2

FIs adopt the FSB Principles and Standards and implement them in a manner that is commensurate with their risk profile and complexity.

### Outcome 8.3

FIs have mechanisms to monitor staff's conduct, and report relevant conduct metrics to the Board and senior management.

## Performance evaluation

### Outcome 8.4

FIs' performance evaluation of staff takes into consideration both the "what" (ability to meet financial targets) and the "how" (how these targets are achieved).

### Outcome 8.5

Performance evaluation ratings have an appropriate impact on compensation and promotion decisions.

## Remuneration frameworks

### Outcome 8.6

Remuneration frameworks adequately consider behavioural and conduct factors, in addition to financial KPIs.

### Outcome 8.7

Structured deferral arrangement and appropriate instruments are in place to defer variable compensation to align pay-outs with time horizon of risk.

## Consequence management

### Outcome 8.8

Investigations into misconduct are carried out by independent units/personnel with the relevant expertise.

### Outcome 8.9

FIs establish proper frameworks and processes to determine severity of misconduct and corresponding disciplinary actions.

### Outcome 8.10

Compensation decisions must not undermine or negate the effectiveness of disciplinary measures.





## Outcome 9. The FI holds senior managers accountable and ensures proper conduct among all employees.

Refer to [Guidelines on Individual Accountability and Conduct](#) for details of:

- **5 outcomes** FIs should achieve to promote clear accountability and proper conduct
- **Specific guidance** for FIs with 50 or more headcount

### Senior managers<sup>1</sup>

*(Promote accountability)*

#### Outcome 9.1



Senior managers are **clearly identified**.

#### Outcome 9.2



Senior managers are **fit and proper** and **held responsible** for the areas and employees they are in charge of.

#### Outcome 9.3



The FI's governance framework **supports senior managers** in performing their roles.

### Material risk personnel<sup>2</sup> (MRPs)

*(Strengthen oversight)*

#### Outcome 9.4



MRPs are fit and proper and subject to:

- Effective risk **governance**
- Standards of **proper conduct**
- Appropriate **incentive structures**

### All employees

*(Promote proper conduct)*



The FI has a framework that **promotes and sustains** among all employees **the desired conduct**.

<sup>1</sup>Senior managers are individuals who are principally responsible for the day-to-day management of the FI.

<sup>2</sup>MRPs are individuals that can significantly impact the FI's safety and soundness, or cause harm to a significant segment of the FI's customers or other stakeholders.

## Conclusion

The various components contributing to the culture and conduct of an organisation do not work in isolation. They are inter-related and can help to complement and reinforce each other.

FIs are encouraged to leverage the findings set out in this paper to guide them in their own journey to develop and entrench sound culture and consistently high standards of conduct within their organisations.

MAS will continue to engage FIs, their Boards, senior management and staff on the adequacy and effectiveness of their practices on culture and conduct through its ongoing supervision.



*“...we must foster a culture of good conduct underpinned by strong standards of ethics. Regulations and controls can only go so far in shaping behaviour.*

*Be it being alert to money laundering risks or dealing fairly with customers, mere compliance with regulatory requirements or internal rules is not enough.*

*Ultimately, how professionals in the financial industry conduct themselves is shaped by the shared values, attitudes and norms in their organisations – in short, the culture.”*

**Mr Ravi Menon**

Managing Director, Monetary Authority of Singapore

Symposium on Asian Banking and Finance, 3 June 2019