A report on **the culture of British retail banking**

NEW CITY AGENDA

Cass Business School
CITY UNIVERSITY LONDON

A report on the culture of British retail banking

André Spicer, Jean Pascal Gond, Kawan Patel, Dominic Lindley, Peter Fleming, Szilvia Mosonyi, Christopher Benoit and Simon Parker.

NEW CITY AGENDA

Cass Business School
CITY UNIVERSITY LONDON

Table of Contents

About New City Agenda

New City Agenda is a not-for-profit financial services think tank and forum founded by Lord McFall, the Rt Hon David Davis MP, and Lord Sharkey.

We receive support from Which?, Prudential, HSBC, Berenberg UK, The London Stock Exchange Group and City of London Corporation.

About Cass Business School

Cass Business School is part of the City University London. It is the only leading business school based in the City of London.

Cass houses, Ethos: the Centre for Responsible Enterprise. Ethos is a world leading research centre focusing on themes of responsibility, sustainability and governance.

Preface

When we founded New City Agenda earlier this year, we did so with the aim of helping Britain's financial sector realise its enormous social and economic potential. One of the many tragedies of the financial crisis was seeing so much hard work, talent, and ingenuity directed towards such selfish and often immoral ends.

In more ways than one, Britain was being short-changed.

It seemed obvious to us, then, that the treatment of customers by banks, and banking standards, should be the initial focus of our work.

And that is why this report, produced in collaboration with CASS Business School, explores an issue at the very heart of the financial crisis and the litany of scandals which have subsequently come to light: culture.

Every major policy document and analysis of the financial crisis and mis-selling scandals highlights the importance of culture. The fact that these scandals have cost retail banks and building societies over £38.5 billion in fines and redress for customers over the last fifteen years illustrates the need for change.

There has, however, been no systematic analysis of the culture of British retail banking, and the progress that has been made since 2008.

With this report, we hope to have filled that gap.

Our findings are clear:

Grasping the Nettle: Firstly, and perhaps most importantly, it is obvious to us that in the last few years banks have finally started to reform their cultures and practices. Every major bank we talked to not only acknowledged the toxicity of previous working cultures, but had programmes in place to ensure their business treated customers fairly. Encouragingly, we also found among challenger banks a real willingness to avoid the kind of mistakes made by their more established competitors; a desire which was often reflected in their policies, controls, and structures

A Generation to Change: Secondly, it is equally clear that this journey towards a healthier culture is nowhere near complete. A toxic culture decades in the making will take a generation to clean up. Some frontline staff told us they still feel under significant pressure to sell. Complaints continue to rise and trust remains extremely low. Most of the people we talked to believed that real change, and as a consequence the better treatment of customers, will take some time to achieve.

You can't regulate your way to a better culture: Culture change is the responsibility of banks: senior leadership must be accountable for embedding good behaviours throughout their organisations. They must also ensure that such change remains a priority. The Banking Standards Review Council represents a unique opportunity to help drive standards across the entire industry. We believe it should survey front line staff, and report its overall findings to the Treasury Select Committee on a annual basis.

We hope that by 2019, the date by which Britain's largest banks must ring-fence their retail and wholesale operations, most of the drivers of poor culture have been addressed. If that is to happen, and public trust regained, a great deal of work remains to be done by those attempting to bring about such a transformation.

Their task may be difficult, but their success is essential.

The Rt Hon the Lord McFall of Alcluith
The Rt Hon David Davis MP
The Lord Sharkey

Executive Summary

Background and purpose

A near death experience. Retail banking is a vital part of the UK economy.[1] Following the financial crisis which began in 2007, the sector was thrown into crisis. Some banks failed. Others came close to failing. Despite this near death experience, banks continued to engage in sharp practices up until about 2012. The resulting fines, increased compliance costs and loss of reputation has cost customers, banks and their shareholders billions of pounds. The banks have paid out £38.5 billion in fines and customer redress relating to their retail operations since 2000.[2] Banks have also received 20.8 million complaints between 2008 and the first half of 2014, and 25 million between 2006 and the first half of 2014. Complaints to the Financial Ombudsman Service about banks shot up from 75,000 in 2008/09 to over 400,000 in 2013/14.

[1] In this report we are using the term 'banks' and 'banking' to refer to licensed banks as well as building societies. We recognise there are important differences between the two models. We think this point is reflected in the findings of our report.

[2] The figure cited relating to fines and redress is based on identifiable provisions from bank and building society annual reports, press statements and information published by regulators. These figures cover retail banking scandals and exclude penalties in investment banks for misconduct such as LIBOR manipulation.

Culture as cause and solution. These costly failures have led policy makers, regulators and banks to ask what went wrong. Inquiries have unearthed many causes. One of the most important causes was a widespread and aggressive sales culture. In recent years, major banks have committed to change this culture.

What progress? What remains unclear is how banks are changing their cultures, the barriers they face, and whether this change process is effective. These are the questions we explore in this report.

Methods

Written evidence. We collected and analysed all the major policy documents related to the crisis in the UK banking sector following the financial crisis. We examined a wide range of ranking exercises produced by independent bodies which look at the financial and non-financial performance of banks. We also examined background documents, annual reports and other material provided by banks and regulators.

Interviews. We spoke with 26 senior representatives from 11 retail banks. This included three of the four major UK banks (RBS, Barclays and HSBC), three medium sized financial institutions (Nationwide, TSB and Santander), and five well-known challenger banks (First Direct, Handelsbanken, Shawbrook, Metrobank and Virgin Money). Our sample covers the majority of the UK retail banking market. We also spoke with 12 front line employees from the four major banking groups. Finally we spoke with 19 stakeholders from 16 different organisations. This group included policy makers, regulators, investors, consumer advocates and employee representatives. In total, we interviewed 57 people.

Findings

An aggressive sales culture was a major driver of bank failure. There is significant evidence of a wide spread 'sales culture' which rewarded staff for aggressively promoting financial products, irrespective of risk and customer needs. This led banks to make risky loans and engage in bad practices, resulting in toxic loan books and mounting fines. This has undermined the balance sheets of the banks as well as the public's confidence in them as trusted institutions.

Policy interventions address structural issues, but leave culture change to the banks. Public inquiries into the banks have identified a wide range of changes needed in the sector. Many of the 'harder' structural changes such as ring-fencing and measures to hold senior leaders to account have been taken forward into legislation. However, the 'softer' cultural changes have been largely left up to the banks themselves to execute.

All banks have some kind of culture change process underway. In response to regulatory and policy-maker pressure, banks have sought to improve their cultures. The largest banks are seeking to set the tone from the top and then cascade cultural change down their organization. Some small and medium sized institutions think they broadly had the right culture to begin with, and are now seeking to reinforce it. A number of challenger banks are seeking to change the industry culture by importing models from other industries (such as retail and leisure) and other countries.

Cultural change in major banks remains fragile. Cultural change initiatives, particularly in the large institutions, remain relatively fragile. Senior leaders are committed to these initiatives, and progress has been made. However, there is widespread concern that the message could get lost in the middle of these large institutions and ultimately fail to make a difference on the front line. Some customer-facing employees told us they still feel under significant pressure to sell.

Culture is better in challenger banks. We found small and medium sized institutions had better cultures. Instead of struggling with 'turning around the supertanker', their senior management were mainly focused on reinforcing more customer focused cultures. These smaller banks seemed to have significantly different cultures from the largest institutions. Big banks have made progress, but in terms of culture change the smaller players are still out in front.

Many expect bad practices to continue. While the largest institutions focus on improving their cultures, some of the customer outcomes continue to decline. Many customer complaints are still not dealt with fairly, customer satisfaction remains low and public trust in banks continues to languish. Based on our discussions with stakeholders, it would not be a surprise if more instances of bad practices come to light. It seems that often banks have been aware of problems for several years before they have tackled them. The reason given for not changing bad practices in the past was that everyone else was also engaged in these practices. There has been progress in improving the financial stability of these institutions and removing short term incentives for sales. However, much remains to be done.

Improving culture will take a generation. Our over-arching conclusion is that it will take a generation to create a new culture in UK retail banks. An aggressive sales mindset has been rewarded and reinforced across the industry for over a decade. Making significant progress will take five years. This is going to be tough. Banks already have many demands on their plate such as increasing tier one capital, implementing ring-fencing, instituting the senior persons' regime, upgrading systems and restructuring. The good news is that banks have made a positive start. The 'tone from the top' is there. But this alone is not enough. There needs to be a sustained focus on driving change down through all levels of the organization. This can only be achieved through banks asking how their culture is lived on the front line. It is vital that culture change enables employees to feel like they can actually serve their customers' needs in a better and fairer way. To sustain this change, collective action is required across the industry. This needs continued efforts not just from the banks, but from other stakeholders like regulators, policy makers, customer and employee representatives and investors. The bottom line is that banks should have made significant progress with their cultural change initiatives by 2019.

Recommendations

Banks need to commit themselves to continuous and consistent delivery of their culture change programmes. Delivering meaningful change is likely to take five years. Completely transforming the culture is likely to take a generation. Tone from the top is necessary, but not sufficient. Banks need to make sure the message does not get lost in the middle. It is vital cultural change is driven down to the front line. Banks also need to ensure culture change improves the conditions of employees and allows them to deliver better outcomes for customers. Part of this is putting systems in place to surface and rapidly address small problems before they become big ones. Banks should use a range of metrics that give them a rich sense of their own culture. Too often senior management are completely disconnected from the culture of the rest of the organisation. Banks also need to give the newly established Banking Standards Review Council (BSRC) their unconditional support, ensure it is properly resourced, truly independent, and has the required level of co-operation. Finally, banks need to remain, or in some cases become, focused on their broad social purpose.

Regulators need to recognise that improving competition is important, but will not alone deliver improvements in culture. There also needs to be close attention to tracking culture within firms. One way to do this is observing what culture is like at the customer service coal face. Regulators should be wary of ongoing restructuring efforts which may impress investors, but result in heightened risks within the firm. It is important there is a healthy relationship between the BSRC and regulators. Finally, regulators should play a role in encouraging industry level culture change. Their role is to ensure banks do not get distracted from delivering the changes and values they have publicly signed up to.

Policy Makers should provide the banking sector with the time needed to change their cultures. This does not mean taking a completely hands-off approach. Rather, it means maintaining pressure on the banks to move their culture in the right direction. One way to do this is by keeping the agenda as set out by the Parliamentary Commission on Banking Standards (PCBS) alive and ensuring all the recommendations are revisited. There is a risk that some issues will slip off the agenda. As a result, many problems in the sector may remain unresolved.

The Banking Standards Review Council (BSRC) is a welcome initiative, but it has a difficult task. In order to maintain its public credibility and independence, it's senior positions must not be solely filled by secondees from banks, nor can there be allowed to develop a revolving door between banks, audit firms and the BSRC. The BSRC should survey front line employees on a regular basis and make the results publicly available. Frontline staff should be asked questions about how they are actually assessed and measured. This will help track whether an aggressive sales culture lives on. Finally, the BSRC should present its annual assessment of the state of the sector to the Treasury Select Committee.

Investors need to recognise that if they want to reduce the significant regulatory, reputational and redress costs the banks face then they need to provide consistent support for the culture change processes underway. Culture change projects are likely to take years to deliver meaningful results so investors will need to have some patience. By providing managers with time, banks will be able to put themselves on a more stable footing. This should allow them to deliver sustainable returns. Clearly, investors should keep up the pressure for these change processes to be delivered. However, there is a danger that if they begin to apply pressure for other outcomes, all the investment in culture change processes will be lost.

Introduction

High Street Banking: An Institution in Crisis

High street banks are a vital part of the UK economy. The vast majority of the population is a customer of a bank. We often become customers of a bank at a very early age. Many of us preserve a relationship with our bank for decades. We rely on banks for depositing money, making payments, accessing loans, and many other services.

High street banks had traditionally been relatively conservative institutions. For nearly a century, they relied on a simple business model. Banks played an important part in their community. Managers of the local branch were often important local figures. Employees saw themselves as 'tellers' whose job it was to process transactions.

All this changed during the 1980s when large UK banks moved from a branch banking model to a universal banking model. They expanded their riskier activities on the wholesale side of the market. As the banks extended beyond the relatively simple business model of the past, retail divisions faced increasing pressure to return high rates of profit. To address this challenge, they developed aggressive sales cultures. They refashioned themselves as machines for aggressively marketing new financial products to customers. The result was 'tellers' within bank branches started to see themselves as 'sellers'. This profound shift did not just happen in one financial institution – it happened across most of the industry.

This aggressive sales culture contributed to increased profitability of high street banking, vastly expanded ranges of products, and significantly more access to borrowing. However this came at a cost. Banks were wilfully ignorant of the risks involved in some of this lending. They designed poor quality products and marketed them to all customers regardless of whether they were appropriate. It was only following the financial crisis beginning in 2007 that the full implications of this aggressive sales culture became evident.

The results of the aggressive pursuit of sales has been grave: The near collapse and subsequent public bail-out of systematically important banks; the widespread mis-selling of financial products like PPI; the payment of billions of pounds in compensation and fines for sharp practices; rock-bottom levels of public trust in banks. By 2012, British retail banks were truly institutions in crisis.

Transforming Banking and Transforming Culture

The crisis in retail banking has promoted the entire industry to ask profound questions about itself. There have been a stream of inquiries beginning with the Future of Banking Commission and culminating in the Parliamentary Commission on Banking Standards. Each inquiry has identified a wide range of problems which need to be addressed in the industry including how banks are structured, how bankers are paid, how risk is managed, how banks are regulated, and how individuals are held to account for their decisions. But at the heart of all these issues is a deep concern about the shared culture within the banking industry.

There is a consensus that if we are to avoid a re-run of the financial crisis, it is vital to profoundly change the culture of banking. At the same time, there is a recognition that changing the culture of banking is difficult. A new culture can't just be regulated into being. Rather, culture change is something banks themselves must take responsibility for and be held accountable for. Broader change in the industry culture should be a matter of collective action.

The banks have made efforts to address this great challenge. All the major banks have invested significant resources in large-scale culture change. Smaller challenger banks continue to develop what they see as unique cultures which are more customer focused. Banks have also clubbed together to establish the Banking Standards Review Council (BSRC) to support the general lifting of standards across the industry.

While there are clearly signs that the UK banking industry has started to grasp the nettle, it is not clear exactly what progress they have made. Questions remain about what measures banks have taken, how adequate these initiatives are, and what might be done to support them. This report sets out to answer these questions.

Structure of the Report

In this report we examine the progress UK high street banks have made in transforming their culture.

Chapter One looks at the history of the industry and charts a gradual shift towards a sales culture.

Chapter Two analyses the various inquiries into the financial crisis and identifies the core causes and remedies which have been identified.

Chapter Three looks at the progress which has been made by the industry on the basis of various financial and non-financial metrics.

Chapter Four examines the progress which UK banks have made in transforming their culture, and the challenges which they face as part of this process.

In **Chapter Five** we look at stakeholder reactions to these cultural changes.

In **Chapter Six**, we reflect on the progress made in reforming culture in the retail banking industry.

In **Chapter Seven**, we outline some concrete recommendations for a range of groups in the industry including the banks themselves, regulators, the banking standards review council, investors and policy makers.

We have also included two short appendices. The first appendix details the methods used to gather evidence for this study. The second appendix details what we mean by culture and provides an overview of some ways which culture can be measured.

Chapter One: Shifting Cultures of UK Banking

Currently, the UK banking industry is in a state of upheaval. However, this is not the first time there has been a profound cultural shift in the UK banking industry. Looking back at the history of banking in the UK over the last five centuries, we see there have been a number of profound shifts in the culture of banking. There have been many models of banking (see Table 1.1). The past provides a rich store house of alternative models of banking culture which today's institutions might learn from. Understanding the past allows us to see where the problems which we face today have some from.

Table 1.1: Shifting cultures in British banking

Model	Era	Core Business	Ownership and Control	Culture	Geographic Scope
Goldsmith Banking	17th Century	Currency Exchange Promissory notes and chequeing Deposits	Owned and controlled by individual master banker	Guild	City
Private Banking	18th-19th Century	Deposits Loans	Partnership	Character	City
Joint Stock Banking	19th Century	Deposits Loans	Joint Stock Partnership	Civic Capitalism	City/Local Communities
Building Societies	19th Century – Today	Deposits Payment Services Lending	Customer Ownerships	Democratic	Local Communities, then National
Clearing Banks	1918 – 1980's	Deposits Payment Services Loans	Listed Company	Paternalistic Welfare	National
Banking	1980's – Today	Trading	Company	Sales	Global

Goldsmith bankers

Early modern banking began with the repeal of Usury Laws in 1546. At this time, banking services were largely provided by Goldsmiths. As a side-line to their core business, Goldsmiths exchanged foreign currency. Following the debasement of currency during the English Civil War, Goldsmiths gradually separated their banking business from their main goldsmithing business. Goldsmith Bankers emerged as one of the first forms of banking. They were dominated by a Guild Culture which was shaped by membership of the Goldsmiths Company, the apprenticeship system, participation in common practices like clearing, intimate geographic co-location around Lombard Street in London, strong interpersonal networks and the overwhelming importance reputation.

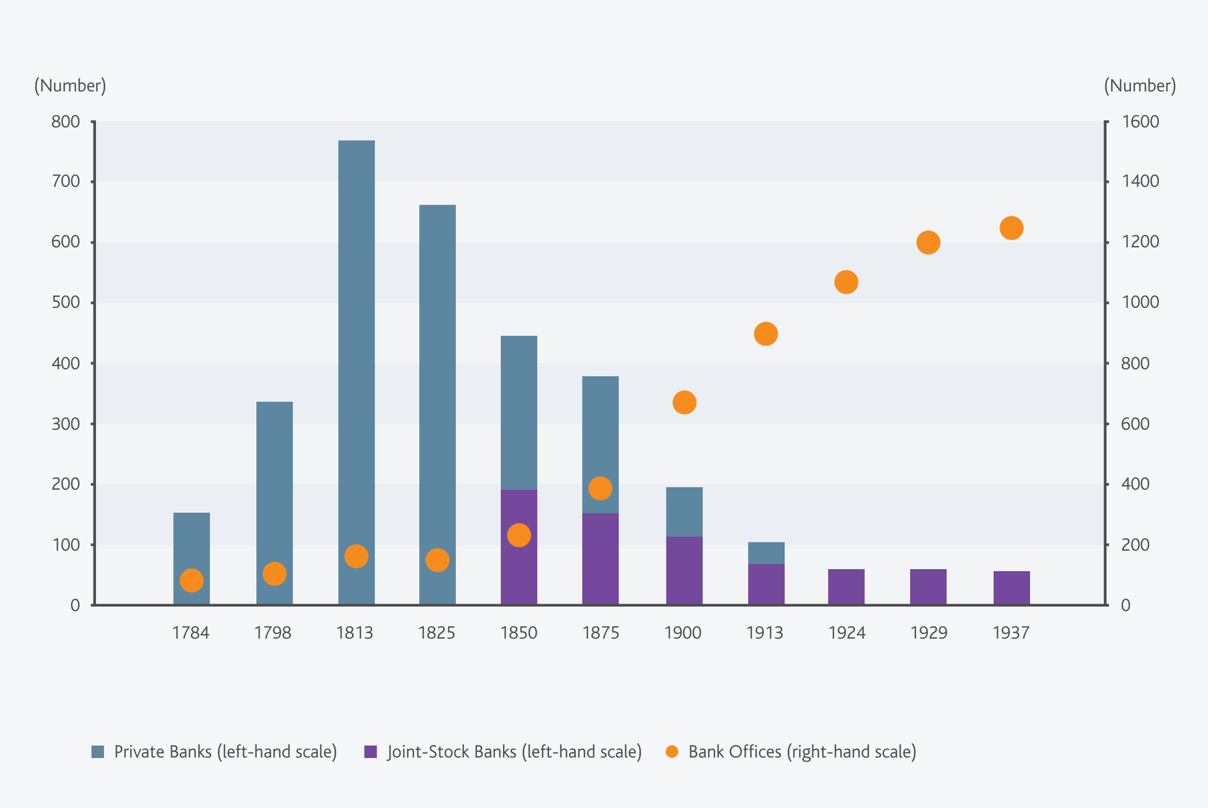
Private banking

An important shift happened with the foundation of the Bank of England in 1694. It became the government's bank and the bankers' bank. The renewal of the Bank of England's charter in 1706 effectively prohibited other banks becoming joint-stock companies. This led to the development of the private banking model. These were partnerships, made up of up to six partners. The vast majority had only one branch. Some banks founded during this period still exist today such as Coutts and Co and Hoare's Bank. The informal regulation of the Goldsmith-banking era was replaced by more formalised regulations. Judgements of character and integrity continued to be important in maintaining reputation. Partners were personally liable and intimately tied to the bank. The partners were the bank. Family relationships were vital in the ownership and control of the banks. Because, there was only one branch, there was ongoing personal contact between owners and employees of the bank.

Joint stock banking

With the onset of industrialisation, demand for capital expanded. The limitations of the partnership banking model became apparent. In 1826, a change in regulation allowed banks to become joint-stock companies outside a 65 mile radius of London. Joint-stock banks rapidly grew in number, size and influence. In 1854, these new banks were admitted to the Clearing House, giving them additional power. In 1883, the joint-stock model became possible in London. The result was the rapid ascendency of the joint stock model of banking over the private banks (See Figure 1.1). Joint-stock banks were rooted in a particular region or city. They had close ties to the industrial and business community within that community. However, because there was a separation between the ownership and the management of the bank, an individual or a group of individuals was no longer an embodiment of the bank. Character and integrity became less important. The size of the banks grew, and branch networks began to develop. The result was that relationships in the bank became more impersonal. However, as most joint-stock banks remained relatively small, the managers continued to have intimate knowledge of customers as well as employees.

Figure 1.1: Banks in England, 1784-1937



Sources: Collins (1988), Pressnell (1956) and Bank Calculations
Adapted from 'Evolution of the UK Banking System', Quarterly Bulletin, Q4, Bank of England, 2010

Building Societies

Alongside Private and Joint-Stock banking, a third model of banking appeared – the Building Society. Building societies were originally small self-help groups which sought to deal with the needs for housing a growing urban population. They emerged out of the Friendly Societies. The first building societies were founded in the Midlands in the 1770s, and rapidly spread through industrialising parts of England. By 1900, there were 2286 building societies in the UK. A crucial feature of building societies was they were non-commercial and were primarily driven by the housing needs of their members. They were also democratic insofar as customers were effectively owners of the society. Originally, building societies were rooted within particular localities. However, national branch networks developed from the 1930s onwards.

The big five

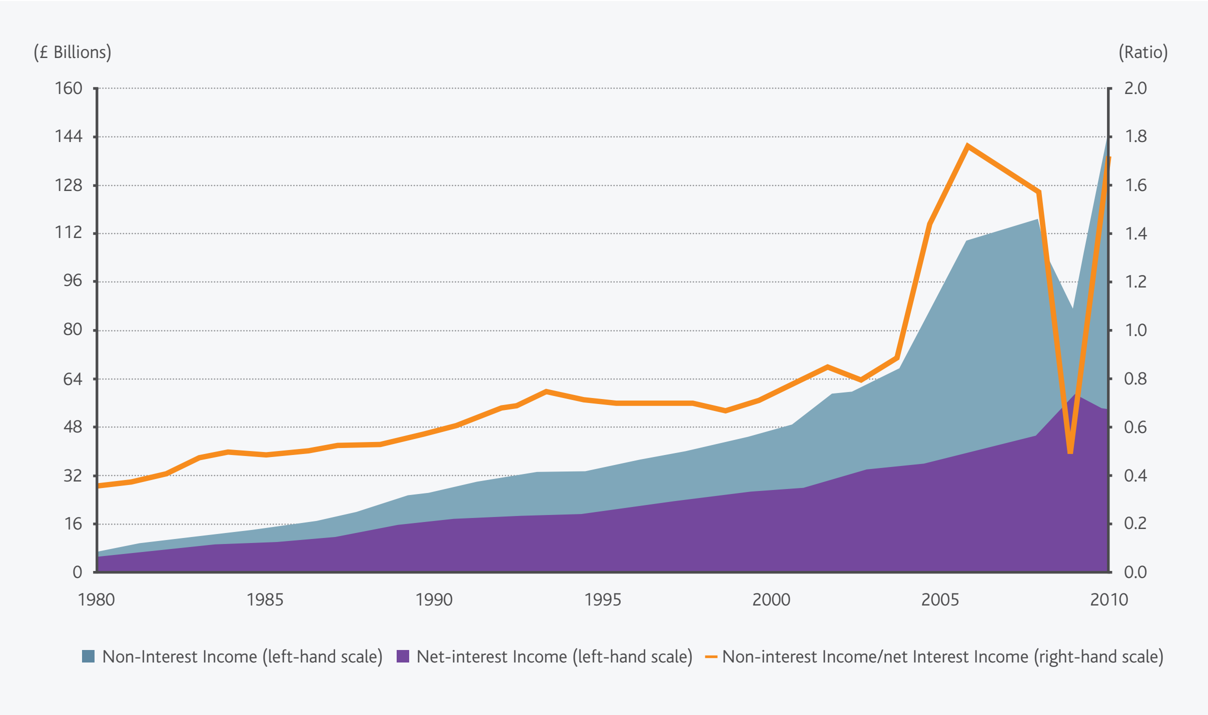
Following the explosion of joint-stock banking in the 19th century, there was a wave of acquisitions within the industry. This was mainly driven by the desire to achieve economies of scale and have access to larger pools of capital. By 1918, five major banks had captured the great majority of deposits. These national clearing banks established national branch networks, had low levels of leverage, and made the vast majority of their money through interest on lending. This meant they had a relatively simple business model which was dependent on longer term relationships with borrowers and lenders. This was reflected in a paternalistic welfare culture which offered life-time employment, and highly structured career progression. Despite their cosy and clubby nature, banks placed significant emphasis on professional standards.

The big bang

The dominance of the Big Five led to repeated concerns about collusion in price setting, lack of competition and the failure to support the development of British industry. This began to slowly change with a number of important shifts in the 1970s and 1980s. These included the Competition and Credit control being introduced by the Bank of England in 1971. This change allowed banks to participate in the wholesale market. It also relaxed their liquidity requirements. The 1979 Banking Act effectively increased competition from foreign banks and non-bank institutions within the UK. During the 1980s, increasing financial liberalisation, economic globalization and the dropping of restrictions on foreign participation in the UK stock market fundamentally changed the landscape of industry.

The Big 5 became universal banks which offered a wide range of product and services which extended well beyond savings, payments and loans for retail and business banking. As their income from interest remained relatively flat, they began to increasingly rely on non-lending sources of income (see: Figure 1.2). To do this they developed increasingly complex business models. They raised money on the wholesale markets rather than through deposits. This removed an important constraint on their ability to grow lending. There were also continued mergers and acquisitions as well as international expansion (see: Figure 1.3). Retail banks became tethered to investment banking businesses. Building societies were demutualised and were taken over by the large banks (see: Figure 1.4). The impact this had on the culture of retail banking was significant. The strategic goals of the banks were focused on generating short term returns to shareholders. There was an increasing distance between senior executives and the daily realities of retail banking. Many of the senior leadership of the banks came from investment banking rather than retail or commercial banking. To meet increasingly tough demands for short-term performance, a competitive 'sales culture' became wide-spread throughout most of the banks (See: Box 1). This created a wide-spread focus on bonuses and performance incentives which reached right down to the lowest levels of banks. Staff and branches had their sales performance monitored on a monthly, weekly or even daily basis. Those working on the shop-floor of banks made the journey from being 'tellers' to being 'sellers'.

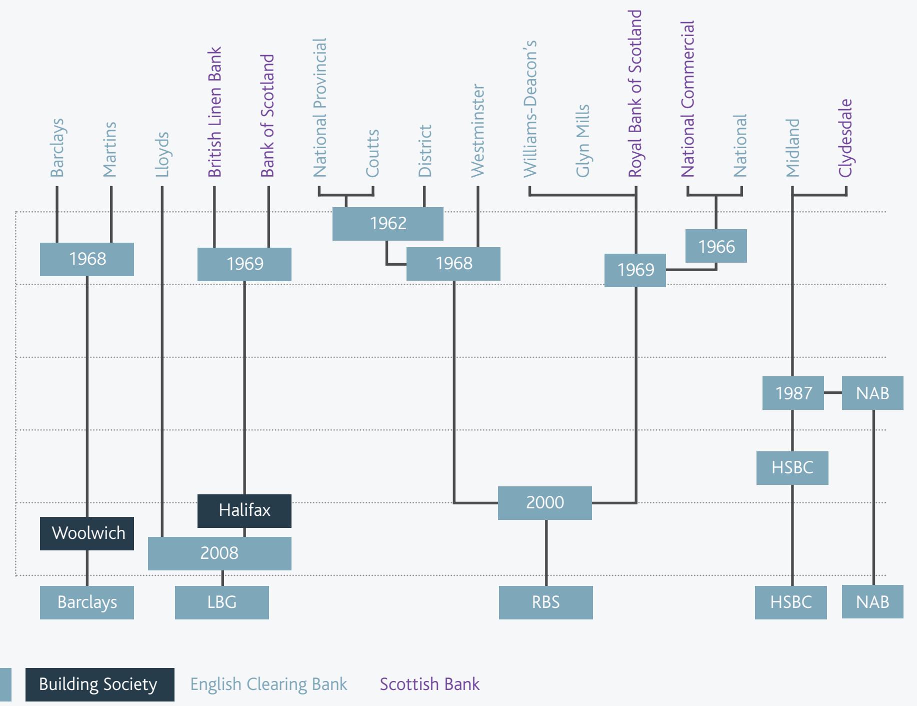
Figure 1.2: Sources of earnings in UK banks, 1980-2010



Sources: Bank of England and Published Accounts
Adapted from 'Evolution of the UK Banking System', Quarterly Bulletin, Q4, Bank of England, 2010

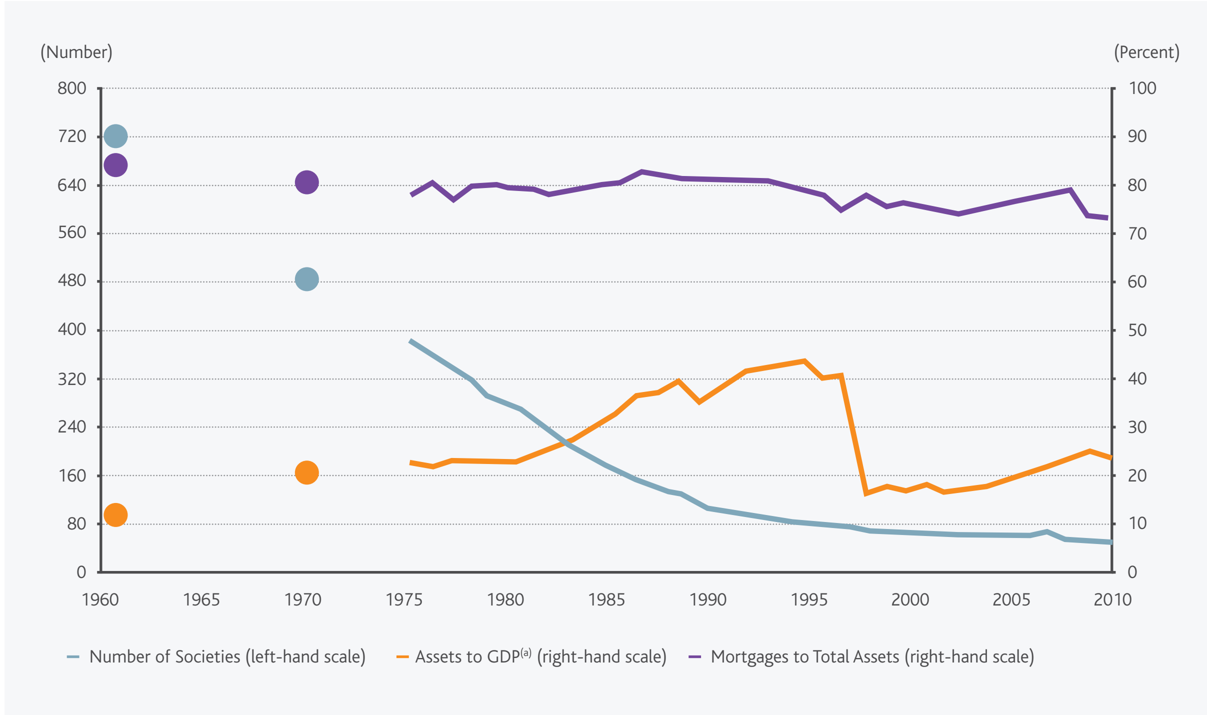
Figure 1.3: Mergers and acquisitions of UK banks, 1960-2010

Year	Balance Sheet Size[b] (£ Billions)	(% GDP)
1960	8	32
1970	20	38
1980	128	55
1990	428	75
2000	1,400	143
2010	6,240	450



Sources: Bankers Magazine, Collins (1988), published accounts and RBS Archives
Adapted from 'Evolution of the UK Banking System', Quarterly Bulletin, Q4, Bank of England, 2010

Figure 1.4: Building societies in UK, 1960-2010



Sources: Building Society Association and Bank Calculations
Adapted from 'Evolution of the UK Banking System', Quarterly Bulletin, Q4, Bank of England, 2010

Box 1.1: What is a sales culture?

A root cause of failings in UK banking sector is the adoption of a 'sales culture'. This is a a set of organizational norms and practices that encourages employees to aggressively focus on making short term sales. Often this happens at the expense of longer term customer satisfaction, providing with customers with the products they actually need, or even operating within the bounds of personal integrity or professional ethics.

Sales cultures were originally applied in some UK retail banks during the 1980s. Executives assumed that shop-floor employees were not sufficiently driven to maximise sales for many financial products which the bank offered. The aim was to encourage shop-floor employees to promote these products to customers in every interaction possible. Initially, sales cultures were adopted in marginal financial institutions. Demutualised Building Societies were often particularly keen on developing these aggressive sales cultures. Mainstream Universal Banks responded by adopting a similar approach. Some of the remaining Building Societies made some steps in a similar direction.

To create a sales culture, retail banks changed the way their branches looked. Out went typical banking counters where customers were separated from staff by bullet proof glass. In came open plan lay-outs which were supposed to encourage more natural interaction between customers and staff. Out went relatively routine transactions between customers such as taking deposits, dispensing cash and on the rare occasion consulting the bank manager about a loan. In came constant questions about whether a customer 'would like something else', and active suggestions of new banking products such as loans, credit cards or services like PPI. Increasing sales were reinforced through incentive systems which rewarded shop-floor staff for up-selling. Staff performance was typically made public through whiteboards which displayed employees who were leading sellers and who were laggards. Achievements in sales were publicly celebrated. Not achieving sales targets was punished. Most retail banks declared their commitment to building a sales oriented culture. Underlying all this was the assumption that by building a sales culture, retail banks would be able to compete in an increasingly aggressive market, maximise their profits and by doing so, increasing returns to shareholders.

Examples of aggressive sales culture abound. Here are some illustrations of what it looked like in different institutions:

You had to sell, whether it was for the customer or not. You'd like to think that if you knew the customer you could sell them the right product but some people didn't do that because they were trying to reach a target and they sold whatever they could.

- *Evidence from Employee of HSBC to the Future of Banking Commission, 2010.*

In 2007, Frits Seegers was appointed to run GRCB. He drove its international expansion, some felt with insufficient focus on risks and controls. There was a material shift from client focus to one that valued scale and financial performance. Employees felt unable to question the new growth targets – which contributed to poor financial and acquisition decisions. Employees attribute this to a 'culture of fear' (particularly, it seemed a fear of not achieving targets) as well as to weak central oversight

- *Description of Culture in Retail and Commercial Bank in Salz Review of Barclays, 2012.*

'A 'sales culture' had been created, with many employees in the bank now measured according to rigorous targets dictating how much they must sell in the way of products to customers. 'We created a monster,' (Cameron) McPhail told friends

- *Former RBS executive quoted in Iain Martin's book 'Making it Happen: Fred Goodwin, RBS and the men who blew up the British Economy'*

In one Halifax branch, there was a weekly 'Cash or Cabbages day'. Employees who exceeded their sales were publicly rewarded cash. Those who missed their bonuses were given cabbages.

- *Report by Paul Moore, former head risk manager at HBOS who interviewed 140 staff, 2004.*

Two tellers at branches of the bank in Glasgow and Paisley had the vegetables placed on their desks within full public view. In the first case, an 18-year-old male teller was said to be deeply upset by the cabbage put on his desk. In the second case, which only emerged yesterday, a 24-year-old had a cauliflower placed on her desk. She was apparently told she could only pass it on when someone opened an account.

- *Bank of Scotland, Reported in Guardian, 17 August 2005*

Meeting one, 9am to 9.35am

"All sellers and managers sit at a table with the customer information that is in each seller's diary for that day. Each seller is grilled about which products customers can be cross-sold. Either that or they are referred to another seller to sell them something. That leaves people so disheartened and demotivated it's untrue. How can you know a customer's needs without ever speaking to them?"

Meeting two, 11.30am (15-20mins)

"A check-in, in the same room with a member of counter, banking hall, sales and management staff. We all write on the board what sales have been done that day. These are transferred into "points" and the branch roughly has to do 5,000 points per day. If we are behind, everyone at that check-in is grilled on how to get more points."

Meeting three, 12.30pm (15-20mins)

"The same as meeting two. If sales aren't being met, all advisers who don't have appointments are forced to cold-call existing customers about potential products they could want."

Meeting four, 3pm (15-20mins)

"Pressure is put on staff again to find more points from customers before 5pm."

- *Diary produced by un-named Halifax employee in Observer, March 2013*

Staff can sell credit cards to 'win' Wimbledon tickets, flog loans to gain iPods and peddle bank accounts to go to the Grand Prix... There is an overall branch leaderboard - and also a personal banking adviser and cashier leaderboard. The latter is based on referrals to advisers, with cashiers encouraged to push customers carrying out simple tasks into seeing one.

- *Report on Santander in Daily Mail, November 2012*

'Personally I have witnessed mis-selling of products including long term savings accounts, life cover and home insurance policies. I need to highlight to the FSA what I feel are the main causes for this culture.' He says a large part of this 'mis-selling' comes from the pressure of league tables that are published on the intranet each week. This shows branch staff and their current performance to target with a red, amber and green system

- *Report on a Letter sent to FCA by Derbyshire Building Society (owned by Nationwide) published in The Daily Mail, May 2013*

Each of the examples are only anecdotal. However, there is significant evidence to suggest they are far from outliers. There are dozens of academic studies published over the period of twenty years which document the emergence of a sales culture in a number of UK retail banks and building societies. A 2012 survey of over 500 front line retail bank employees by Which? found evidence of widespread sales culture. The study found 65% of front line staff said there is more pressure than every to achieve their sales targets. A 2012 study by the FSA of 22 retail financial service firms of all sizes found widespread evidence of incentives designed to support a sales culture.

Martin Wheatley, the Managing Director of FSA described how 'most of the incentive schemes we looked at were likely to drive people to mis-sell to meet targets and receive a bonus, and these risks were not being properly managed'.

Conclusion

Many of the early models of banking persist in one form or another. Guilds and close personal relations continued to play a role – albeit a reduced one - in the banking community (particularly in London). Some partnerships still existed, but largely in private and investment banking and also in banks based outside the UK. Many of the private banks and early joint-stock banks such as Coutts and Co still live on as part of larger banks. The building societies remain a vital part of the banking landscape. However, much of the diversity had gone. The market continues to be dominated by universal banks. In retail banking, an aggressive sales culture became the norm. Even in many institutions which were not part of a Universal Bank (such as ex-Building Societies), an aggressive sales culture took hold. The results of this approach only became completely clear with the onset of the financial crisis, which we will explore in the following chapter.

Chapter Two: A Crisis of Culture in British Banking

Introduction

On the eve of the 2008 financial crisis, there were many problems with UK banks. However, it was only with the onset of this once in a generation crisis that these problems became evident to the public, policy makers and many senior executives. The financial crisis involved the widespread failure of financial institutions, a massive injection of public funds into the banking sector, a global economic crisis which retarded economic growth for many years, and a deep state fiscal crisis which starved many public services of much needed funds. This sparked public anger and an extended period of reflection on what went wrong in the sector. It also resulted in the introduction of some measures to ensure such a disaster did not happen again.

In this chapter we will look at what went wrong, the impact it had, and the various regulatory and non-regulatory responses. We will see that banking culture was a central driver of the financial crisis. There have been many proposals about how to deal with culture change. However, the overwhelming consensus is that culture change is something which could not be regulated into being. Professions play an important role. But most agree that culture change is something that banks should be responsible for driving themselves and held accountable for.

The financial crisis

The global financial crisis has undoubtedly altered the landscape of banking in the UK. The crisis occurred in three waves – the immediate crisis of 2007 – 2008 when the focus was on ensuring financial institutions continued to function, 2008-2012 where the widespread nature of misbehaviour within the banking sector became evident, and 2012-present when evidence emerged of continued bad behaviour following the financial crisis (in particular, the manipulation of LIBOR) and more far reaching changes within the banks began (See Table 2.1, Appendix Three).

2007-2008

In the run up to the financial crisis, UK financial institutions had enjoyed a decade of continued growth. However, much of this growth was based on shaky foundations. There were signs of distress in the Northern American market in 2006 when default rates on home loans increased. However, the first signs that something was wrong in UK retail banking came in September, 2007 with a liquidity crisis at Northern Rock, which eventually led the nationalisation of the institution in February 2008. Following prolonged warnings from consumer groups and extensive regulatory inquiries, evidence of widespread mis-selling of Payment Protection Insurance (PPI) also began to appear about the same time.

It became clear that problems were not limited to Northern Rock when Lehman Brothers collapsed in September, 2008. When this happened, global capital effectively seized up, and the funding positions of the universal banks was thrown into doubt. In the UK, Halifax Bank of Scotland (HBOS) was rescued by Lloyds during September, 2008. In the following month, Lloyds and Royal Bank of Scotland (RBS) were bailed out by the UK government.

2009-2012

Following the government bail-out of Lloyds/HBOS and RBS, a period of self-reflection began. This included a series of investigations and subsequent reports by the Future of Banking Commission, the FSA, the Treasury Select Committee, and the Independent Commission on Banking (ICB). These reports identified problems at the root of the collapse of apparently stable financial institutions. They also suggested some mechanisms for resolving these problems.

At the same time, a stream of penalties and fines began to appear. The investigations associated with these fines revealed widespread misbehaviour within the banks which went far beyond the mis-selling of PPI. This included poor complaints handling, mis-selling of investment products, insufficient controls for money laundering, aggressive tax avoidance and mis-selling interest-rate hedging products. At this point, there was a widespread perception that something was fundamentally wrong within the banks, but they were doing little to fundamentally change their practices.

2012 - Present

A watershed moment came with revelations that UK Banks had been involved with the manipulation of the LIBOR rate. What was perhaps most striking about these revelations was that misbehaviour happened after the bail-outs of 2008 and much of the self-reflection which followed. Many members of the public took this as evidence that despite many fine words, little had actually changed in the banking sector. This sense of dismay was only amplified by continued news of misbehaviour such as mis-selling of card and identity protection, insufficient protection against money laundering, increasing complaints about packaged accounts, and mis-selling of structured products. Evidence of new misbehaviour in the banking sector appeared on the horizon including allegations of manipulation of the foreign exchange and gold markets.

A clutch of important reports into the continuing crisis in banking appeared during this period. These included the Salz review of Barclays and the reports resulting from the Parliamentary Commission on Banking Standards (PCBS). The latter led to a series of new laws to regulate UK banks. In addition, most of the UK banks launched large-scale change programmes. Many of our respondents noted that LIBOR was an important moment for the banking industry. It forced many in the industry to face up to the fact there could not be a rapid return to business as usual. Industry insiders started to accept fundamental change was needed.

The roots of the crisis

The various reports on banking which appeared following the financial crisis have delivered a remarkably consistent message: the failure of banks is due to a number of complex interlocking underlying issues. Simply rooting out objectionable practices such as mis-selling products, the manipulation of industry bench-marks or lax risk management practices is not enough. Banks need to address the root causes of these problems. This will take time and require fundamental transformation in these institutions. Each report identified relatively similar root causes including macro-economic issues, the structure of the marketplace, psychological factors, the structure of banks, failures of governance, poorly designed incentive structures, a lack of punishment and failures of over-sight and regulation (see Table 2.2, Appendix Three).

Progress

Some underlying issues have been addressed through legislative or regulatory intervention. Moral hazard has been reduced through the introduction of alternative mechanisms for dealing with failing banks such

as bail-ins. Competition in the retail industry has been encouraged through the new account switching mechanism which allows customers to easily shift between banks. Responsibility for failure has been enhanced through the senior persons' regime. Problems raised by the integration of investment and retail banking are being dealt with through the forthcoming introduction of ring-fencing. The focus on compliance rather than proper conduct is being dealt with through the FCA's focus on monitoring conduct issues within banks. European and national regulation around remuneration has led to different structuring of bankers' remuneration which limits the role of bonuses, extends the vesting period for up to 7 years and allows the possibility of clawing back remuneration in the occasion of significant failures. Finally, stress testing has seen UK banks improve the ratio of tier one capital which they hold with the aim of making them more resilient in the face of losses on their loan book.

Legislation has been passed to deal with most of the issues which we listed above. However, much of the new laws have not fully come into effect yet. This means banks are currently engaged in complex processes of implementing a range of changes at once to comply with different regulatory demands. This often requires changes to systems which demand significant commitments of resources and time.

In process

There are number of issues which banking bodies have started to address in recent years. These include: Improving professional standards within the banks by establishing the Banking Standards Review Council; Reducing the complexity of products through voluntary compliance and targeted interventions by the FCA; Reforming the financial incentive schemes for frontline staff; Increasing diversity at senior levels through voluntary programmes designed to promote diversity in particular banks and the sector as a whole; Attempting to ensure customers are more informed about products through increased information provision by banks and some public education campaigns on the part of regulators and industry bodies.

Untouched issues

There are a number of issues identified by various post-mortems of the financial crisis which have not been substantially addressed either through legislative mechanisms of voluntary compliance. These include: Ensuring banks have means of learning from past crises; Dispelling the misplaced faith in complex mathematical models in place of judgement; Enhancing capital requirements for operational risk and misconduct; Creating ownership structures which encourage more long-term oriented behaviour; Removing incentives for rapid growth.

'On a journey'

As a result of a process of collective reflection, many changes are underway at once within the banking sector. The result is compliance and regulation now takes up a significant part of the agenda of boards of directors as well as senior executives. It also means resources devoted to complying with regulation have significantly increased. There are a number of significant, complex and overlapping change processes underway at once within banks. Many of our respondents described these changes as the 'start of a journey'. The collective hope is that once these change processes are completed, the banking sector will look quite different to the one which generated the financial crisis beginning in 2007.

The role of culture

One factor identified by all inquiries has been cultural failures. The inquiries have pointed out that an aggressive sales culture within retail banking drove much mis-selling of products. While many other root causes of the crisis have been addressed through legislative changes, culture has not. Many people we interviewed admitted that the cultural components were one of the hardest aspects to address. They also pointed out that it is difficult or impossible to regulate for the right culture. The key reports have identified some mechanisms for changing culture within the banks. In what follows we look at common themes in these reports.

Confused about culture. The understanding of culture was very mixed in each of the reports we reviewed. Sometimes there was a stricter focus on core cultural issues such as norms, assumptions, beliefs and values. But frequently, analyses of culture bled into other areas such as governance and standards. Links with other issues such as incentive structures, performance measurement and whistle-blowing structures was also frequently mentioned. In each of these reports, there seemed to be a commonly held view that culture is important, but that it is difficult to get your hands around. The confusion about what exactly culture is and a preference to focus on more tangible aspects such as remuneration structures was also reflected in our interviews with regulators and some banks.

Cultural change is vital, slow and the responsibility of the banks. Across each of the reports, there is broad agreement that cultural change is vital for addressing the crisis in banking. There is also an agreement that the process of culture change will be particularly slow. Finally, there is broad agreement it is difficult to regulate for better culture. Changing culture is seen as being the responsibility of the banks themselves, possibly supported by industry bodies such as the Banking Standards Review Council and the professions.

Banks have misplaced optimism in their own institutions. Bankers tend to systematically show misplaced-optimism about their own institutions in comparison to peers. A survey by *The Economist* found that 71% of executives thought their firm's reputation outperforms the industry. Perhaps more worryingly, executives are overly optimistic about the ability of their bank to create cultural change. A survey by Deloitte found that banking executives estimated it would take on average 2 years to address many of the culture issues in their own bank, but say it would take their competitors over 3 years to do the same thing.

Multiple levers. When trying to identify how cultural change might be pursued, there was some uncertainty about which levers might be used. The reports we analysed identify a wide range of potential levers for change including risk management, remuneration, codes of conduct, governance, leadership, recruitment, employee engagement, whistle-blowing policies, diversity, product design, management information, interaction with customers and training. This wide range of levers means the task of culture change can seem diffused and over-whelming. It is also interesting to note that almost all these levers are outside the typical tool-kit used in culture change programmes such as leadership, human resource and symbolic activities. Rather, they are levers which are often owned by professional groups such as accountants, risk managers and corporate governance experts. Underlying this is the assumption that in order to really change culture in a bank, only focusing on HR and symbolic interventions will not be enough. There needs to be an attempt to change more 'strategic' issues which senior executives find appealing like leadership, governance and risk management.

Uncertain metrics. While there was significant agreement about the need for change, there was less understanding of how it might be measured. Some reports pointed out that there are no rigorous measurement systems that can be used to track culture. Others have measured 'input factors' such as gender diversity, or 'output factors' such as customer satisfaction, customer complaints and regulatory compliance. Still others have identified metrics for capturing culture through employee and stakeholder surveys and investigation of critical incidents such as whistle-blowing incidents. The Banking Standards Review Council identifies a set of areas in which metrics may be developed.

Distributed ownership. The responsibility for carrying out cultural change is largely placed on the shoulders of the board and senior executives. Many of the reports we reviewed place great store by 'tone from the top' and highlight the role of senior executives such as the CEO as 'champions of change'. The board is typically seen a 'guardian of culture'. Earlier analyses such as the report by the Future of Banking Commission note that 'tone from the top' should be supported and tested by outside parties such as ratings agencies and auditors. These external actors should ensure transparency and accountability. In addition to 'tone from the top', more recent reports highlight the importance of middle management in embodying cultural change. They point out that cultural change is often driven off track by the vested interests of staff in the middle of the organization. They highlight that many banks had mission statements, codes of conduct or expressions of business principles but that these were largely meaningless as they were not monitored and made little practical difference to how staff had their performance measured. Finally, there is emphasis that culture must be reinforced and displayed in the day-to-day behaviours on the branch floor. This reminds us that the embodiment of an organisational culture for most staff is their first line supervisor.

Regulators as supporters of cultural change. Regulators are seen as supporters rather than drivers of cultural change. In most reports, there is an agreement that regulation alone is not an answer. The regulator should set the limits and ensure these are maintained. The main mechanism for driving cultural change are the banks themselves as well as professional bodies and new institutions such as the Banking Standards Review Council.

The thorny question of reporting. There appears to be less agreement on the extent to which cultural issues might be reported by banks. Early analyses such as the Future of Banking Commission suggest some issues which banks might report on including auditors articulating all significant risk factors – which may include culture issues. Later reports such as the Salz Report have suggested banks report on progress against particular metrics they themselves have established. Finally, the Lambert report recommends self-assessment data (See Table 2.3). All this suggests that it remains unclear whether banks should report on cultural issues, and if they are to do this, how it might be achieved.

Table 2.3: The Lambert Report Recommendations of how to measure culture

Dimensions	Description
Tone from the Top	Board and Senior Management are starting points for setting core values and expectations of risk culture, and their behaviour must reflect the values being espoused
Accountability	Relevant employees at all levels understand the core values of the institution and its approach to risk, are capable of performing their prescribed roles, and aware that they are held accountable for their actions in relation to the institution's risk-taking behaviour.
Effective Communication and Challenge	A sound risk culture promotes an environment of open communication and challenge in which decision-making processes encourage a range of views.
Incentives	Financial and non-financial incentives support the core values and risk culture at all levels of the institution

Conclusion

In this chapter, we have outlined out how the banks have been through significant changes since the financial crisis beginning in 2007. Despite an early lack of responsiveness, UK retail banks seem to have been prompted into action by 2012. This resulted in regulators proposing a long list of regulatory and non-regulatory changes which need to take place. Progress has been made in many areas such ring-fencing, competition, remuneration and capital ratios. However, there are some areas such as culture change where the progress is much less certain. One important step is the establishment of industry body to reinforce banking standards (in the form of Banking Standards Review Council). However, all reports we reviewed highlighted that culture change is largely the responsibility of banks themselves. The question of how far they have come in achieving this goal will be picked up in the next chapter.

Chapter Three: Progress in UK Retail Banks

Introduction

Following the financial crisis, there has been a widespread call for various changes in the UK banking industry. Well established refrains include the need to increase competition, improve capital ratios, improve outcomes for customers, ensure banks are more ethical, eliminate aggressive sales incentives, improve employee satisfaction and ultimately improve public trust in the banks. In this chapter, we look at what progress retail banks have made in addressing each of these issues. In particular, we pay close attention to performance of the largest players in the market on each of these dimensions.

Table 3.1: Basic information on UK banks

Indicators	The Royal Bank of Scotland Plc	TSB Bank Plc	Lloyds Bank Plc	HSBC Bank Plc	Barclays Bank Plc	Santander UK Plc
Headquarters	Edinburgh	Edinburgh	London	London	London	London
Number of Employees Worldwide	106,100	4,721	97,869	69,824	140,300	19,643
Number of Branches in the UK (estimate)	608 (Natwest) 1392 (RBS)	600	1,300	1,200	1,560	1,157
Number of Subsidiaries	280	3	134	171	360	64
Main Subsidiary Brands	Citizens (US), Natwest, Coutts, Direct Line	N/A	TSB, Bank of Scotland, HBOS	N/A	Woolwich	Abbey National, Alliance & Leicester
Year Founded	1874	1810	1765	1865	1896	1944
Total Assets (mil GBP)	1,019,934	24,954	862,004	811,695	1,345,833	315,488
Net income (mil GBP)	-7,264	177	-366	2,540	N/A	248
Dividend paid (mil GBP)	N/A	N/A	25	2,014	1,242	425
Long-term issuer default rating (Fitch)	A	AA+	A	AA-	A	A
Leverage ratio (%) - CRD IV tier 1	3.5	4.6	4.1	4.4	3.1	N/A
Percentage of gross mortgage lending of all banks in the UK (Dec 2013)	8	N/A	21	8	10	10
Estimated small business customer share (Oct 2013) - Others 7%	21	N/A	21	22	17	12
Number of complaints (2014 Q1/Q2) - total number of new cases	6,072	N/A	30,768	12,429	26,955	7,876

Indicators	Co-operative Bank	Svenska Handelsbanken	Metro Bank Plc	Nationwide Building Society	First Direct	Virgin Money	Shawbrook Bank Ltd	Source
Headquarters	Manchester	Stockholm	London	Swindon	Leeds	Newcastle	Brentwood	Bankscope
Number of Employees Worldwide	7,526	11,503	1,031	17,268	N/A	2,637	400	Bankscope
Number of Branches in the UK (estimate)	294	161	26	750	N/A	74	N/A	Annual Reports / Google
Number of Subsidiaries	N/A	792	1	42	N/A	7	10	Bankscope
Main Subsidiary Brands	Smile	N/A	N/A	N/A	N/A	N/A	N/A	Bankscope
Year Founded	1872	1871	2010	1848	1989	2011	2011	Bankscope / Google
Total Assets (mil GBP)	43,396	213,499	1,892	189,926	N/A	25,752	1,662	Bankscope
Net income (mil GBP)	552	1,228	-42	549	N/A	272	14	Bankscope
Dividend paid (mil GBP)	N/A	901	N/A	N/A	N/A	N/A	N/A	Bankscope
Long-term issuer default rating (Fitch)	B	AAA	N/A	A	N/A	AA+	AA+	Bankscope
Leverage ratio (%) - CRD IV tier 1	2.4	N/A	N/A	N/A	N/A	N/A	N/A	Annual Reports
Percentage of gross mortgage lending of all banks in the UK (Dec 2013)	N/A	N/A	N/A	15	N/A	N/A	N/A	Mintel
Estimated small business customer share (Oct 2013) - Others 7%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Mintel
Number of complaints (2014 Q1/Q2) - total number of new cases	1,665	0	0	4,886	N/A	65	N/A	Financial Ombudsmen

Many players. The UK banking market is made up of 157 banks incorporated in the UK, 177 foreign banks and 46 building societies. Many of these institutions are very small and account for less than 1% of the UK retail banking marker. Others banks, particularly foreign banks, largely operate in the area of wholesale markets. There are only a handful of institutions of any significant size which operate in the UK retail banking market.

High concentration. The UK retail banking market remains highly concentrated. A recent study by the Competition and Markets Authority (CMA) found that the four biggest banks (Lloyds, RBS, HSBC, and Barclays) accounted for 77% of the 65 million current accounts in the UK and 85% of the 3.5 million business accounts in the UK.[3] Other significant participants in the UK retail banking market include Santander, Nationwide, the Co-operative Bank, TSB and Virgin Money. There are also a number of so-called challenger banks which are gradually establishing market share such as Metro and Handelsbanken. There also continue to be smaller building societies with very limited shares of the market. This means although there are many companies operating in the UK market, the reality is the majority of business is done by only a handful of companies. There have been policy measures designed to address this problem. The 7 day switching mechanism is now in place. An initiative to match rejected SME loan applicants with alternative providers is afoot. However, the recent CMA consultation concluded that there are 'reasonable grounds to suspect' that various features of the UK retail and SME banking market 'prevent, restrict or distort competition'.

Table 3.2: Market share

	Branches	Current Account Market Share (%)	Small Business Market Share (%)
Lloyds Banking Group	2,253	25-27%	20-24%
RBS (Excluding Williams & Glyn)	1,900	17-18%	21-25%
Barclays	1,577	17-18%	18-21%
HSBC	1,144	12%	16-19%
Santander	1,034	10%	6%
Nationwide	700	6%	N/A
TSB	631	4.2%	4.2%
Co-Op	324	2%	1-2%

Compiled by Matt Scuffham and Steve Slater; editing by Tom Pfeiffer and Pravin Char

Strengthening balance sheets. The UK banks appear to be making progress at moving towards a more stable financial footing. Following an analysis of tier one capital ratios by the Bank of England and the Prudential Regulatory Authority, all the major UK banks now have improved their balance sheet and now exceed requirements by having 3% of end-point tier one capital, and 7% of common tier one capital. The Bank of England has recently announced that by 2019, systemically important banks will need to hold up to 4.05% tier one capital, with an additional buffer of 0.9% during upswings in the economic cycle. However, there continues to be debate about whether 7% is an appropriate level of tier one capital or even whether risk-weighted capital requirements give a realistic assessment of a bank's solvency. Some commentators argue that the amount of tier one capital needs to be much higher – some suggesting up to 25%. Along with increasingly healthy balance sheets, UK banks have reasonably healthy credit ratings which indicate they are investment grade assets. Only the Co-op Bank has a rating below the investment grade level. This indicates that following the significant uncertainties of the financial crises, UK banks are better capitalised, have higher credit ratings and are by implication increasingly safe from a prudential stand-point. Finally, UK banks appear to be increasingly safe in the face of extreme circumstances. Two annual stress tests by the European Central Bank found that the four major UK banks appear to have sufficient capital to weather adverse economic conditions.

Rising complaints. Despite improvements in the prudential base of most banks, there have not been similar clear improvements in customer complaints. There have been year-on-year increases in the number of complaints which were lodged with the Financial Ombudsman Service. In the year to the end of March 2014, there were over 2.3 million enquiries from consumers and the service took on over 500,000 new complaints. 78% of these new complaints relate to payment protection insurance (PPI). 63% of the total complaints related to four largest banking groups (Lloyds, RBS, HSBC, Barclays). Between 2009 and the present, the most new complaints were received about Lloyds, followed by Barclays, RBS, and then HSBC. Based on figures from the FCA, and its predecessor the FSA, we calculate that banks received 20.8 million complaints between 2008 and the first half of this year. Banks have received 25 million complaints since 2006. Despite a rising number of complaints to the Financial Ombudsman Service, the large banks have become increasingly efficient at resolving them. It is important to note that a rising number of complaints do not necessarily mean there has been a deterioration of service quality in banks. In many cases, new complaints relate to past misdemeanours which have been corrected (in particular PPI). In addition, rising complaints levels may reflect other factors such as increasing activity by claims management companies, increasing awareness of the ability to complain, and generalised public dissatisfaction with banks. Many of our interviewees pointed out that an increase in complaints did not equate with poorer customer service levels. While complaints may be high now, we would expect them to come down over the medium term if banks are indeed improving their practices as they claim to be.

[3] This figure includes TSB which was part of Lloyds when the study was undertaken.

Table 3.3: Customer complaints (Financial Ombudsman Service data)

	The Royal Bank of Scotland Plc	National Westminster Bank	Lloyds Bank Plc	HSBC Bank Plc	Barclays Bank Plc	Santander UK Plc	Co-operative Bank	Svenska Handels-banken	Metro Bank Plc	Nationwide Building Society
2009 H1	1,812	2,379	6,947	2,177	8,283	N/A	391	N/A	N/A	1,149
2009 H2	2,557	2,919	9,952	3,048	9,836	2,983	796	N/A	N/A	1,349
2010 H1	2,250	2,810	12,750	3,286	7,991	4,881	697	N/A	N/A	1,104
2010 H2	3,286	3,760	12,234	6,736	6,535	6,759	521	N/A	N/A	1,530
2011 H1	5,863	5,628	19,569	10,072	16,864	6,434	1,410	N/A	N/A	2,309
2011 H2	1,827	2,737	7,467	4,430	11,524	5,439	566	N/A	N/A	2,513
2012 H1	3,053	3,679	12,235	7,164	23,703	5,072	603	N/A	N/A	4,553
2012 H2	8,446	8,679	45,727	12,784	44,725	1,064	1,403	N/A	N/A	9,847
2013 H1	11,268	11,222	59,753	14,869	43,612	8,539	1,536	N/A	N/A	9,032
2013 H2	7,656	8,723	40,500	15,286	36,506	8,389	1,786	N/A	N/A	6,436
2014 H1	6,072	7,211	30,768	12,429	26,955	7,876	1,665	N/A	N/A	4,886
Totals	54,090	59,747	257,902	92,281	236,534	57,436	11,374	N/A	N/A	44,708

Table 3.4: FSA/FCA reportable complaints – banks

Number of complaints received			
2006 - H1	798,775	2010 - H2	1,275,025
2006 - H2	843,090	2011 - H1	1,255,529
2007 - H1	1,604,589	2011 - H2	1,590,467
2007 - H2	1,041,101	2012 - H1	2,596,519
2008 - H1	1,018,548	2012 - H2	2,267,634
2008 - H2	1,082,364	2013 - H1	1,863,024
2009 - H1	1,189,076	2013 - H2	1,598,018
2009 - H2	2,225,458	2014 - H1	1,555,443
2010 - H1	1,299,543	Total	25,104,203

Table 3.5: Financial Ombudsman - total complaints about banks

	Banks Proportion	Total New Cases	Banks - Total New Cases
2004/05	31%	110,963	34,399
2005/06	26%	112,923	29,360
2006/07	30%	94,392	28,318
2007/08	59%	123,089	72,623
2008/09	59%	127,471	75,208
2009/10	61%	163,012	99,437
2010/11	66%	206,121	135,009
2011/12	66%	264,375	173,166
2012/13	76%	508,881	386,750
2013/14	79%	512,167	404,612
Total	65%	2,223,394	1,438,880

Average customer satisfaction. A more accurate measure of customer outcomes might be gained from data collected by the consumer group, Which? who ask members of the general public about their experience of using their banking providers. Their annual aggregated analysis of the results of their customer satisfaction surveys placed First Direct as the highest rated bank by its customers. It was followed by Coventry Building Society and Nationwide. The majority of the top ten financial institutions as rated by their users were mutually owned institutions. The Co-Operative bank came in 10th place and Santander in 11th place. The majority of the brands owned by owned by the Big Four banks came much further down the league table. This suggests that despite claims about improving customer service levels, the largest banks in the UK continue to have only average or below average levels of customer satisfaction. Further, the majority of UK banking customers who are customers of the big four banks only receive average levels of customer service. Finally, if we are interested in understanding how a bank might create high levels of customer service, it would pay to look more deeply at banks like First Direct and Nationwide.

Table 3.6: Customer satisfaction

	Current Accounts (Customer Score)	Credit Cards (Customer Score)	Savings Accounts (Customer Score)	Mortgages (Customer Score)	Overall (Customer Score)
First Direct	82% (352)	66% (144)	67% (269)	79% (131)	74%
Nationwide Building Society	69% (452)	65% (278)	58% (388)	69% (620)	65%
The Co-Operative Bank	62% (351)	58% (186)	50% (271)	64% (50)	59%
Santander	64% (462)	63% (280)	51% (392)	54% (615)	58%
Virgin Money	N/A	64% (34)	52% (170)	54% (91)	57%
Barclays	57% (495)	53% (339)	50% (379)	62% (523)	56%
HSBC	55% (482)	54% (285)	52% (304)	62% (254)	56%
Lloyds Bank	58% (483)	53% (332)	52% (388)	61% (189)	56%
Natwest	60% (452)	54% (286)	50% (364)	57% (261)	55%
TSB	62% (350)	55% (169)	57% (272)	47% (53)	55%
Royal Bank of Scotland	53% (351)	53% (213)	47% (247)	51% (152)	51%

Footnote: Score shown is the Customer Score (Which?'s composite measure of customer satisfaction and likelihood to recommend). Sample size for each provider shown in brackets Providers shown here have a minimum sample size of 30 responses in at least two product areas, and their products are open to new customers. n/a means the bank isn't active in that product area; – means the sample size was too small. 5,002 people were asked about their current account in July and August 2014. 5,138 people were asked about their credit card in March 2014. 5,004 people were asked about their savings account in July. All surveys conducted with GP sample using panel provider GMI.

Poor ethical outcomes. A further concern raised about banks in the wake of the financial crisis was the ethics of these institutions. Today, most financial institutions claim to have developed more 'ethical' cultures. However, a recent survey by the Ethical Consumer Magazine in conjunction with Move Your Money casts some doubt on these claims. Their 'scorecard' ranks financial institutions on a range of dimensions including honesty, customer service, culture, supporting the economy and ethical lending. Smaller Building Societies and specialist ethical banks such as Triodos come at the top of the list. Challenger banks such as Metrobank and Handelsbanken also perform relatively well. The big four banks appear at the bottom of the league table. Barclays, RBS, HSBC and Lloyds are all in the bottom quartile.

Table 3.7: Ethical ratings

		Honesty				Customer Service				Culture				Supporting the economy			Scores	
	Current Accounts	Fines	Tax Havens	Lobbying	Advertising	Complaints	Mis-selling PPI	Ombudsman Referrals	Which Satisfaction Survey	Customer Power	Director's Remuneration	Bonuses	Women on the Board	Too Big to Fail	Risky Behaviour	Supports Real Economy	Ethics Score (Adjusted)	Switch Score
Metro Bank	✓	Best	Best	Middle	Best	Best	Best	Best	Best	Worst	Middle	Worst	Best	Best	Best	Worst	11	77
Handelsbanken	✓	Middle	Middle	Middle	Best	Best	Best	Best	Best	Worst	Worst	Best	Middle	Best	Best	Best	9	74
Nationwide	✓	Middle	Best	Middle	Best	Worst	Worst	Worst	Best	Best	Worst	Worst	Middle	Best	Best	Best	11	64
Virgin Money		Best	Worst	Middle	Best	Middle	Middle	Middle	Best	Worst	Middle	Worst	Middle	Best	Best	Best	8	61
Co-Operative Bank	✓	Middle	Middle	Worst	Best	Middle	Worst	Worst	Best	Middle	Worst	Best	Middle	Best	Best	Worst	8	51
Santander	✓	Worst	Worst	Worst	Best	Worst	Middle	Middle	Worst	Worst	Worst	Worst	Middle	Worst	Middle	Middle	5	25
Lloyds Bank	✓	Worst	Worst	Middle	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Best	Worst	Middle	Middle	4	21
TSB	✓	Worst	Worst	Middle	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Best	Worst	Middle	Middle	4	21
First Direct	✓	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Best	Worst	Worst	Worst	Middle	Worst	Worst	Worst	3	21
HSBC	✓	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Best	Worst	Worst	Worst	Middle	Worst	Worst	Worst	3	21
Natwest	✓	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Best	Worst	Worst	Worst	1	7
Royal Bank of Scotland	✓	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Best	Worst	Worst	Worst	1	7
Barclays	✓	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Worst	Middle	Worst	Worst	Worst	1	4

● Best ● Middle ● Worst

Source: Ethicalconsumer.org

Declining pressure on staff for sales. Despite widespread recognition that a high pressure sales culture may have been at the heart of many of the problems within retail banks, analyses suggest that little may have changed following the financial crisis. A 2011 study of sale incentives by the FSA of 22 financial institutions uncovered widespread practices of incentivising behaviour aimed at encouraging aggressively sales. 20 of the 22 institutions incentivised staff in a way which increased the risks of mis-selling. In 6 firms there were significant failings. 11 firms had not addressed the risk of mis-selling and in 4 firms the risks were significant. A companion study published in 2012 by the consumer advocacy organisation Which? mirrored these results. It found that 43% of staff surveyed in the largest five banks felt pressurised into selling by the culture, and 46% said they knew colleagues who had mis-sold products to meet targets. Lloyds appeared to perform particularly poorly, with notably higher numbers of staff answering 'yes' to questions which would indicate a high pressure sales culture. The scale of this high pressure sales culture led the FCA to issue guidance on financial sales incentives in 2013, which identified the characteristics of poor practice. These include sales incentives based on sales volume, incentive schemes which are hard to manage, complex incentive schemes, and a lack of punishment for poor quality sales. It also identified the design of incentive systems which might decrease the likelihood of mis-selling such as emphasising quality, claw-backs, capped incentives, deferral of payments, rolling sales targets and balanced score-cards. A subsequent review by the FCA in early 2014 found that all the major banks had significantly changed their practice. The investigation found that no major financial institutions have the kind of high pressure financial sales incentives schemes which were at the root of previous problems. However, there still remain questions concerning whether reforms have tackled the implicit pressure to sell which can come from the performance management of staff.

Questionable employee satisfaction. There are no standardised surveys of good employment practices or employee satisfaction levels within the UK banking industry. However, an analysis of some of the standard lists of top employers in the UK shows that banks are noticeably absent. There are no retail banks listed in the Sunday Times Top 100 companies to work for in 2014 (although there are a number of small financial services firms listed). Santander is the only retail bank which appears in the Guardian's 2014 list of top employers. It is notable that a number of larger insurance companies appear on both lists. With regards to work/life balance issues, banks seem to perform slightly better. The Top Employers for Working with Families Award shows banks featuring more prominently, with Barclays, Lloyds and RBS all receiving awards or commendations. The Sunday Times list of 'Top 50 Employers for Women' in 2014 includes Barclays, Santander, RBS, Lloyds, Nationwide and HSBC. It should be noted such rankings and awards are not complete and rigorous analyses of the entire industry. They tend to involve voluntary participation, so the sample can be skewed. They do however give a broad indication that employee satisfaction levels in retail banking may be out of line with other industries.

Low public trust. One of the most concerning statistics in the banking sector are measures of public trust in the sector. According to Edelman's 'Global Trust Barometer', banks and financial service firms remain at the bottom of the list of companies trusted by the public (see Table 3.8). At a global level, only 51% of the public trust banks. In the UK, this number is 32%. It has seen a slight improvement from 29% in 2013. Edelman found that the most important driver in increased trust in the banks appeared to be better government regulation. Voluntary aspects such as improved ethics, improved culture or the industry playing a new role were seen as slightly less important. A recent survey by PWC confirmed Edelman's findings – 32% of us trust retail banks, while only 15% of people trust investment banks. It found that the major factors driving this mistrust for retail banks were personal dealings with their bank (41%), press coverage (30%), transparency of pricing and terms and conditions (27%), and conversations with friends and family (20%). The major factors which respondents thought could redress this loss of trust was greater transparency on products and services (46%), stricter codes of conducts for employees (41%), changes to remunerations and rules (40%) and improved internal governance (37%). However, this low number indicates widespread public mistrust of banks. Taken together, this suggests the public continue to distrust banks and if the banks want to rebuild this trust, a mixture of government regulation, greater transparency about products and changes to internal processes are needed.

Table 3.8: Trust in companies in the UK

	2013	2014	2013 vs. 2014
Technology	72%	79%	+7%
Brewing	62%	71%	+9%
Food	66%	70%	+4%
Consumer	57%	69%	+12%
Entertainment	60%	69%	+9%
Automotive	65%	64%	-1%
Consumer	56%	64%	+8%
Telecommunications	55%	62%	+7%
Pharmaceuticals	56%	59%	+3%
Chemicals	47%	49%	+2%
Financial	34%	44%	+10%
Media	36%	43%	+7%
Banks	29%	32%	+3%
Energy	38%	32%	-6%

Source: Edelman Trust Barometer UK Results

Rising provisions for misconduct and mis-selling. Since 2000, retail banks and building societies have had to set aside over £38.5 billion to pay fines and compensation for mis-selling and misconduct (see Table 3.9). Over the past 15 years they have been embroiled in a number of scandals starting with endowment mortgages and spanning precipice bonds, unfair bank charges, investment and mortgage advice, structured products, ID theft and Payment Protection Insurance. They do not appear to have learned lessons from earlier scandals. Banks have also taken some years to recognise the scale of their misconduct, to deal fairly with complaints and to make appropriate provisions. For example, Lloyds Banking Group originally set aside £3.2 billion for PPI mis-selling and has subsequently more than tripled this amount to over £11.3 billion. Coming on top of misconduct in their investment banking arms, these provisions have placed significant strain on bank balance sheets. Since the financial crisis, their misconduct has cost the banks and their shareholders more than twice as much as their total losses on all UK mortgage lending. In extreme cases the scale of the scale of these provisions has affected the stability of individual banks. At the Co-operative Bank, provisions for mis-selling and misconduct accounted for 46% of its £1.5 billion capital hole.[4]

[4] Consumers International, Risky Business: The case for reform of Sales Incentives Schemes in banks, October 2014

Table 3.9: The cost of misconduct in UK retail bank operations, 2000-2104

Type of Miconduct	Provisions (£ Billion)	Years provisions were incurred
PPI Mis-selling	27	2010-2014
Interest-rate Hedging Products Mis-selling	4.1	2012-2014
Unfair Unauthorised Overdraft Charges	0.5	2006-2007
Endowment Mortgage Mis-selling	1.8	2002-2006
Investment Advice / Products Mis-selling	0.5	2003-2014
Pensions Mis-selling	0.6	2000-2002
Consumer Credit Act Breaches	0.7	2013-2014
Other (Mortgages, ID Theft insurance, Miscellaneous redress)	3.3	2000-2014
Total	38.5	2000-2014

Conclusion

There have been widespread calls for a banking sector with more competition, safer banks, better customer outcomes, more ethical decision making and greater employee satisfaction. Some significant progress has been made on the resilience of banks and reforming financial sales incentives. One aspect where banks have made some progress is in strengthening their balance sheets. This has involved improving capital ratios, credit ratings and is proving to be robust in the face of stress testing. This ensures banks are relatively safer. In addition, the large institutions have made progress in eliminating financial incentives for high pressure sales tactics. This should go some way in decreasing the pressure on staff to mis-sell products.

There is little evidence of progress in increasing competition, customer outcomes, ethicality and public trust in the banks or in acknowledging and providing adequate provisions for past misconduct. The evidence from a range of sources suggests that less progress has been made on each of these dimensions than might be hoped for. Following the financial crisis, the banking sector has become more, rather than less, concentrated. Customer complaints continue to increase. There continues to be ethical problems in the largest banks. The presence of good employment practices are uncertain. Public trust in the banks remains at low levels. Provisions for mis-selling and misconduct continue to increase and have to be revisited as they prove inadequate.

One particular striking finding is that the largest banks continue to under-perform their smaller peers on a range of metrics. What this suggests is that larger players may have much to learn from smaller institutions as they seek to rebuild themselves to be more customer centric and ethical.

Chapter Four: Cultural Change in the UK Banking Sector

Introduction

Following the financial crisis, there was widespread agreement that retail banking had a culture problem. The sales culture which had progressively strengthened in the industry since the 1980s was at the root of many high profile scandals such as the mis-selling of PPI. In order to ensure such scandals do not happen again, multiple inquires have recommended that banks move away from an aggressive sales culture and start to develop a more consumer focused culture. However, all these reports also agree that such a change in culture cannot be regulated into being. Rather, it is something which must be created by banks themselves and that they should be held accountable for the results.

In this chapter, we will ask what progress banks have made in moving beyond an aggressive sales culture. To explore this question, we examine the various culture change initiatives being pursued by retail banks in the UK. We analyse the background of these initiatives, how each institution understands culture, the particular culture they are trying to create, the programmes they have put in place to build this culture, how these cultures are being created, the way culture is being measured, any perceived barriers to cultural change, leadership issues associated with culture, understandings of the need for change, and their views on regulation – particularly as it pertains to culture. We have included a summary of these results in Table 4.1, Appendix Three. After considering each of these issues in turn, we identify three dominant models of cultural change which appear in the industry.

Historical background

LIBOR as a trigger. Many of the larger institutions noted that the LIBOR scandal and subsequent public anger and government inquires was the trigger for many of the culture change initiatives. An executive in one major bank told us that culture was initially seen as a 'fluffy' issue which only slowly began to be taken seriously. This seems to be backed by the fact that many of the large scale cultural transformation programmes in large banks were launched following the LIBOR. These cultural transformations were often associated with turn-over in top management. The exemplar of this is Barclays which launched its 'transform' program following the wide ranging Salz inquiry and the appointment of Anthony Jenkins as CEO.

Realigning with societies expectations. The big banks which we spoke with saw themselves as trying to come back in line with changed social expectations. They were seeking to address a culture which had gradually built up in their organization over a period of time. They would often emphasise how this culture was partially reflective of wider changes in society which occurred during the 1980s and 1990s. However, they see themselves as out of line with some demands from society today. What this suggests is large players see themselves as trying to be in line with the social demands of the time. Partially, this involved returning to values which were seen as important within the large banks in the past. For instance, part of the culture programme at Barclays is a short video in which viewers are taken through the 300 year history of the bank and invited to reconnect with the bank's Quaker roots.

Business as usual. While the larger banks saw a need to transform their culture, some of the smaller institutions which we spoke with saw themselves merely continuing in line with a long established culture. In these cases, these were organisations which had not been involved in large scale crises like LIBOR or had exceptionally high rates of mis-selling. Both Nationwide and Handelsbanken told us they did not have any radically new culture initiatives, but simply aimed to continue building a culture which they have been reinforcing for decades. Handelsbanken told us they simply aimed to reproduce the decentralised model which had been established by Jan Wallander, the bank's well known ex-CEO, some 40 years ago. Nationwide told us they have had the same set of values for over a decade, and only very infrequently make incremental changes to these. Culture programs in these organisations were seen as reinforcing a set of values and assumptions which have worked in the past.

Importing culture. In other cases, challenger banks did not have a history and deeply ingrained culture which needed to be transformed. They saw their challenge as creating a culture from scratch. In order to do this, they often focused on importing models of organizational culture from outside the UK banking sector. In some instances, they look towards banks in other countries. Metrobank for instance has sought to draw on many ideas developed by Commerce Bank in the New York metropolitian area of the United States. In other instances, banks have sought to import culture from other sectors in the UK economy. Our interview with senior executives at Metrobank was interrupted by a group of employees walking through the office (one dressed as a giant 'M') singing 'Metro Man' to the tune of 'Macho Man' by the Village People. The executives explained it was in aid of a charity funding raising initiative. Virgin Money has sought to import customer service models from other industries which the Virgin group operates in such as airlines and fitness. When we visited a Virgin Money lounge, we were greeted by a host who took our jackets and offered us a cup of coffee. Her career experience had largely been in the fitness and leisure sector. The aim was to deliver a great experience for the customer.

Understanding of culture

Fuzzy understanding of culture. Throughout our interviews, we were struck by the many different things 'culture' was used to refer to. Representatives of banks referred to a wide range of issues under the heading of culture. For instance discussions included issues such as organisations structures, incentive systems, remuneration, architecture, hiring policies, history of the organization, business models, training, openness to feedback and leadership style to name just a few. This indicated a number of things to use. First, banks have moved beyond just thinking about culture as a list of official values. Second, there was little in the way of common understanding about what exactly culture means – even among the most senior people charged with culture change in initiatives in the industry. Finally, culture is seen by the industry as an all-embracing issue which binds together a range of diverse aspects of an organization. Despite this lack of a common understanding of what culture is, we noticed there were three broad perspectives on culture among the people we interviewed: as an existential issue; as a set of practices; and as a tool.

Culture as existential issue. Perhaps the broadest approach to culture we noticed among some banks was to see culture as an existential issue. Culture provided an answer to the question of identity such as 'who we are' as an organization. It gives an answer to the purpose such as 'why we exist'. It also furnishes members with answers to 'what we believe in'. This approach to culture seeks to get at the underlying assumptions of the organization. We noticed that large banks which had faced large scale traumas such as involvement with the LIBOR scandal were most likely to see culture in terms of these basic existential questions. By asking these questions, senior management seem to be pushing for a fundamental rethinking of the basic identity, purpose and values of the institution. This seems to go beyond the officially articulated values and get at some of the basic unofficial assumptions about why the bank exists. For instance, some of the big four banks have focused parts of their culture change programmes around bringing to the surface and discussing the purpose of banking for the broader society. The aim of these initiatives seemed to be to encourage employees to balance commercial pressures and think beyond a narrow focus on profit and sales and think about the broader social purpose of a bank (in the generic), and their bank (in particular). In one large bank senior leaders were encouraged to confront emotive issues such as their banks involvement in money laundering. There was also a great emphasis on confronting issues of personal authenticity, mapping their 'Moral DNA' and creating alignment between their personal values and the values of the organization.

Culture as a set of practices. We also found that some banks understood culture as being a set of practices, as 'the way things are done around here'. These practices were intimately linked with each other and reinforced through a set of systems and prompts. This was the focus of banks which felt they did not need to change their culture. The focus of these institutions was on reinforcing and generating day to day practices. Existential questions about purpose tended to be taken for granted and not discussed. In these contexts, the focus was very much on the details or 'how' rather than the justifications of 'why'. For instance, at First Direct there was a great focus on tracking the detailed aspects which improve interaction with customers.

Culture as a tool. The final approach to culture which we noticed in some institutions was to see culture as a tool which could help them to achieve strategic objectives. In these contexts, culture was seen as something which was more or less manipulative. This could be achieved through various Human Resource practices such as recruitment, selection, induction, performance monitoring, promotion and reward. For instance in one challenger bank, all organizational systems from recruitment and rewards down to annual celebrations were designed to create and reinforce a highly customer oriented cultures. Some employees even wore cuff-links with the bank's logo emblazoned on them. Here it was assumed that senior management had some degree of control over culture and they could push it in one direction or another with enough careful manipulation.

Content of cultural change programmes

Formalised values. Each of the banks which we spoke to had a list of formalised values. In some cases these were relatively new values which were unveiled as part of a culture change or 'values refresh' program. For instance, Barclays launched a new set of values following the appointment of Anthony Jenkins. These values are prominently displayed throughout their headquarters in Canary Wharf. In other cases, banks emphasise sets of values which had been quite long standing. For instance, Nationwide has only made very minor changes to their official set of values during the past 15 years. There are clearly differences between the values of each bank. However, we noticed that there were a number of common strands which are shared across each of these different organisations. These include being customer centric, transparent, having integrity, benefiting the community and developing some degree of simplicity. Virgin Money was unique in that it talks about making a "fair but not excessive" profit.

Customer centric cultures. All the banks which we spoke with told us they had, or were trying to build, a customer centric culture. In some cases, this involved shifting from a sales culture towards a culture which placed a great emphasis on delivering results which would contribute towards the bottom line to a culture which involves serving customer needs first. Some banks talked about how they designed products and how there was now a greater focus on how precisely they made money from their customers. Making this shift will require varying degrees of effort. This is because some institutions thought they already had a customer focused culture. For instance, Metrobank told us their entire business model was based around what the needs of the customer were. In contrast, others noted they had previous emphasised sales over customer needs. What is notable here is that all banks tell us they are fostering the same overarching goal. However, there were clear differences in the points they are beginning from, and also exactly how they seek to fulfil this goal.

Integrity and authenticity. Many of the banks pointed out that they wanted to move away from a culture based on compliance and rule-following cultures towards one where good behaviour is governed by integrity. The central idea here appears to be that instead of relying on tick-box regulation, members will ask whether a particular product or service is right for customers through reference to a set of values. Some times this was to be based on organizational values. But in many cases, there was a greater emphasis on individual values. In some cases individuals were encouraged to make decisions by asking themselves whether the decision would be acceptable if it was public knowledge, or whether they would sell their grandmother a particular product. For instance in RBS, all employees are encouraged to perform a 'Yes Check' when making decisions (see Box 4.1). Underlying all this seemed to be broader desire to create connections between people's personal values and the values which they bring to work.

Box 4.1: RBS Yes Check

The Yes Check: Ask Yourself...
1 Does what I am doing keep our customers and the bank safe and secure? *Consider the impact of what you are doing. Rehearse a briefing with your boss.*
2 Would customers and colleagues say I am acting with integrity? *Consider: would I do this to someone in my family or a friend?* *Would I do it to myself?*
3 Am I happy with how this would be perceived on the outside? *Consider the impact of this in the outside world. Try writing the press release – does it sound good for customers?*
4. Is what I am doing meeting the standards of conduct required? *Think. If you are unsure then seek a second opinion.*
5. In 5 years' time would others see this as a good way to work? *Will this have a positive impact? Imagine writing it on your CV.*

Simplicity and transparency. Another notable value which seemed to run throughout many of the banks which we spoke to was a value of simplicity and transparency. For instance, Santander's core values are being 'Simple, Transparent and Fair'. This industry wide focus on simplicity and transparency seemed to be a reaction against what had been perceived to be the overly complex and complicated nature of the financial services sector prior to recent changes in culture. It also was a reaction to the sense among the public and regulators that banks had often been underhanded about their operating procedures, the way they sold their products and charged customers for them. This emphasis on simplicity and transparency was both embodied in espoused values. In many cases, it was also embodied in the visual images which banks use and the design of branches. For instance, one challenger bank told us they had installed a glass safe into a flagship branch to display their commitment to transparency. When groups of school children visited the branch, they would be locked into this transparent safe as part of the tour.

Questions about importance of espoused values. There was a widespread awareness among the banks that simply looking at espoused values was not as important as the harder measures which were designed to actually reinforce these values. Little time was spent during the interviews going into formal values. There was a greater emphasis on mechanisms which were involved in reinforcing these values. We spent a long time talking about performance measurement, reward systems and similar matters. Some of the banks we spoke to pointed out that their business models were actually far more important than their espoused values. For instance, Handelsbanken simply told us they wanted to create 'Handelsbankers'. The rest of the interview was focused on explaining their unique business model, a subject they were very enthusiastic about. What this suggested is that espoused values may be important, but other aspects are seen by senior executives as being more important in creating culture change.

Programmes

Cascade down. The first broad type of culture change programme which we found in banking involved a process of cascading culture change downwards. This approach was most common in the largest banks. Generally these programmes initially focused on leaders at the top of the organization. They emphasised creating common values. They would focus on creating a need for change, developing a common purpose, articulating appropriate behaviours, and working with leadership on leadership issues. They would often take the form of training courses, coaching and wider cultural change initiatives. In many of these programmes there is a significant emphasis on getting leaders in the bank to recognise there is a need to engage in a culture change process. They often focused on encouraging senior leaders to stop leaving their 'humanity' at the door. Finally, there is an aim to reinforce many of the new values within the bank. The hope is that by inculcating the need for change in senior leaders, they will be able to begin to cascade these new values down the organization.

For instance, in one major bank the top 125 leaders engaged in a 'transformation journey'. This entailed a series of day or day and a half workshops which focused on culture and leadership issues. This was also backed up with a process designed to establish 'leadership standards' where all senior leaders went through a 360 degree evaluation focused on cultural issues. This involved getting feedback from superiors, subordinates, peers as well as their own feedback with regards to their leadership behaviour. These initiatives focused at the top were then backed up by a number of workshops designed for people with leadership responsibilities throughout the bank. Included in these workshops were people with widely varying responsibilities.

Reinforcement through everyday processes. The second approach to culture we found were elaborate integrated systems which operated from the bottom-up to constantly reinforced culture. This approach involved using a mixture of HR processes such as recruitment, selection, performance measurement and remuneration to ensure a culture was encouraged in day-to-day behaviours. Instead of largely focusing on top leaders and hoping that they would cascade a new culture down the organization, this approach tended to focus on all members of the organization and seek to re-enforce what were taken to be widely shared sets of values. The form this took was often quite different. For instance in Handelsbanken, it was largely done through an informal and bottom up reinforcement of culture in everyday interaction in small, tight-knit branch teams. In contrast at First Direct, there were very detailed systems in place which were designed to constantly reinforce high-levels of customer service. What these two quite different cases share is a commitment to bottom up reinforcement.

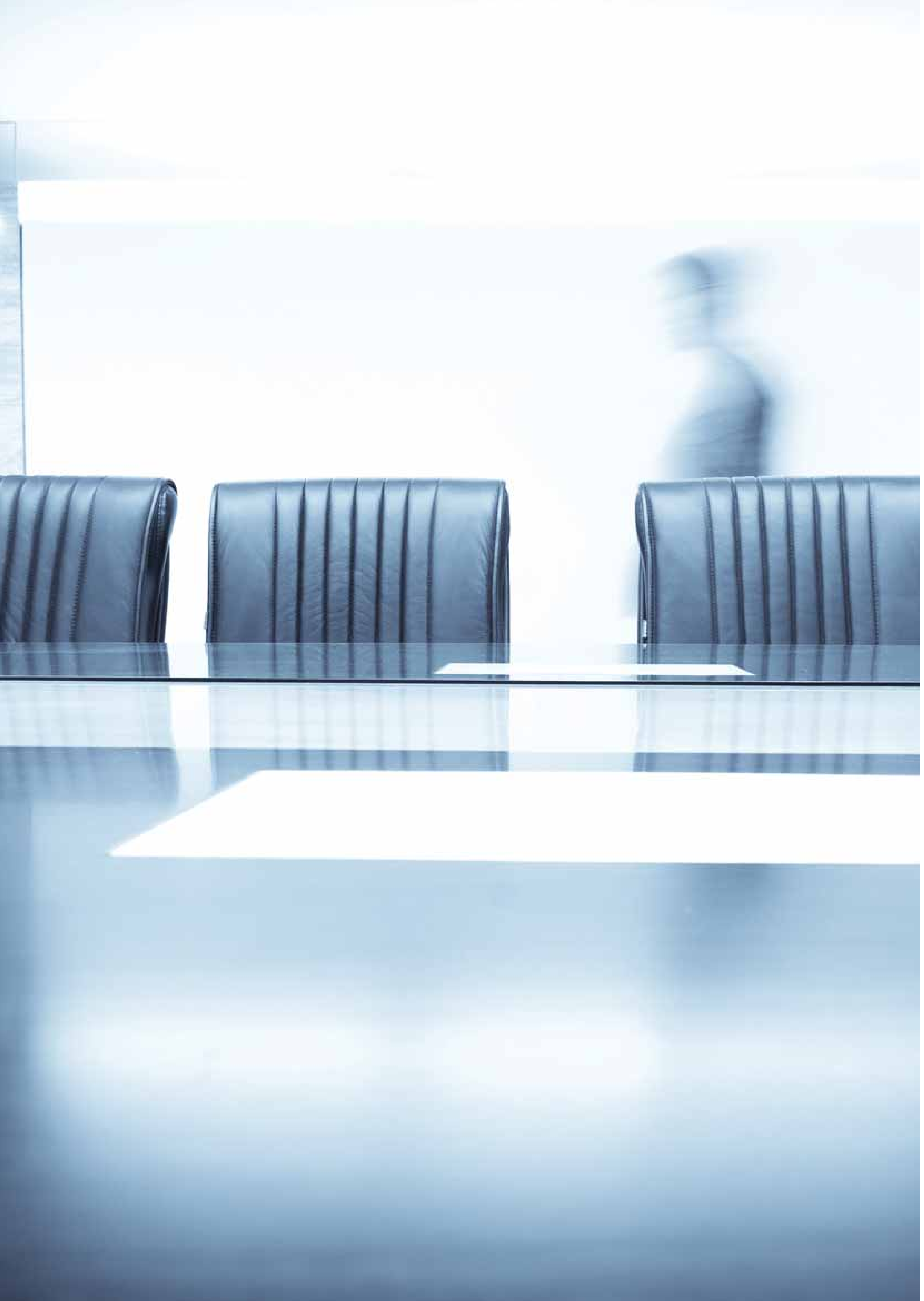
Building systems from scratch. The third approach to deploying culture which we noticed involved building systems which reinforce a culture. Often this was the case in organisations which were made up of parts of another financial organization such as TSB and Virgin Money. In each of these institutions we found they had developed a number of formal systems such as HR processes, internal communications processes and risk management processes and giving a clear message to staff that feedback was welcomed by senior managers. Virgin has implemented its own HR processes within old Northern Rock branches. TSB seems also to have made good progress in integrating various systems to reinforce a common culture. At the other end of the spectrum was a bank like Shawbrook, where many of the processes which would reinforce culture remain largely parts of the separate businesses which it is made up of.

Processes

Tone from the top. One of the most frequently referred to processes within the large institutions was the idea of establishing the right 'tone from the top'. This involved ensuring the correct values were expressed and embodied by the CEO. But it also involved other senior management seeking to 'live the values'. In one bank, senior executives were asked to consider the scripts which they had used in the interactions in the past, and then to create new scripts to guide their interactions. The hope was these senior leaders would become 'cultural enablers' who would cascade the desired values down the organization. In order to get these top leaders on board, they would often go to rely on immersive experiences designed to unsettle their attachment to the previous culture by looking at its dark side. For instance, one large bank asked its senior leaders to participate in a 'truth and reconciliation' style workshop where they forced into an uncomfortable environment and were shown various videos of recent wrong-doings of the bank. In another bank, 'Values Leaders' were asked to attend a Roman style 'Agora' where they are encouraged to discuss the core values of the bank and what they mean for them.

A pervasive experience. Many of the banks we spoke with noted how culture was rolled out and reinforced by a wide range of formal systems within the firm. Instead of focusing on large scale changes in employee's understanding of the values of their organization which they are asked to embody as leaders, they largely focused on processes of constantly reminding and reinforcing the culture in people. This involved HR systems, recruitment processes, communication processes and interaction with branch managers. In these organisations, culture was seen as being something which was not just embodied or promoted by senior managers, but is pervasive throughout the organization. For instance at Metrobank, almost all aspects of the organization from the workplace architecture to informal rituals to reward systems were designed to consistently reinforce a customer centric culture.

Piece-meal attempts. A number of the smaller banks which we spoke with were engaged in many of the similar aspects of culture change which we saw in others banks. For instance, they had performance measurement and reward systems not exclusively focused on bonuses, they had institutions risk management training, they had limited employee engagement exercises, and their senior leaders emphasised values such as being customer focused. However each of these elements did not seem to be brought together into an over-arching system. They often followed this approach because they were not under the same kind of pressure to dramatically change a large institution (as big banks were). They also did not clearly seek to compete on the basis of a unique culture. In newly established institutions, these piecemeal changes



could be understood as first steps on a journey to develop a more integrated culture. In others institutions, they might be seen as a response to regulators demands.

Measures

Pervasive metrics. All the organisations we spoke with had complex metrics. We found they had shifted their measures away from sales focused metrics and towards metrics which were largely focused on customer needs. There were also metrics which were focused on other issues such as ethics, integrity and the careful monitoring of risks. There were some differences insofar as organisations adopted metrics which were focused on culture related issues. At one extreme were banks such as Handelsbanken which relied on relatively minimal sets of metrics, but high levels of local empowerment and direct feedback. At the other extreme was a bank like First Direct which carefully measured a wide range of aspects about the customer service experience. Looking across each of these institutions which we spoke with, we found there were three areas associated with culture they measured: attitudes, behaviours and outcomes.

Attitudes. All the banks we spoke with had some kind of measures of employee attitudes. At a minimum, banks would conduct an annual survey of employee attitudes. Often there would be some components of the survey looking at understanding or alignment with aspects of the company culture. Larger organisations would also look at to what extent employees were attached to various aspects of the organization such as units, branches, divisions or the whole organization. These surveys would then be fed into decision making processes throughout the bank. In addition to formal measurement of attitudes, one challenger bank we spoke with closely monitored the online employee discussion forums. By looking at the tone of the conservation, and issues mentioned, they would give them a general sense of the mood and climate within the organization as a whole. This only seemed to be practical for smaller organisations.

Behaviours. Some of the banks measured behaviours in different ways. Within the large banks, much of these behavioural measures were focused on senior management who were involved in formal culture change processes. For instance at RBS, in some parts of the group the behaviour of senior managers was observed and feedback and development provided. In HSBC there were measurements to check behaviours were in line with the values of the organization. At Barclays, there are a set of measures for senior management around what they are doing and how they are doing it. In each of these cases, the focus appears to be on leadership and management style and checking whether senior figures are 'living' the values of the firm.

At the branch level, most banks put into place more customer centric measurements and targets such as 'customer needs assessed' or 'customer needs met'. They had also instituted some kind of balanced scorecard at most levels of the organization where employees are measured not just on hard financial outcomes, but were also measured on softer outcomes such as customer service levels or alignment with firm values. For instance, at Santander, employees are assessed equally on performance and behaviours that obtain the right outcomes for customers. The "Santander Way" sets out the behaviours of "Simple, Personal and Fair" which apply to its people, customers, communities and shareholders. . In some institutions, there were deeper investigations into employees with extremely high sales performance to see whether they were engaged in risky or untoward behaviours.

In some banks, there was a greater focus on measuring detailed interaction with customers. For instance, at First Direct there was a battery of measurements and assessments of the quality of customer interactions. The focus was very much on the process of the customer interaction rather than the outcome. Where there were outcome measurements, they were about customer focused aspects such as satisfactory resolution of customer needs. This was facilitated by the fact that all interactions were over the phone and could be easily monitored.

Finally, we noticed in some organisations, there were behavioural measures associated with creating 'the right environment'. For instance, at Barclays there was measurement of how staff contributed to creating an environment of dialogue and communication. At First Direct, employees were measured on the basis of employees' contribution to creating the right environment.

Outcomes. Each of the banks which we have spoken to had moved away from a strict focus on sales and financial outcomes. Instead, they have adopted a wider pallet of outcome measures. One set of measures focus on the quality of sales by looking at the potential risks associated with the financial products sold. Another set of measures focuses on customer outcomes such as customer satisfaction, net promoter scores, and even customer happiness. There were also customer measures which captured the negative side of the equation. This included customer complaints, speed at resolving complaints and whether customers thought their complaints had been dealt with sufficiently. A range of employee related outcomes were also captured through HR data such as misconduct disciplinary cases, long term absences, and employee engagement scores. Close attention was also paid to the outcome of whistleblowing cases in many of the organisations which we talked to. However, to our knowledge there was no information provided about the positive business benefits gained from whistle-blowers and nor were they celebrated internally. Data was also collected about rewards and remuneration. One institution we spoke to paid close attention to unusual patterns, outliers and spikes in sales patterns. These were more closely investigated.

Questions about outcome measures. There was some debate within the banks we spoke with about the usefulness of various customer metrics such as customer complaints resolved and customer satisfaction. Even high level executives pointed out that at times these metrics can be unrelated with current levels of service quality. For instance, customer complaints are often associated with a product which had been sold in the past rather than products currently being sold. One large bank told us they recognised much customer data could be 'gamed'. For instance rates of customer complaints resolved could be cut by simply focusing on easy to resolve complaints within the time-window which was deemed to be appropriate, and then 'parking' complaints which could not so easily be resolved. A focus on numbers of FCA reportable complaints was also noted to exclude complaints which were dealt with before the close of the next business day and therefore was even more vulnerable to gaming.

Challenges

The old culture is engrained. A number of banks told us that one of the largest challenges they faced was that the existing culture was highly ingrained in their people. This is because many employees had 'grown up' in an outcomes focused culture. This made it difficult for them to change their underlying beliefs and assumptions. It also triggered a sense of fear and in some cases self-protection whereby executives and employees were extremely uncertain about what the future held for them. It seemed many bank employees were concerned about whether the skills and attitudes which they had developed over a long period of time within a sales culture would be relevant in a new culture placing greater emphasis on customer focus and integrity. This also made it difficult for some employees to really understand and implement this new culture.

Wariness of change. One large bank pointed out that employees were generally wary of further change initiatives. This is because they have been through large scale shifts within their business during the past 5-7 years. This included large scale job losses, frequent changes in senior management and considerable uncertainty about individuals' positions. The upshot is that many individuals remained uncertain about further culture change initiatives.

Integration challenges. Some organisations pointed out there were problems with integrating a number of different cultures. This was the case where organisations had merged. Even a number of years after mergers, quite different cultures seemed to persist at different parts of the organization. In some cases this proved to be a problem. However, there were cases where having separate cultures seemed to be beneficial. For instance, First Direct has a distinct and separate culture from its parent company HSBC. It has also helped to instruct its parent body about what it means to build a customer service culture. Another interesting permutation are cases where employees did not feel the integration process proceeded quickly enough. For instance at Virgin, some employees who had previously worked for Northern Rock branches wanted to have more aspects of Virgin Money more quickly than senior management had planned.

Guilt shifting. Another challenge in creating culture change was that some employees were not willing to take responsibility for required changes. This often happened when they recognised things had gone wrong in the past, but they then saw the blame for these practices as sitting with other aspects of the business. This approach was particularly prevalent in large banks where members of the retail division externalise blame onto the investment bank and other aspects of the institution which had been involved in high profile scandals such as LIBOR.

Giving up before change is completed. A number of the people we spoke to told us that the change process within their organisations will take some time to complete. They pointed out that senior executive attention is focused on culture change issues now. However, they pointed out that there is a major risk that the attention of senior executive will shift. They warned this could result in the banks effectively dropping the agenda around culture change before it had been adequately worked through. The result, they feared, would be a return to past approaches to culture.

Demand for profits. Another major potential barrier to culture change were demands for returns from shareholders. Some of our respondents noted that processes of regulatory compliance and culture change programmes have been costly. Some saw shareholders being relatively impatient to draw a line under culture change initiatives and return to state of normalised returns. Some of those driving culture change initiatives within banks were concerned that this would lead to a return to activities which would increase short term shareholder returns and may conflict with the new focus on customer and integrity.

Overloading. A final concern which many of the banks mentioned was the overloading associated with change initiatives. They pointed out that there were a range of new regulatory and compliance requirements which needed to be integrated into their activities. When placed alongside the drive for culture change, they were concerned it would overload the organization. Some pointed out that the regulatory and compliance demands may actually lead to more rationalisation rather than actually creating a better culture.

Regulation

Regulation as a nudge in the right direction. Many of the institutions we spoke with acknowledged that recent regulation was nudging the industry in the right direction. They told us it was helping to change what had previously been problematic patterns of behaviours. Some of the smaller institutions pointed out that little would change within the industry without pressure from the regulators. Overall, there seemed to be agreement that the broad direction of recent regulatory changes is right. However, there was some degree of dismay about the detailed ways in which new regulation was being taken forward.

Regulation could crowd out good judgement. One of the major concerns which banks communicated with us was whether the increasing weight of regulation meant that 'good judgement' was being crowded out. In particular, they point out that many of the processes which they need to go through in order to show that risk has been adequately managed can result in staff simply going through routines rather than exercising their professional judgement. A number of respondents did however acknowledge that the processes that regulators had put in place helped to prompt good judgements in a number of contexts.

You can't regulate for culture. Many of the representatives of the banks we spoke with pointed out that regulating for culture is difficult, if not impossible. This is because culture is something which is created through intangible aspects which are very difficult to control, let along regulate. According to most banks, culture is a matter that should be driven either by sectoral leadership or leadership within the bank. Attempts by the regulators to intervene in firm level cultures were seen as being inappropriate and ineffective. In some cases, this was thought to be because regulators would not solve the issue by putting additional rules in place if firms continued to look at ways to evade them.

Unnecessary steps for customers. Some of the banks we spoke with warned that the increased regulatory burden could result in transactions and customer service interactions being unnecessarily slowed down. One institution told us that the introduction of regulatory checks resulted in the slowing down of customer service interactions. Others suggested that longer appointments were held with customers than were necessary in order to comply with regulatory process requirements. There was a concern that further regulation would result in further impediments to customer service.

Regulatory fatigue. A number of the larger institutions we spoke with noted the constant waves of new detailed regulation they have been faced with following the financial crisis. This included regulation of remuneration, ring-fencing and many other large scale initiatives. As a result, their risk and compliance departments have increased markedly in size. This comes with significant increased costs. In addition, the agenda of the board is increasingly focused on regulatory issues. There is a concern that by adding more regulatory requirements around culture, banks could become over-burdened.

Unintended consequences of metrics. Some of the banks we spoke with were concerned that when the regulator begins to measure something, it can result in unexpected consequences. Some of our respondents told us that any figures which were measured often become the focus of manipulation and gaming. For instance, past practices may simply be relabelled. In other cases, there may be a focus on simply hitting the numbers with a broader disregard for the underlying principles. One current example of this gaming which one bank mentioned was dealing with customer complaints.

Conclusion

The UK retail banking sector has been undergoing significant culture change in recent years. Following criticism of the widespread sales culture, all the major banks have launched large scale culture change programmes. The smaller challenger banks have also developed and extended cultures which focus more squarely on customer service. It therefore appears UK banks are beginning to take steps in the right direction.

While all banks had some kind of culture programme in place, we noticed there were three distinctively different approaches to culture change within the industry:

Turning around the super-tanker. The major banks frequently referred to culture change as a slow and difficult process akin to 'turning around a super tanker'. These culture change programmes were typically triggered by the LIBOR scandal and involved an attempt by the banks to realign themselves with wider social expectations. They often did this by approaching culture as a matter of existential questions about identity, beliefs and purpose. There was a significant emphasis on values such as integrity and authenticity. Initially, culture change was targeted at higher level executives with the intention to cascade the change downwards. These banks faced the greatest challenges in changing their cultures. These challenges came from ingrained existing cultures, a widespread wariness of change, demands from shareholders and the danger of giving up change processes before they are adequately completed.

Business as usual. A number of well-established players within the industry pointed out that they did not need to fundamentally change their culture. These banks sought to continue existing cultures which they thought had led to good outcomes in the past. Their focus was on reinforcing culture through daily practices. The aim was to reinforce a wide-spread and pervasive experience of a culture and ensure continuity with past values.

Challengers. A third model of culture change which we came across were new banks which were either being built from the ground up (such as Metrobank) or fundamental transformation of existing branch networks (such as Virgin Money and TSB). In these contexts, culture came to be seen as something which should be designed into many aspects of the organization. Often inspiration is borrowed from other industries such as retail or other national contexts. In some cases, the new culture was presented as being an all-encompassing package. It other cases, it was reinforced through a range of elements which still required some degree of coherence.

Although there was some difference in each of these models, we noticed there were some significant similarities in how the institutions measured culture. They all had some mixture of measures which captured attitudes, behaviours and outcomes. There appeared to be a number of industry standard measures (particular with regards to customer outcomes). However some institutions had more well developed measures in other areas – particularly with regard to behavioural outcomes.

Finally, all the banks we spoke to concurred that regulation had given their cultures a nudge in the right direction. However, they were wary of regulatory attempts to interfere into their cultures. They thought this may crowd out space for good judgement, add unnecessary steps which complicate the customer service process and potentially lead to unintended consequences.

Chapter Five: Stakeholder Perspectives on Cultural Change

Introduction

In addition to examining the cultural change processes each of the banks have underway, we also gathered the perspective of a range of stakeholders in the industry about these changes. To capture diverse views, we interviewed regulators, banking industry representatives, employee unions, consumer advocates, representatives of business, and representatives of investors. We were particularly interested in the kind of change which had taken place since 2008, what had driven this change, who were laggards and leaders in the industry, barriers and facilitators of cultural change, initiatives which each organization we spoke with already had underway and their views on regulation.

Changes since 2008

Increase in legislation. All the stakeholders we spoke with noted that there had been a significant growth in the amount of new legislation. Much of this is a direct result of problems which had been identified within the bank sector following the financial collapse. A banking industry group pointed out that the sheer amount of new regulation which banks are being required to process at present is significant. Putting into place initiatives such as ring-fencing retail from investment banking operations takes many years and significant effort to achieve. This means there are a number of initiatives currently under way, but it will take until about 2019 until they are fully implemented. While some were cautious about this increase in the amount of legislation, others (particularly consumers groups) pointed out that the previous 'light touch' regulation had led to poor outcomes. Therefore a significant increase in legislation and enforcement of that legislation was warranted.

From compliance to conduct. As well as dealing with a significant load of legislation, they also pointed out that the focus of this legislation had shifted from ensuring compliance and fostering competition to focusing on conduct issues. Perhaps the most important aspect of this was the foundation of Financial Conduct Authority (FCA). The implication is that banks now find that many of their internal processes such as the way they measure and reward performance have become the focus of heightened regulatory interest. A related change has come with recent regulation (the senior persons regime) which seeks to hold individuals to account for wrong-doings. The aim of this was to avoid what one of our interviewees described as the 'Orient Express defence' whereby everyone claims another person was responsible. It was also to address a deep public feeling that following the financial crisis, particular individuals needed to be held to account.

Culture becomes a board issue. With the growth of legislation, particularly around conduct issues, many of our interviewees told us that culture and other conduct issues has become a board-room issue. This is partially due to the fact boards need to process and ensure the implementation of a range of new legislative initiatives. But perhaps more importantly, it is because boards are being asked to develop more knowledge about what is actually happening within their businesses. To do this, they are increasingly seeking to keep track of a wide range of compliance issues such as the structure of remuneration, promotion, performance evaluation and general cultural issues. The result is that boards are no longer focusing solely on financial metrics. They are starting to use a wide range of metrics to capture the 'softer' aspects of the business. Most respondents pointed out this interest in culture and compliance issues will become heightened once the senior persons' regime is in place and board members are required to document the reasonable steps which they took in observing and mitigating risks. Many stakeholders told us that the public expected senior leaders to be held to personally account for the culture of their organization, particularly when it results in failures. There was an agreement that the Senior Persons regimes goes some way to addressing the issue. Some of the people we spoke with thought the Senior Persons regime may be too onerous, making it difficult to attract appropriate candidates to serve on boards. However, many others told us that the senior persons' regime was a way of holding individuals to account. This was an issue which was sorely lacking during the financial crisis, leading to widespread public anger that no individuals were held to account for widespread failure. There was also some concern about the ensuring that the Senior Persons regime was not progressively watered down as it was implemented within banks.

The growth of risk and compliance function. As new legislation has worked its way through the banks and boards have begun to pay more attention to legislative issues, there has been a growth of the risk and compliance function. This has resulted in risk and compliance departments moving from being staffed by relatively powerless junior staff to them becoming more powerful within the organization and staffed with more senior people. In addition, risk and compliance issues have become part of day-to-day work involved in many transactions. The result is that many interactions with customers involve some checks for risk and compliance which go beyond computer based credit scoring. This means all the banks which we spoke with spent more time taking customers through more formal processes to highlight potential risks associated with the financial products.

Introduction of balanced scorecards. There have also been changes in the way employee's performance is assessed at most levels of retail bank. As we have already seen, in the past sales were the most important measure of performance in most retail banks. In the last chapter, we pointed out that none of the banks which we spoke with now measure their staff purely on the basis of sales. Instead, balanced scorecards have become the most important measure of performance. Most of the stakeholders we spoke with pointed out that this meant the outlook of bankers are likely to be more balanced. Provided that these changes were accompanied by reforms to performance management and reduced implicit pressure on staff to sell then these reforms would reduce the focus on sales numbers.

Disconnect between top and bottom. Although there was agreement that the measures had improved, there was some concern about whether changes in banks were largely confined to the top of the organization. Some of our respondents were sceptical about the extent to which more rounded measures had actually trickled down to the branch levels. We were told about white-boards tracking staff against sales targets being formally banned from branches, but informally reintroduced. We were also told about sales targets being relabelled as 'customer needs assessment'. When we spoke with staff who actually worked in the branches of the major banks we got a mixed picture of the extent to which top down culture change initiatives were actually being taken seriously. The staff at Barclays noted that things had got significantly better following the introduction of the transform programme. In contrast, staff of two other major banks pointed out things had only got worse in recent years and they felt under greater pressure. One issue of grave concern was that continued cost cutting exercises meant that branches were routinely understaffed. The result was that customers waited for a long time, got angry and then took their frustration out on the staff. What this ultimately meant was a disconnect between the 'tone from the top' and the practices and products which customers were confronted with.

How much has really changed? About half of the stakeholders we spoke with remained very sceptical about cultural changes in major banks in recent years. Some pointed out that change would be slow within

the major institutions. They pointed out that cultural change was about more than having the bank's values displayed in its head office or on the walls of the lifts. Others noted that really culture change could take 'a generation'. Some even went as far as to suggest that as long as the major banks remained dominated by people with backgrounds in investment banking, there would be no meaningful change at all. While opinion differed, it was clear there remained a significant degree of scepticism about the prospect of change in the sector.

Drivers of cultural change

Economic cycle. The first major driver of cultural change which some commentators picked out was broader micro-economic trends. One of our respondents told us that changes were driven by a 60-70 year long debt cycle which had seen the provision of easy credit leading to over-investment in weak assets, resulting in wide spread failure and subsequent contraction of lending. As a result the banking sector has had to adopt a more cautious approach to lending – resulting in the currently more risk averse culture which we see in banks. Although the macro-economic analyses of the current situation may differ, there was a broad agreement among some of our respondents that the tightening of the economy and the more cautious economic outlook this encouraged had resulted in a change in approaches to lending not just within the banks, but also within the broader society.

Bank failure and public ownership. The second major driver of change was the failure, or near failure of some of the largest UK banks during the height of the financial crisis in 2009. They pointed out that the public bail-out of Lloyds and RBS meant that politicians as well as the broader public were in a position to put greater pressure on these banks.

Scandals. Most of our respondents pointed out large-scale public scandals like the mis-selling of PPI and LIBOR were actually a more important trigger to cultural change than the 2009 bail-outs of the banks. These scandals were seen as evidence that the banks had learnt nothing from the financial crisis. Our respondents pointed out that following the financial crisis there was ongoing and sustained pressure from the media for widespread cultural change within the banks and the industry as a whole.

New regulation. Following these scandals, a range of new regulations have been introduced within the banking sector. Pieces of legislation which were picked out for particular attention included the ring-fencing regulations and the senior persons' regime. In conjunction with a range of previous regulatory changes, the result has been a significant pressure on the major banks to change their approach. Some respondents pointed out that all these new regulations, although apparently less important on their own, add up to an important change to the industry as a whole.

Barriers

Short termism. A big barrier to culture change some stakeholders pointed out was the pressure for shareholders for relatively short term returns on investment. They pointed out that the obsession with providing a return on investment over a three year investment cycle meant that CEOs of banks had relatively short decision making horizons. The result was that some stakeholders are sceptical about the ability of CEOs to maintain focus on culture change over a sustained period of time. This becomes compounded by the fact that the tenure of many CEOs within banks has declined significantly. A senior regulator told us that in the past bank CEOs were in position for 7-10 years, now it is 3-5 years. This means if the economic results from culture change programmes are not forthcoming within a few years, the investors will put pressure on the CEO to focus on more aggressively creating shareholder value.

Imperfect market. Another barrier to meaningful culture change identified by stakeholders was the lack of proper competition within the industry. They pointed out that the retail banking industry is made up of companies offering largely similar products. Because it costs a lot to establish a new bank, there are also relatively high barriers to entry. Finally, because consumers are relatively uninformed – in some cases they possess low levels of financial capability – there are high levels of information asymmetries. Customers are also subject to behavioural biases which make decisions about long-term products which involve risk and uncertainty difficult to make. This means customers are often not in a position to select between products and identify the best deal for them. This is compounded by the fact that the products and pricing structures are often un-necessarily complex and there is an un-necessarily high degree of choice. Instead of rewarding loyalty some markets for retail banking products took advantage of the inertia of customers. The result is too few banks offer too many overly complex products to consumers who are not in a position to make a meaningful and informed choice.

Employment conditions. Many of the people we interviewed pointed out that the levels of pay in front line retail banking are relatively low. In many case they are close to the minimum wage. One staff member pointed out that many staff rely on welfare payments to 'get by'. These poor levels of pay are compounded by the fact that employment in the industry has been falling in recent years. Widespread job cuts have meant there is a pervasive feeling of insecurity within the industry. This can mean that staff might be under implicit pressure to meet sales targets even if the bank has removed the financial incentives for selling products. Some staff we spoke with reported feeling like they are doing the job of two or more people. They also report being a target of verbal abuse from customers who are angry at 'the bankers'. In addition, some employees we spoke with noted that they were not paid for all the hours they worked. They described arriving at work at least half an hour before they started to get paid, in order to attend a team meeting and then having to leave work half an hour after they had stopped being paid in order to deal with customer demands. In one case, an employee regularly turned up early to participate in a 'huddle' with her team before the day began, and then participated in a 'cuddle' meeting to review the results of the day. None of this time was paid. One employee told us that all this unofficial over-time meant she had worked about 26 unpaid days during the year. Low wages, increasing demands, insecure employment, angry customers and unpaid overtime mean that life at the customer coal face can be stressful, resulting in high levels of sick leave and employee cynicism.

Trust is slow moving. Some of our respondents underlined the fact that rebuilding trust in the industry will take a significant amount of time. One industry representative group told us that 'trust is easy to lose and hard to rebuild'. Although the banks may be doing all the right things to rebuild trust, it will take some time before this is likely to have any real impact on public trust in the industry. Some pointed out that there is a real concern with trust being further undermined by the 'long tail' of scandals which are only now coming to light (such as the manipulation of commodities and foreign exchange markets).

Facilitators

Board attention. The first major facilitator of cultural change picked out by many of our respondents was the significant attention of the board to cultural issues. Because board members are interested in monitoring and transforming the culture of the organization, they are likely to keep up pressure on the members of the organization to do this. This pressure is facilitated by the recently passed senior persons' regime, which requires senior members of the organization to show they have been keeping track of the culture of the organization.

New entrants. The second major driver of cultural change which a number of respondents pointed out was the presence of new entrants in the banking market. They pointed out the presence of challengers would hopefully drive up standards within the market. They would do this by introducing new practices from outside the market which they hoped would drive up overall standards within the industry. They hoped that through competition, ethical and customer service standards within the industry would slowly increase.

Alternative forms of finance. The final factor which might facilitate cultural change was the presence of substitutes for banking. This was mentioned in relation to the business lending market, where businesses are increasingly exploring alternative forms of finance such as bond issuance, crowd funding and venture capital. There are also clearly analogues within the consumer banking sector where individuals are exploring alternative ways of fulfilling their financial needs such as crypto-currencies and peer-to-peer lending. Some people we spoke to pointed out these new models of finance may lead to customers going outside the banking sector to address their financial needs. If there was such a shift, there was a hope that incumbents in the industry would need to improve their offer to attract customers back.

Conclusion

The stakeholders in the banking industry we spoke to had mixed understandings of the cultural change in the industry. We did not get the sense that the major retail banks had undergone a significant transformation. Our respondents did acknowledge that there was significant work underway to change cultures within these institutions. This has resulted in a significant shift in the industry where there was more legislation, a greater focus on compliance, culture had become a board-room issue, and risk and compliance departments and processes had ballooned. However, there remained scope for a significant disconnect between what was happening at the top of an organization and the practice on the front line.

There seemed to be broad agreement that culture change was largely driven by a confluence of extreme events in the environment including a shift in a long-wave economic cycle, the failure and subsequent public bail-out of some banks, large scale financial scandals and the introduction of new regulation. All these issues are still being worked through within the large banks. The result is that they very much remained at the top of the agenda for many senior executives. Some were less certain about what would happen when these immediate pressures disappear.

The caution of many of our respondents about culture change in the industry was reflected in the existence of some significant barriers to change. These included an ongoing short term focus, the existence of imperfect markets, poor employment conditions, and damaged trust. Although there are some potential facilitators of change (such as board room focus and presence of new challengers), it remains rather uncertain about whether this will be enough to overcome the significant sources of inertia that exist in the industry.

Chapter Six: An Analysis of Cultural Change in Banking

Introduction

In the previous chapters, we traced the historical drivers of the financial crisis, an important one of which was culture. There have been some significant attempts to resolve these issues through large scale culture change within major banks, the entry of new challenger banks, and the continuity of the culture within other institutions. This has been the beginning of what many stakeholders judge to be a relatively fragile process.

In this chapter, we analyse this change process as a whole and draw some conclusions. To do this, we will sketch out the following over-arching case: the retail banking industry was dominated by a macro-culture of sales. This was not specific to one organization, but seemed to be shared across the entire industry. It was a macro-culture. Following the financial crisis, there has been a slow burning crisis in this macro-culture. It is slow burning because for nearly 5 years following the on-set of the financial crisis, there was little real recognition in many of the major banks that something fundamental needed to change. However, following the LIBOR scandal, major banks began to devote significant resources to transforming their cultures. What these efforts add up to is a collective attempt to transform the macro-culture within the industry. However doing this, particularly in the context of large banks, is likely to be slow and very complex. The result is there are always significant forces of inertia which may be likely to impede change projects. To over-come these, continued pressure from regulation and also commitment for change and transformation from industry level is needed. This has resulted in some palpable changes, and indeed some improved outcomes, but much remains to be done. This leads us to conclude that ensuring meaningful cultural change in the industry will require significant and sustained attention.

A macro-culture

Following the financial crisis, many of the inquiries into the failure of particular banks and the wider banking system have identified a long list of causes. However, one persistent theme that many of the people we spoke with identified was the rise of a sales culture in retail banking. What was striking about this sales culture was that it was not just limited to one organization. Instead it was replete throughout the industry. It is therefore more accurate to call it a 'macro-culture' that cut across the entire industry. The result is that bankers in a wide range of different organisations shared a set of routines, rituals, values and sets of assumptions about the world. The only thing which mattered to them was making a sale, irrespective of customer needs and longer term risk.

This macro-culture gave bankers a shared way of looking at the problems they faced. At the same time, it enabled bankers to systematically overlook longer term risk and the genuine fulfilment of customer needs. Problems quickly accumulated, leading to many of the factors at the root of the financial crisis. However, because the wide macro-culture of sales was so ingrained into members of the industry, it remained difficult if not impossible for most industry members to really call it into question. There was also the pressure that to raise concerns about the sales culture could result in the person losing their job.

Denial and crisis

Many of the problems associated with the sales macro-culture became blindingly obvious to the broader public following the financial crisis. However, there was a stubborn unwillingness on the part of the industry to acknowledge many of these problems. One policy maker explained to us that among senior bankers, there was a hope that the problems would blow over and the banks would be able to return to business as usual. The result was that the major banks remained attached to a macro-culture of sales even as late as 2012 – five years after the first throws of the financial crisis.

It was only with the revelations about the fixing of LIBOR rates, the PPI scandal and the subsequent crisis that there was a genuine resolve on the part of policy makers and regulators to begin pressuring the banks to address their culture. Such pressure coupled with important transformations at the top of the organization meant that the key players within the industry found themselves able to start rethinking the macro-culture of sales. This ushered in a period of self-reflection within the industry as a whole which eventually led banks publicly committing themselves to abandoning the sales macro-culture and seeking to develop an alternative. However, the incumbent macro-culture of sales remains strong.

Three paths to reform

Having accepted there was a need for widespread transformation of the macro-culture of sales, we found there were three different paths which organisations in the industry took.

The first path is the one taken by the major banks. They have all sought to change the industry through internal culture change initiatives. They operate on the basis that by creating the right tone from the top, and then cascading it downwards, it will be possible to develop a culture which is more customer focused and encourages integrity.

The second path is followed by institutions which perceived themselves as already having a culture which was not completely infected by the relentless focus on sales. These organisations put great store by the need to be customer focused and build integrity. They saw their major challenge as preserving, reproducing and in some cases fine-tuning their culture.

The final path to change involved new comers who sought to establish new cultures from scratch. These institutions sought to build a novel culture from the ground up which would be highly focused on customer needs. Often what they sought to do was to bring ideas about culture in from other sectors or other countries.

Each of these three paths to change has had some impact on the industry as a whole. The presence of new-comers offers consumers choice. The fine-tuning of institutions which saw themselves as having the right culture in the first place represents an important return to earlier cultures of banking in some cases. But the most important path to change which will have the greatest impact on industry macro-culture is the transformation of the major banks. These make up the great majority of the market and have a profound impact on how banking culture develops within the sector.

Change is slow, multidimensional and complex

Transforming the macro-culture within the industry is likely to be a slow, multidimensional and complex task. Many of the people we interviewed told us that changing culture within the industry is likely to take years – if not a generation.

From our research on the banks, we found that they had made significant steps in addressing some of the facets associated with culture. All the banks which we spoke with had sought to put issues of customer service at the centre of their offerings. They had also sought to build a more customer centric culture through making changes to their measurement and remuneration systems. Each institution had an elaborated culture change process underway. This shows they have moved beyond fine words and made significant investments in trying to build a different kind of culture.

Despite the fact all the banks were investing in culture change initiatives, these are a work in progress at the major banks. There is a significant risk they may be only partially implemented and then entirely forgotten about. For these culture change initiatives to work, and become truly institutionalised, there needs to be constant support from both within the organization, but also beyond the boundaries of firm.

Slow improvement in some outcomes

The fact that many of the banks have committed themselves to engaging in a wide-ranging change in their culture has led to some improvements in outcomes of the banking sector. UK banks have become somewhat safer and more resilient. They have also made progress in eliminating questionable financial sales-incentives. Despite this progress, many indicators of banking sector performance remain stubbornly low. In some cases, results have actually got worse. For instance, many customer complaints are still not dealt with fairly and public trust in banks remains very low.

In order to make meaningful changes to these outcomes, it is necessary for the banking sector to persist with reform efforts. Changing public perceptions of banks is not something which can be achieved rapidly. Instead, it takes concerted effort on the part of the banks to genuinely build a customer focused culture.

Overcoming the danger of inertia

It is clear there remains many facets of the macro-culture of sales which could easily derail culture change initiatives. Many of the banks we spoke with pointed out the very real challenges which they faced in implementing these culture change initiatives. These included integrating different cultures, internal blame shifting, demands for profit from investors and over-loading the organization with change initiatives.

In order to overcome these issues, some pressure from regulators seemed to be vital. In addition, creating the right tone from the top of each organization is needed. But these are really necessary, but not sufficient conditions for culture change. Many of our respondents pointed out that culture change initiatives risk getting lost as they cascaded down the organization. This reminds us that attending to how change processes are actually taken up and adopted on the front lines of an organization is vital. Listening to and acting upon feedback from frontline staff will help senior management measure progress.

Fragile drivers, significant barriers

Vital drivers of change in macro-culture are present. Boards of large banks continue to pay significant attention to culture change issues. New entrants create some competitive pressure. However, these factors are fragile and could easily disappear. The agenda of boards could easily shift elsewhere. Competitive dynamics in the industry could also easily fall back into the long-run norm of the industry of being negligent. The sustained pressure for transforming the culture within the industry could disappear just as quickly as it appeared.

At the same time as their being relatively fragile drivers of culture change, there are still significant barriers to change within the broader industry. These include pervasive short termism, the existence of a highly imperfect market, poor employment conditions and slow moving shifts in trust. To address these industry-wide issues, there is clearly a need not just to change the culture within specific organisations, but a greater need to transform the culture of the entire industry.

Conclusion

In this chapter, we have looked at how the dominance of a sales macro-culture had locked the retail banking industry into a harmful trajectory. This macro-culture remained a stubborn part of the industry following the financial crisis. Only in recent years has there been a genuine will on the part of various actors to question and even potentially change this culture.

To transform this culture, pressure around the change process needs to be maintained. Industry members need to ensure the dangers of inertia are overcome, there is the patience to actually see change through and that this change involves more than just tone from the top. Ultimately this will involve transforming the cultures of the largest organisations. But perhaps more important, it will involve changing the wider macro-culture within the UK banking industry. In the next chapter, we turn to examining what exactly these changes might actually look like.

Chapter Seven: Recommendations

Introduction

In the previous chapter, we drew together the major issues facing the UK retail banking sector. We argued that many of the significant problems which appeared during the financial crisis were due to a widespread and aggressive sales culture within the industry. Reviews of the industry have identified a wide range of issues which need to change, some of which are in the process of being addressed through legislation. However, transforming culture has been seen as a matter largely for the banks themselves. We found that banks appear to have taken this challenge seriously and have launched a number of important culture change programmes. Stakeholders, while describing board level support for such initiatives as vital, also pointed out the many barriers that remain to securing meaningful progress across the sector. To achieve the desired results will take at least five years, and perhaps even a generation.

We have identified a number of broad lessons:

Encouraging continuity. One of the conclusions is that the tendency towards short termism will be the great enemy of creating meaningful culture change. For real change to occur, time and consistent focus is needed. The short term might bring quick wins, but to fundamentally change will require consistent effort and reinforcement. This will take at least five years. Other sectors like oil and gas which were previously known for poor practices have been able to fundamentally change their practices through a process of long term reinforcement. Throughout this long process, a safer culture became the new norm.

Focus on the front line. Many of our respondents cautioned us that tone from the top was necessary, but not sufficient. There was concern that 'the message' got lost in the middle, and could be entirely absent on the front line. To make culture change more than just a collection of fine words, it is vital there is a collective focus on how culture comes to be embedded at the 'coal face' of the organization. What this means is ensuring culture change actually makes front line employees' experiences of working in banks better. They need to feel that pressure to hit sales targets does not continue under another name. If this does not happen, it is likely attempts to change the culture of the industry will be derailed.

Meaningful metrics. All stakeholders told us that a range of metrics were being collected to track culture. In some organisations, these were comprehensive. In others, they were more piece-meal. But what seemed to be vital was recognising that relying on a small set of metrics (such as customer complaints or annual employee opinion surveys) would not give you an accurate picture of culture. To properly understand culture, a mixture of qualitative and quantitative measures are needed. It is also vital that metrics are used to provide insight and they do not start to drive perverse 'tick box games'.

Identifying problems early and often. One of the most striking findings was that institutions which focused on identifying problems and rewarding those who found them often performed well. One such system allowed employees to report failures, or point out 'the elephant in the room', through an online message board. By owning up to faults, banks are able to incrementally improve processes internally but also help rebuild public trust. The process of admitting to faults early and often and then seeking immediate

redress means small problems are stopped from festering and becoming large problems. Crucially, once problems had been 'called out', senior managers would take them seriously and report on the process of resolving them. Alongside these internal systems for identifying problems, it is also vital that forums are provided for whistle-blowers to identify more serious issues. These forums need to be independent. Ideally external forums such as regulators also need to provide channels for whistle-blowers. Finally, instances of whistle-blowing need to be celebrated. In many other sectors such as food, automotive and transport industries, continuous learning through recording and redressing small faults is normal. This has not always been the case. By building this culture, leaders in each of these sectors have been able to win back public confidence and trust.

Beyond competition. There seems to be a widespread assumption among regulators that increasing competition will improve customer outcomes. We think that the presence of more competition is important. The new switching regime represents genuine progress. On its own, however, it is not enough. The UK retail banking sector has been dominated by a small handful of large players for over a century, and shows little signs of changing. There is no relationship between customer satisfaction scores and market share. There is a high degree of customer inertia: on average customers stay with their bank for 26 years. In comparison, the average marriage lasts just over 11 years. This means customers tend to stay with banks despite poor service. Regulators realise this is a serious problem. The Competition and Markets Authority's (CMA) comprehensive review into personal accounts and SME banking is an indication of these concerns. If meaningful change is to be achieved, there needs to be a greater focus on supporting consumers in making the right choices, but also ensuring that the largest players have the right cultures.

Changing macro-culture. The over-arching challenge for the industry will involve changing the macro-culture. This means just focusing on transforming the culture within each individual institution is important, but not enough. There needs to be collective action to establish a new set of norms around what good banking looks like. This is a process which is facilitated not just by big players, but by a wider range of stakeholders including regulators, challenger banks, employee and consumer groups. The BSRC could play an important role here. Evidence from other industries suggests that macro-cultures only change through a process of collective action.

In what follows, we consider what each of these broad lessons means for each of the stakeholder groups including banks, regulators, policy makers, the BSRC and investors.

Banks

Continuity. To deliver an appropriate culture, banks need to ensure there is a continuity in values. By continuity we mean that they need to avoid changing official values and culture every few years. While culture programmes can change quickly, actual culture changes slowly. The best firms had a set of values which they had stuck with for decades and only refreshed sparingly. Engaging in constant culture change, a refreshing of values and ethical rebooting programmes might make nice headlines, but are likely to be counter-productive.

Consistency. An underlying culture needs to be consistently reinforced through a wide range of routines, rituals, artefacts, symbolics, and architecture in the organization. It also needs to be consistent with the business model. The best firms had a culture which was clearly reinforced through a wide range of 'touch points' throughout the whole firm. These might include how staff performance was appraised; how they were rewarded; decisions were made; messages communicated; feedback gathered; branches were designed and so on. The worst examples only focused on a few surface issues in the public eye such as values statements. Banks need to ask how all elements of employee experience might reinforce or detract from a particular culture.

Ensuring accountability. Banks have placed great emphasis on senior leadership driving cultural changes, but there were some concerns among stakeholders that senior people in banks had not been held accountable in the past. One person we interviewed told us about the prevalence of the 'murder on the Orient Express' defence in a bank. Many of the stakeholders we spoke with told us that the public demanded individuals be held accountable for failings in banks. Banks told us that the board was a 'guardian' of the culture. The new Senior Persons regime goes some way to addressing these issues. However, it is vital this regime is implemented in a meaningful way. At a minimum, Chairs and CEOs need to be demonstrably accountable for culture.

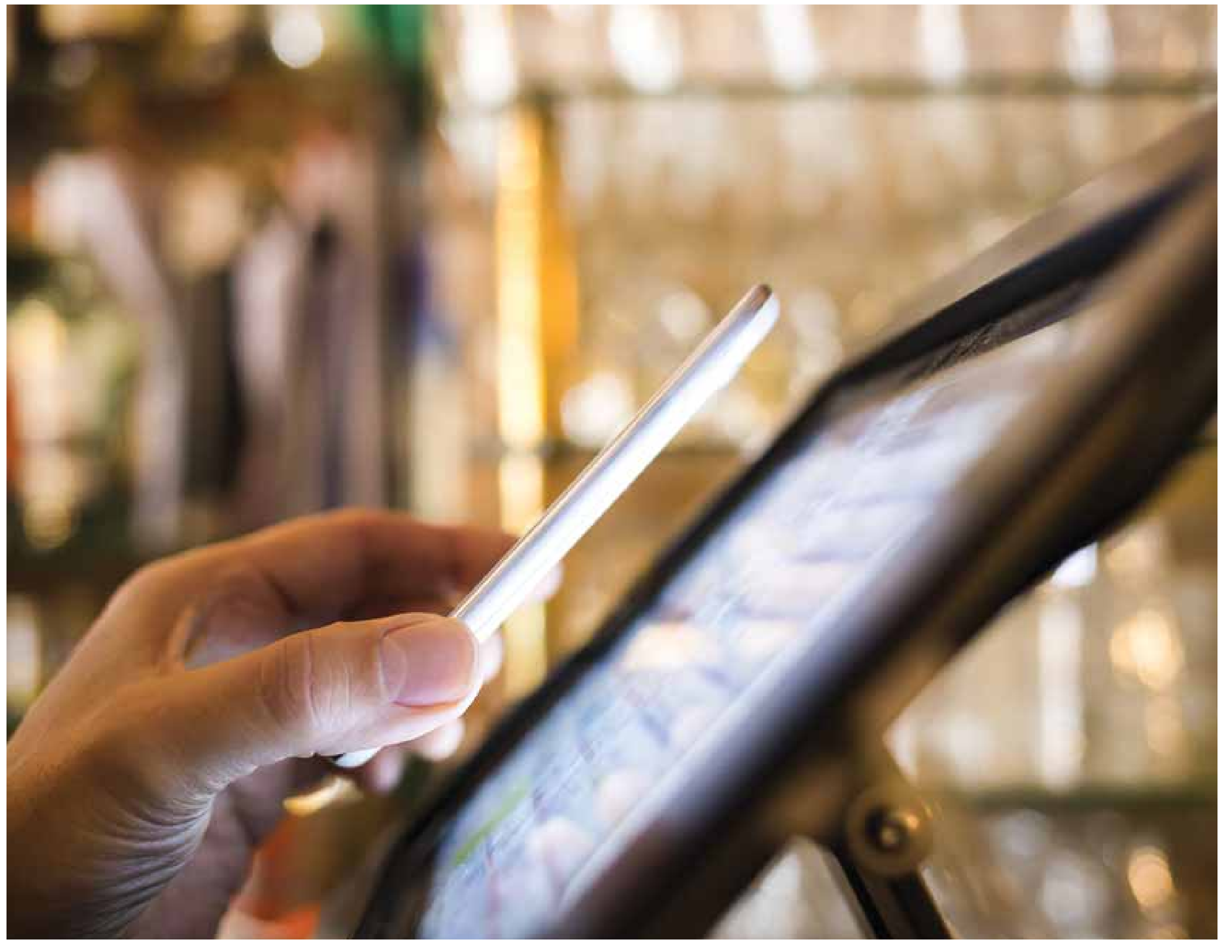
Tone from the top is not enough. Most banks have the right tone from the top. However, some stakeholders are concerned about messages getting lost in the middle. We encountered some scepticism that change initiatives were consistently and constructively reaching the frontline. In the best cases, front line staff have seen real change in the ways they are managed, rewarded and appraised. They feel proud of the bank they work for. In the worst cases, some report that sales targets have just been relabelled as customer needs targets. Managers need to constantly ask whether their culture change programmes are making the experience of front line staff better or worse.

Improve the experience of front line workers. The way front line employees are managed has a direct impact on the way customers are treated. It also has a big impact on how staff make decisions when faced with an ethical dilemma. In the best organisations, front line staff feel engaged and empowered. They report that things are getting better as the myopic focus on sales targets has been relaxed. In other cases, employees suffer significant stress due to decreased staffing levels and increasing demands associated with new regulation. We also noticed that front-line staff are frequently the target of generalised customer anger at 'bankers'. This means in some cases their jobs have got worse. Employees need to be supported and engaged if they are to implement this new culture.

Establish whether front line employees are paid for the time they spend at work. Some front line employees we spoke to reported not being paid for arriving early and leaving late. They would come into the branch early for meetings and leave late because they had to deal with customers who had arrived just before closing time. Much of this time was unpaid because it was outside of formal work hours. In one bank, we were told that employees spent up to an hour of unpaid overtime on 'huddles' before opening and 'cuddles' after the branch had closed. Banks need to establish whether such practices are common. If they are, steps need to be taken to ensure that front line staff are fully compensated for time spent at work.

Pick up on small problems before they become big problems. Many of the best banks had systems which allowed staff throughout the organization to routinely log small problems which they noticed. They were actively encouraged and rewarded for reporting these problems. This allowed banks to continuously learn and address these small problems before they became big problems. A similar process is in place in other industries such as oil and gas which have undergone profound culture change following high profile scandals. Similarly, whistle-blowers who raise serious concerns in banks should be protected and should not fear reprimand or reprisals as a result of their actions. All the banks we spoke to say they encourage whistle-blowers but we did not see any examples of where whistle-blowers have been rewarded.

Voluntarily admit problems and make up for them. Public trust in the banking sector remains low. Part of this is the widespread perception that banks will only communicate failures and make up for them when they are under pressure from the regulator. This stands in marked contrast to best practice in other sectors (such as pharmaceuticals, automotive, aviation and food and beverages) where if an important fault is



discovered which is a threat to consumer safety, then the firm will admit the fault publicly, recall the product, and take voluntary action to mitigate harm. This shows a clear duty of care to customers and rapidly wins trust – even when things go wrong. Banks need to do more to highlight the top issues which raise customer complaints and explain what actions they are taking to tackle the root causes of these complaints.

Shareholders shouldn't just want short term returns. Many banks mentioned one of the major barriers to culture change was shareholder demands for return on investment. However, investors and other industry observers we spoke to told us that many major shareholders have accepted that large banks will not have the kind of large returns on investment which they have had in the past. They also are willing to accept lower returns on investment which are sustainable in return for safer institutions. This message needs to be heeded by senior management. Their duty towards shareholders is not to maximise shareholder value, but provide sustainable value for shareholders through doing the right thing.

A range of metrics is required. We noticed that there was no ideal set of metrics which could be used for managing culture. Instead, in the best institutions a wide range of metrics was used. These metrics capture input, process and output aspects. They measured cultural inputs by looking at factors which provide the raw materials for creating a culture. They measured cultural processes by using metrics which captured how culture is lived. Finally, they sought to capture the outputs of culture by looking at the impact on customers and others. This includes looking at standard customer metrics like customer satisfaction, recommendations, and complaints. It also involved metrics examining other stakeholders' views such as those of the local community, of regulators and of business representatives.

Measuring employee attitudes is not enough. The standard way of capturing culture was by measuring staff attitudes using annual employee surveys. This is an important annual indicator, but it is unlikely to give banks a detailed understanding of how culture works in their firms. More detailed approaches looked at behavioural aspects of culture. They examined how culture is actually lived. Some institutions looked at core behaviours they thought were appropriate for building their culture and provided measures and feedback on these behaviours. There is also scope for banks to use new technology to measure how culture is embodied in communication. For instance, by tracking the patterns of communication and words which are used in email and other forms of messaging, senior managers can gain a sense, in real time, of the climate and culture of various parts of their organisation.

Ensure that sales metrics aren't simply relabelled. All the banks we talked with had dropped sales targets. However, a number of stakeholders reported that in some cases these targets unofficially lived on under a different name (usually targets for identifying customer needs). This was reinforced through an informal culture at the branch level and unspoken expectations. These targets also became the focus of gaming. Unofficial whiteboards with sales targets were erected in some branches. In the best cases, staff were clear that new targets were not simply sales targets re-labelled. Such clarity is needed to root out any vestiges of an aggressive sales culture.

Generational change and leadership development are needed. Many people we spoke with told us that real change in the banking industry will require a 'generational change'. This is because a whole generation of retail bankers have been brought up in an aggressive sales culture, with past incentive schemes rewarding those who conformed to behaviours and ideals now deemed inappropriate (and side-lining those who did not). Changing their underlying assumptions about banking will take time. In the best banks, we found they were addressing this by harnessing the experience of people who were versed in a more traditional approach to banking. Many employees reported feeling liberated by being able to return to doing banking in the way they thought it should be done. Some banks also attempted to counter such a sales-driven ethos by recruiting staff from more customer facing industries. Finally, there was recognition of the importance of leadership development in changing the culture, not only at the top, but throughout the organization.

Focus on substance, not just image. We know that culture change tends to fall flat when surface level changes clash with deeply held assumptions in the organization. To make culture change work, banks need to ensure that surface level changes such as newly espoused values, new branch design, new rituals, and protocols are linked with underlying values. It is important that values are actually put into practice. Many people we talked to in banks talked about the importance of 'being seen to do the right thing'. We think for genuine culture change to occur, it is vital people do the right thing, even when no one is looking.

Overhaul product design processes and consider how they generate revenue. Failures in product design processes have been at the heart of numerous mis-selling scandals. Banks need to overhaul their product design processes to focus on designing products which help people manage their money and achieve their financial goals. As part of the product design process, banks must evaluate not only the total price which will be paid by the customer, but also how they charge for their products; whether or not revenue gained is the result of customer inertia; or if a lack of knowledge is being taken advantage of.

Reconnect with the purpose of banking. Everyone we spoke with emphasised how important it was for banks to clearly reconnect with their purpose. This does not just involve making money for shareholders. It involves considering the wider social and economic purpose of banks. Banks need to clearly answer the question: why do we exist? Having a clear response to this question, which people throughout the organization buy into, is necessary in order to build a more sustainable culture and rekindle trust.

Regulators

Increasing competition is not the ultimate solution. There was an assumption among regulators that increasing competition in the banking sector would inevitably lead to better culture and better customer outcomes. We think this is partially true. The rise of disruptive technologies may also introduce new competitive dynamics. But competition is not the whole story. First, there has been a lack of competition in the UK banking sector for 100 years. It is an issue which is periodically raised, but only partially addressed. Second, it appears that customer inertia is a major barrier- even when better offers are available, clearly marked out, and easy to access. Finally, it is not clear whether increased competition will actually lead banks to become more ethical. Between 2000 and 2007, competition in the industry increased, but this was one of the central drivers of an increased sales culture within most institutions. This leads us to conclude that increasing competition is important, but by no means enough. There needs to be a focus on internal conduct and culture within firms. In addition, regulators may want to ensure there is a diverse ecosystem in the banking sector so banks do not all converge on similar ownership models.

Use behaviourial economics to overcome customer inertia. A major reason for the lack of "good competition" is customer inertia, reflected in the low level of switching from one bank to another. However, our analysis suggests that this inertia results to a large extent from the maintenance of an important information asymmetry and opacity in the market. These make it difficult for customers to compare a variety of offers and identify the best option. Consumers' associations and regulators have an important role to play here by making the information about goods and services available to customers transparent. League tables and rankings based on the behavioural analysis of customers' actual needs can certainly help. According to a growing body of works in behavioural economics, customers can be nudged towards better decisions. Their cognitive biases and inertia could be mobilized to preserve them from opportunism and hence enhance forms of competition that develop consumer well-being. Studies based on the analysis of actual customer behaviour from the Fairbanking Foundation and Which? have already shown how insights from behavioural economics can be used to enhance customers' well-being. The vast body of academic evidence from behavioural economics could be more extensively mobilized to enhance further "good competition" in the retail banking.

Look beyond customer outcomes. There was a heavy focus among regulators on customer outcomes. This is good, but there are limits. Some customer metrics can be 'gamed' easily. For instance, banks can reduce their reportable number of customer complaints by dealing with a customer complaint before the close of the next business day, acknowledging the complaint and in some cases offering a small pay-off. If this happens, the complaint is not reported to the FCA. As a result customer complaints can mask deeper problems. Only looking at customer metrics like these may not necessarily pick up early warning signs of problems occurring in the sector. For instance, customers may be satisfied by being able to take out a loan which they cannot afford if interest rates rise. This suggests regulators need to carefully monitor internal processes within firms which might lead to these negative social outcomes. They might also consider measures which go beyond customers and take into account a wider range of stakeholder groups.

Ask what is actually happening on the shop-floor. One of the most striking findings is that although all the banks say the right things at the top of the organization, the reality at branch level can look very different. If the regulator hopes to pick up issues before they become large scale problems, they need to go beyond listening to the voice of senior management and consider what is happening at branch level. Reviewing central policy is not enough. They should look at actual selling practice in branches and the experiences of employees in bank branches. This may bring to light overlooked, but potential significant issues relating to customer service and treatment.

Create an open channel. There is scope for insights about what is happening at branch level to get lost, especially as they move through the hierarchy of the large banks, and are communicated to regulators. It is important that all staff, regardless of seniority, can approach and communicate their concerns with regulators. This will ensure information does not get lost, censored, or censured as it moves up the chain of command, and across the boundary between bank and regulator. This should help regulators to develop a more rounded perspective on what is happening within banks.

Transparency is important. One way to re-build trust in the sector is to be transparent about the progress which banks are making. Regularly tracking banks on the basis of clearly described standards, can help the public understand whether banks are actually fulfilling their promises and making improvements.

Constant restructuring is a red flag. Many banks seem to engage constantly in change and restructuring initiatives. For instance, one large bank told us they had under gone multiple change initiatives following the financial crisis. This resulted in constant changes in senior management and strategic direction. It left many employees feeling uncertain and over-burdened. Sometimes changes are necessary. However, they often do more harm than good. This is because they chip away at institutional memory, increase stress levels and decrease consistency and focused knowledge in the organization. The frequent introduction of new restructuring initiatives without clear connections between them is an early warning sign of problems in an organization.

Policymakers

Banks need time to change their cultures. All banks have implemented large scale change processes. All of them appear to be heading in the right direction. However, the people we spoke to pointed out that culture change within the industry would be a long term process. These are large, complex organisations which are often very difficult to manage. Policy makers need to recognise change will take time. They also need to accept that in the interim new scandals will emerge which were largely the products by previous cultures. Policy makers need to have some patience with senior leaders in the banks. But they also need to ensure culture change remains an important agenda item. Such high level pressure can help ensure that the change the industry needs is fully delivered. Most banks estimated that such change in the industry will take about three years. We think it will be over five. A complete transformation in the culture will take a generation. It is therefore advisable that the BSRC present its annual assessment of the sector to the Treasury Select Committee every year, in order to help inform policy makers on whether sufficient progress is being made. The most important question to ask will not be whether banks have a culture change programme in place, but how the culture is actually being lived at branch level and what this means for customers.

Market culture can trump firm culture. There are a number of looming crises (Forex, Commodities trading) which may lead politicians to revisit regulation in the banking sector. We think investigating firm culture will only get them so far in these cases. It is important instead that regulators like the Bank of England look at the culture within these particular markets. Looking at market culture and market design, rather than just firm culture, may help to deal more effectively with these crises. It will also ensure that the reform of culture within the retail banking sector is not blown off course.

Keep the PCBS agenda alive. Roughly half the issues the PCBS identified as underlying the financial crisis have been adopted and transformed into formal legislation. This is a significant achievement. However there is much work that remains to be done. One aspect is ensuring the spirit of the legislation is actually kept alive within institutions, and is not slowly undermined by the banks. Politicians need to keep track of how well these issues have actually been addressed. It is also important that other issues identified in the PCBS are pursued. Some of these issues include diversity, the role of the auditors, the role of ratings agencies, the ability of firms to learn from past crises, a lack of personal responsibility and accountability, just to name a few. To ensure these issues are resolved, there should be a systematic review of the progress made on the issues raised by the PCBS every two to three years. This will avoid all the good work done by the commission being lost.

BSRC

An important initiative which requires the full support of the banks. The BSRC is a vital initiative for ensuring that culture change in the industry continues. It should build on some of the excellent work already being done, and focus on tracking and encouraging further progress. Banks should support the initiative by providing sufficient resource and cooperation.

Avoid regulatory capture. In order to ensure its legitimacy and independence, the BSRC cannot be perceived as being captured by, or another trade body of, the banking or wider financial services industry. It's most senior roles cannot therefore be primarily staffed by bank secondees, nor should there be allowed to develop a revolving door whereby senior BSRC staff leave to work for the big banks.

Feed in to FCA. Although the BSRC is an independent body, it can help to support the work of the FCA. This would involve communicating insights about culture it gains from independent research. It can also informally communicate how honest and open they think the banks are being as part of the review.

Engaging with Parliament. As stated above, we believe the BSRC should present its findings on the health of standards in sector to the Treasury Select Committee on an annual basis. As well as providing Parliamentarians with a useful indicator of cultural progress, such an exercise may also help highlight areas of potential concern and action.

Work with measures already used by banks. Many of the banks we spoke to expressed a sense of measurement fatigue. There were many external bodies asking for slightly different numbers. It is important that the BSRC designs any measurement exercise with a clear eye on the metrics which are already being collected by the banks themselves and other industry bodies. By relying on a range of data points which are not necessarily just from within the bank, the BSRC is likely to get a more accurate and rounded perspective of the state of a bank's culture.

Talk to the front line. Stakeholders often noted a disconnect between how top management view their organisation's culture, and the experience of front-line employees. If the BSRC's culture measurement exercise is to be meaningful, it needs to examine how the culture looks at the coal face. This does not just mean talking with staff who are hand-picked by the senior management. It involves trying to get a slightly more objective and realistic view of what is actually happening on the front line through processes like random sampling or talking with union representatives. Exit interviews may also serve as an excellent way of gauging the culture of an institution. We suggest that front line staff be surveyed on at least an annual basis by the BSRC. Such a survey should be methodological rigorous, well-resourced, and its results should be reported on publicly. As part of the survey, front line staff should be asked questions about how they are actually assessed and measured. This may be helpful in determining the extent to which banks have progressed beyond an aggressive sales culture.

Use qualitative measures too. Banking is a highly numerate industry. This means bankers want a number put next to everything. However, culture cannot be completely quantified. Even Alan Greenspan has recently

turned to studying social anthropology to understand many of the forces which drive human behaviour. Metrics can – and often are – manipulated. Therefore, it is important that the BSRC use qualitative measures of culture in conjunction with quantitative measures. This might involve in-depth interviews with a range of bank employees. But it is also likely to involve using ethnographic and symbolic methods commonly used by anthropologists. One way to capture the culture may involve using 'in-house ethnography'. Bank insiders would be seconded, trained in basic ethnographic methods, then asked to go around their organization and collect up evidence of their culture. With guidance from professional organizational ethnographers, they could then produce a report which gives a rich picture of the organisations culture. This could be matched with other evidence to give a much richer picture of the organisations culture. These in-house ethnographers could compare their results with those working in other banks. In addition, the BSRC could pay attention to data sources such as exit interviews, interviews with front line staff, whistle-blow procedures and cases, product offerings and the design process.

Beware of metric manipulation. Many of our respondents were aware that the growth of metrics often goes hand in hand with the manipulation of metrics. The BSRC needs to think carefully about how the introduction of metrics in some industries such as healthcare have driven dysfunctional outcomes.

Creating dialogue. The BSRC should be used as a forum where those responsible for culture change can privately discuss the process of developing more customer-focused cultures. The BSRC could help to create such a 'community of practice'.

Ask how metrics can be used to drive self-regulation. In many other industries metrics and ranking systems drive clear competition and self-regulation. However in the banking sector, many metrics associated with good behaviour seems to be largely ignored. In a normal competitive market, you would expect a correlation between market share and customer satisfaction. This relationship does not exist in the banking sector. The BSRC needs to look at metrics systems and league tables in other industries which trigger self-regulation and ask why they seem to inspire such strong reactions. In the context of higher education, rankings such as the Financial Times league table or the Research Excellence Framework have influenced how business schools and universities compete with each other, and have sometimes drastically reshaped internal practices. This reactivity to rankings emerges because key stakeholders from the field, such as customers or public funders, use these rankings to inform their decision making. However, one of the stakeholders we spoke with told us that in the retail banking industry, actors are less reactive to shifts of their position in league tables or to poor rankings. In other industries such as the electronic goods industry, any change in rankings or league table would trigger the engagement of senior managers with the ranking producers. The senior managers would seek to understand why and how customer preferences or usage of goods or services had changed, with a view to improve the product. It seems that such opportunities to learn about how to tailor goods and services to enhance customer satisfaction are not used in the retail banking sector.

Review the outcome of banks' decision-making processes: As well as looking at decision-making processes, the BSRC must also focus on the outcome of such processes in order to evaluate how banks have weighed up the commercial pressures they face to generate revenue with the need to uphold high professional standards. It should also examine how senior management have dealt with any concerns raised with them by frontline staff.

Provide an early-warning system for potential problems: The BSRC should focus on reviewing evidence gathered internally from the banks and external sources of intelligence such as consumer groups, customer complaints and whistle-blowers. From these sources it should identify the key list of potential risks to banking standards and ask banks to provide details of the actions taken to tackle these risks.

Assess Management-Information (MI) produced by banks to monitor compliance with their internal codes of conduct: Banks were not lacking in internal codes or values statements prior to the financial crisis. However, it is clear that banks failed to monitor compliance with these codes or take action to deal with any problems raised.

Investors

Give senior management time. All our respondents were clear that culture change is going to take time. There is also likely to be further scandals emerging from legacy issues. Investors need to ensure that senior leadership have the time and support to implement a new culture. Over-reacting to short term profits will be unhelpful. What is helpful is support and gentle pressure from investors to ensure an upwards trajectory in improving culture which will drive more sustained business performance. This may involve ignoring the shrill voices of short term investors in favour of the majority of longer term investors.

Focus on building sustainable value. The myopic focus on maximising shareholder value clearly has not worked as a governance principle in banks. It is important that investors rethink the governance principles they look for in firms. An alternative approach is building sustainable value. This involves clarifying the purpose of the bank and being clear how this relates to longer term firm value. To do this, shareholders need to ensure they ask longer term questions about purpose and monitor whether the firm is drifting from its purpose.

Support continuity. We were struck by how hyper-active short termism within the banks led to constant and often wasteful change programmes. These would typically only be run for a short period and not be given enough time to actually deliver value. The sheer number of these initiatives sometimes meant employees were distracted from the core tasks of the firm, with the introduction of yet more initiatives often corresponding to changes in senior management. We noted the shortening tenures of CEOs meant there was little scope for learning and high pressure for new change initiatives. By giving CEOs and other senior managers more time, it is likely there will be greater consistency, scope for learning, and longer time horizons.

Conclusion

In this report we have explored the progress which the UK banking sector has made in transforming culture. In particular, we have looked at whether banks have moved away from the high pressure sales culture which was at the root of many recent scandals.

To answer this question we analysed all the major inquiries into the banking sector following the financial crisis. We looked at the changing performance of UK banks across a number of financial and non-financial metrics. We examined the culture change processes under way in all the major UK financial institutions, as well as culture in a number of medium sized players and challengers. In addition we spoke with regulators, policy makers, customer representatives, investors and employee representatives.

The picture which emerged from our research was striking:

Sales culture is to blame. An aggressive sales culture appeared to be at the heart of many of the problems UK retail banks have faced in the past. This culture is the result of the formation of universal banks, increasing expectations for profitability on retail banking divisions, and changing social understanding of debt. The result was institutions that focused their entire energy on generating sales of financial products. This drove widespread bad practices which have cost the retail operations UK banks and building societies £38.5 billion in fines and redress since 2000.

Culture change is the bank's responsibility. The PCBS and other processes identified a range of regulatory reforms designed to improve the banking sector. However, they largely place the responsibility for culture change firmly in the realm of the banks themselves. The BSRC has been set up to support this process.

Poor outcomes remain. Despite significant changes in recent years, the performance of the banks across a range of dimensions is relatively poor. It is not unlikely that more bad news will come to light. Banks may have become safer and more resilient institutions based on prudential measures. However, many of the non-financial measures such as consumer, employee and ethical outcomes remain relatively negative, and in some cases are actually getting worse.

The banks are trying to change their culture. All the major banks are making significant efforts to change their internal cultures. In the largest banks this involves cascading culture change down from the top of the organization. In some medium and smaller banks this involves reinforcing a culture they think is already relatively ethical. In challenger banks this involves importing new cultures from other sectors and countries. The result is that culture in the banking sector is currently in a period of transition.

But it will take a generation to achieve. The stakeholders we spoke to emphasised that although the banks are making progress with their culture change projects, there are many barriers that could easily derail these processes. These include cultural inertia, becoming overloaded with change initiatives, pervasive short termism, and change initiatives getting lost before they actually get to the front line. Overcoming these issues is going to take a longer term commitment to transforming culture within the industry. Many said making meaningful progress in changing their culture will take 5 years. To completely transform the culture in retail banking will take a generation.

To address these challenges, we have suggested a number of important steps which each actor in the industry needs to take:

Banks need to focus on consistency and continuity of delivering the culture change agenda. An important aspect of this is ensuring the tone from the top does not get lost as it cascades to the front line. Any culture change should ultimately make the working lives of those facing customers better. This will improve customer outcomes significantly. Banks should also put in place systems which allow faults to be admitted early and often, providing them with a source of continuous learning and improvement. Making these cultural changes will take at least five years.

Regulators need to think beyond just increasing competition. Ensuring competition in the banking industry is vital, and will pay a role in improving standards. But real change will come through lifting the general standards of the industry through tracking a wider range of outcomes including internal dynamics and the potentially corrosive effects of constant restructuring and frequent changes of direction.

Policy makers should provide the banks with the time needed to change their cultures. This does not mean adopting a 'hands-off' approach. Instead, pressure must be kept on banks to keep moving their cultures in a positive direction, and the agenda and recommendations of the PCBS must also be revisited and assessed so that important issues don't slip off the agenda or remain unresolved.

The BSRC needs to support a process of collective action to change the culture of the UK banking industry. It can only do this by maintaining its independence and public credibility. This means taking steps to ensure its independence cannot be questioned. It must also produce assessments of the sector which are incisive and constructive. In order to do so, especially with regards to culture, it must go beyond 'thin' quantitative metrics and also use 'thicker' qualitative measures. In particular, we suggest the BSRC survey front line staff on an annual basis to explore to what extent the vestiges of an aggressive sales culture still exist. Finally, we believe the BSRC's annual assessment should be presented to the Treasury Select Committee

Investors need to recognise that if they want to reduce the significant regulatory, reputational and redress costs the banks face, then they need to provide consistent support for the culture change processes underway. Over-reacting to short term profits will be unhelpful. Instead, what is needed from investors is support and gentle pressure in favour of improving standards, which we believe will in turn drive more sustained business performance.

Ultimately, rebuilding the culture within the UK retail banking industry is going to be a long process which will require the collective contribution of all stakeholders. The process is likely to be difficult. However the reward is worth it: a safer, fairer, trustworthy and sustainable banking sector which produces better outcomes for customers and the broader UK economy.

Appendix One: Methods

Background

This report was commissioned by New City Agenda. It was carried out by a research team at Cass Business School, City University of London. The team consisted of Professor André Spicer, Professor Jean-Pascal Gond, Professor Peter Fleming, Szilvia Mosonyi, Christopher Benoit and Simon Parker. The Cass team received extensive support from New City Agenda Staff, in the persons of Kawan Patel, Matthew Ball and Dominic Lindley. The research took place between late August and early November, 2014.

The report set out to explore what retail banks have done to change their culture following the financial crisis beginning in 2008. Some sub-questions which we wanted to answer were: (1) what was the historical background to these cultural change initiatives, (2) what was the content of culture change initiatives, (3) how were they being implemented, (4) what progress had been made, (5) how was culture being measured, (6) what were the barriers and facilitators, and (7) what role did regulation play in the process.

We began by drawing together a range of documentation which trace the development of the UK banking sector. The results of this historical analysis are reported in Chapter One.

The next question which we were interested in was the changing policy context in response to the banking crisis. To track the policy context, we analysed a number of core policy documents which had been produced in the UK following the financial crisis. The results of this analysis are reported in Chapter 2.

We then wanted to establish an understanding of the performance of UK banks across a range of metrics. In order to do this, we gathered together a number of the ranking and analyses of performance of UK banks which have been produced in recent years. We sought to ensure each of the ranking initiatives we looked at involved different dimensions which had been identified as important by previous policy exercises detailed in Chapter 2. We selected ranking and assessment exercises which had a degree of rigour and creditability. Some of the dimensions we looked at included financial stability, customer outcomes, employee outcomes, ethical outcomes and public trust. The list of dimensions we investigated here is by no means comprehensive. It is simply intended to indicate the current performance of UK banks across a range of dimensions. The results of this analysis are reported in Chapter 3.

To understand culture change within each of the banks we interviewed 27 senior people in 12 retail banks and building societies. In addition, we conducted one focus group with 12 employees from all the 4 major retail banks. These institutions were largely selected on the basis that they are largest institutions in the market. When selecting smaller challenger banks we largely did this on the basis of their size, profile and whether they provided an interesting example of a different model of banking. Two notable institutions which are excluded from our sample are Lloyds banking group and The Co-operative Bank. Despite repeated approaches, both institutions did not feel in a position to participate in the research. This was largely because both institutions were in the process of launching large scale new strategies at the time the research was undertaken. We did however seek to understand culture change initiatives within each of these organisations by using secondary evidence. In addition to collecting primary evidence through interviews, we also collected a range of secondary data. To help us better understand culture change programmes within particular banks, we collected up written materials such as annual reports, values statements and in additional literature about their culture. The results of these interviews form the basis of what is discussed in Chapter 4.

In order to broaden our understanding of these change processes, we also interviewed 19 stakeholders from 16 different organisations. When selecting these stakeholders, we aimed to gain a view of most of the key stakeholder groups in the retail banking industry including employees and their unions, banking industry groups, business groups, consumer groups, regulators, investors and policy makers. In addition to the interviews, most stakeholders provided us with additional material such as submissions to policy processes, reports they had produced and other publicly available documents. The results of these interviews form the basis of what is discussed in Chapter 5.

The interviews were typically semi-structured and took place over about an hour. Almost all interviews were conducted face to face. An indicative sample of the questions which we asked banks and stakeholder can be found in Box A1.1. and Box A1.2.

Box A1.1: Key topics and sample interview questions for the interviews with banks

Topic 1: Your background and your organizational context

1.1. Background

- Could you please let us know about your personal background and current role?
- How is to work for an organization like [name of the organization]?
- What difference in terms of culture did you notice in contrast with prior organizations?
- Your organization's cultural context and the trigger events associated with culture changes.
- What is the (actual) culture? The desired culture? Is culture being measured in any way?
- Is there a culture change initiative underway at your organization?
- Which factors, actors or events have played a decisive role in the decision to engage this cultural initiative?

Topic 2: Cultural change initiatives at your organization

2.1. Content and design

- What cultural change initiatives are currently taking place at your organizations?
- Could you describe its most tangible elements (e.g. cost, level of commitment/endorsement from the top, number of employees concerned by the change program, expected impact)?
- Could describe the key practices or the content of this change?
- How is cultural change linked to other aspects of the organization (such as performance assessment, pay, and structure)?

2.2. Deployment

- How is the culture change initiative actually being deployed? Who is in charge of deploying it?
- What is the time line? Where are you now?
- How do you measure progress? What kind of indicators are you using to track progress?

2.3. Impact

- What kind of impact or influence is the change program me or culture having in the organisation? How do you measure its impact?
- How do you justify or demonstrate to different audiences that cultural change has happened?
- What are the main successes related to this initiative?

2.4. Barriers and enablers of cultural change

- What do you regard as the main challenges or barriers related to this change initiative?
- What are the main factors facilitating this cultural shift (if any)?

Topic 3: Cultural change in your industry and at your competitors

- What are the benchmarks or best practice examples you have?
- How does your own organization compare to the competitors? How would rank yourself within the industry?
- Which competitor do you regard as a clear leader/laggard in this domain?
- What are your views on how the industry as a whole has progressed in relation to cultural change since 2008?

Topic 4: Industry regulation and cultural change

- What are your perceptions of regulation in this industry?
- Which regulatory organizations are the most relevant and important to your work?
- How does regulation relate to culture?
- Do regulators help support your process of cultural change?
- In your opinion, can regulation be conducted more effectively?
- How could regulation better support cultural change in your organization?

Box A1.2: Key topics and sample interview questions for the interviews with stakeholders

Topic 1: Your background and the role/mission of your organization

1.1. Your background

- Could you please let us know about your personal background and current role?

1.2. Your organization's purpose

- Could you please let us know more about your organization and its purpose/mission?
- What concrete means and resources do you have to fulfill this mission?

Topic 2: Your views about cultural change in the retail banking industry

2.1. Background

- What are your views about the change of culture in this industry since 2008?
- According to you, what have been the main forces driving cultural change in the bank industry?

2.2. Specific organisations/initiatives

- Which organisations / banks would you regard as leaders / laggards in relation to cultural change in the industry? Could you explain why?
- Which cultural change initiatives seem to you the most exemplary, important or salient in the industry?

2.3. Perceptions of barriers/enablers

- According you, which barriers, if any, prevent or inhibit cultural change in banks?
- According you, which factors, if any, contribute to facilitate cultural change in the different organisations that you have observed?

Topic 3: The role of your organization in relation to cultural change in the retail banking industry

- What are the relevant initiatives underway by your organization in relation to cultural change in the retail banking industry (if any)?
- Did your organization support the process of cultural change at banks? In which ways?
- How do you see the role of your organization in relation to cultural change?

Topic 4: Industry regulation and cultural change

- How could regulation better support cultural change at banks?
- Which regulatory organisations, behind yours, are the most relevant / influent?
- Is there any way regulation could be done more effectively?
- How do you foresee the future of regulation and cultural change in the UK retail banking sector?

Appendix Two: Organizational Culture: What is it? How does it change? How to measure it?

Widely discussed, poorly understood. As an analytical concept, it has been in use for at least four decades. As a managerial tool, it has been popular since at least the early 1980s. As a concept used by policy makers, it has recently enjoyed a surge of interest. In particular, the concept of culture has been widely used by policy makers, commentators and regulators in recent years to talk about the intangible organizational aspects which explain large scale failures in systematically important organisations and sectors. For instance, there is a discussion of 'tick box culture' in healthcare, 'a culture of neglect' in the care sector, and a 'bonus culture' in the banking sector.

Multiple definitions. Looking at the expert literature on organizational culture, it is easy to become more confused. There are many thousands of different definitions of the concept which are subtly different. Culture is often used to refer to a wide range of different things (see Table A2.1). This confusion is only made worse by the fact there are many proprietary systems promising organisations the ability to understand, manage and even change their culture. Despite the various different definitions, there is a general implicit agreement that organizational culture typically involve the following aspects: (1) It is shaped by the history and tradition of the organization, (2) It has some degree of depth, is difficult to easily understand, and therefore needs to be interpreted, (3) It is collective and shared by members of an organization, (4) It typically refers to ideational aspects of an organization such as assumptions, meanings, symbols, beliefs and so on, (5) It is holistic, intersubjective and emotional rather than just being analytical and rational.[5]

Table A2.1: Schein's Model of Culture

Three Levels of Culture (Schein)

Artifacts	Visual organisation Structures and processes (Hard to decipher)
Epoused Values	Strategies, goals, philosophies (Espoused justifications)
Basic Underlying Assumptions	Unconscious, taken for granted beliefs, perceptions, thoughts and feelings (Ultimate source of values and actions)

[5] Mats Alvesson, Understanding Organizational Culture, p.6

Our approach. To provide a more precise understanding of culture, we build on what is perhaps the classic definition of culture provided by Edgar Schein. According to Schien, culture is a 'pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relationship to these problems'.

In order to understand a culture more precisely, Schein argues that culture has three components: (1) Artefacts which are the visible structures and processes in an organization, (2) Espoused beliefs and values which are the formally articulate philosophies, goals and strategies of the organization, (3) Underlying assumptions which are the taken for granted through feelings on which culture ultimately rests. To formally analyse culture, there are a range of things which an analyst can look for ranging from the visible artefacts such as architecture and rituals, espoused beliefs such as values statements, and underlying assumptions such as ideas about how internal integration is achieved and how an organization should adapt to its environment (see Figure A2.1).

Table A2.2: Approaches to measuring culture

Name of the culture questionnaire	Authors	Number of items	Dimensions of cultures distinguished by the tool	Focus of the tool			
				People Orientation	Innovation Orientation	Outcome Orientation	Bureaucratic Orientation
VALUES INVENTORIES							
Organizational Culture Profile	O'Reilly et al. (1991); Chatman (1991); Chatman & Jen (1994); Sheridan (1992)	54	• Respect for people • Team orientation • Stability • Innovation • Outcome orientation • Attention to detail	●	●	●	●
Organizational Values Scale	Hofstede et al. (1990)	57	• Need for security • Work centrality • Need for authority		●	●	●
Company's Culture Assessment	Calori & Sarnin (1991)	60	• Solidarity • Internal cooperation • Personnel involvement and know-how • Authority • Attitude/change • Firm's performance	●	●	●	
Organizational Culture Index	Litwin & Stringer (1968); Wallach (1983)	24	• Support culture • Innovative culture • Bureaucratic culture	●	●		●
Organizational Beliefs Questionnaire	Sashkin (1984)	50	• Worth and value of people • Innovation • Being the best • Growth/profit • Attention to details	●	●	●	●
SYMLOG	Poumadère (1985)	26	• Individualism-egalitarianism • Acceptance vs. Opposition to management task's orientation • Dominance-obedience	●	●	●	
Competing value model – FOCUS 1993 – evaluative part		40	• Support • Innovation • Goals • Rules	●	●	●	●

Name of the culture questionnaire	Authors	Number of items	Dimensions of cultures distinguished by the tool	Focus of the tool			
				People Orientation	Innovation Orientation	Outcome Orientation	Bureaucratic Orientation
PATTERNS OF BEHAVIOURS QUESTIONNAIRES							
Organizational Culture Inventory	Cooke & Lafferty (1989)	120	• Task culture • People culture • Security culture • Satisfaction culture	●	●		
Organizational Practice Scale	Hofstede et al. (1990)	54	• Employee vs. job oriented • Process vs. results oriented	●	●	●	
Culture Gap Survey	Kilman-Saxton (1983)	28	• Technical concern • Human concern • Short term orientation • Long term orientation	●	●		
Competing Values Model	Rohrbaugh (1991)	38	• Cohesion; morale • Human resources • Stability; flexibility • Productivity; Planning	●	●	●	
Competing Value Model	Quinn & Spreitzer (1991)	28	• Group culture • Developmental culture • Rational culture • Hierarchical culture	●	●	●	●
Competing Value Model – FOCUS 1993 – Descriptive part		37	• Support • Innovation • Goals • rules	●	●	●	●
Organizational Culture	Reynolds (1986)	14	• Task vs. social • Individual vs. collective decision making • Cooperation vs. competition • Safety vs. Risk • Stability vs. innovation • Informal vs. formalized procedures	●	●	●	

Name of the culture questionnaire	Authors	Number of items	Dimensions of cultures distinguished by the tool	Focus of the tool			
				People Orientation	Innovation Orientation	Outcome Orientation	Bureaucratic Orientation
PATTERNS OF BEHAVIOURS QUESTIONNAIRES							
Comparative Emphasis Scale	Meglino et al. (1989) Adkins et al. (1996)	24	• Helping and concern for others • Achievement	●		●	
Survey of Management Climate	Gordon & Ditomaso (1992)	61	• Integration/communication • Development and promotion • Fairness of reward • Innovation/risk taking • Clarity of strategy/ shared goals • Action orientation	●	●	●	
Organizational Norms Opininnaire	Alexander (1978)	42	• Colleague/associate relations • Teamwork/communication • Training/development • Innovation/creativity • Performance/excellence • Profitability	●	●	●	

* All tables have been constructed from the working paper of Delobbe, N., Haccoun, R.R. & Vandenberghe, C. 2002. 'Measuring Core Dimensions of Organizational Culture: A Review of Research and Development of a New Instrument', unpublished manuscript, Universite catholique de Louvain, Belgium.

Please consult directly the working paper for the full references of the authors mentioned in the Table: https://www.uclouvain.be/cps/ucl/doc/iag/documents/WP_53_Delobbe.pdf

Actual vs espoused culture. One of the most difficult aspects of studying culture is that there is typically a large gap between what senior managers claim the culture is and what the culture actually is. Typically, the understanding of an organisations culture which is embodied with things like value statements is only loosely related with what the actual artefacts, beliefs and underlying assumptions of an organization are. This is even more pronounced when there are formal exercises to codify a culture or there are culture change projects. What this means is just asking high level managers of a firm what the culture is will most likely lead to an inaccurate representation of what the culture actually is. What you are most likely to get is an account of what the espoused beliefs of the firm are. The researcher is unlikely to understand completely the artefacts which make up an organizational culture and the underlying assumptions of the culture.

Our focus. In this project, we were unable to spend the time required to get a deep sense of the culture within each organization. As a result we were at best able to scratch the surface of the culture of each organization. Thus what our results report on are really the espoused beliefs of senior management and some of the artefacts which they find important. We did get some indication from employees what this culture looks like from the coal face. As we expected, there was often quite a gap between the official and unofficial version of the culture of each bank. However, because we did not have sufficient time to delve into the cultures of each institution, it is impossible for us to systematically map out these gaps.

Measuring culture. One of the most vexed questions in the study of organizational culture is how to study and potentially measure culture. There are a range of propitiatory systems which offer broad heuristic frameworks for studying culture (See Table A2.1). Within the academic literature, there are some relatively well-established approaches to quantifying culture. One of the more established quantitative measures is based on the competing values framework allows a research to map out an organizational culture across two dimensions – the extent to which it is focused on stability vs change, and the extent that the culture is internally vs externally focused. This helps to identify four basic types of culture: clan cultures which have an internal focus and are relatively flexible, hierarchical cultures which are internally focused an relatively stable, adhocratic cultures which are externally focused and flexible and market cultures which are externally focused and stable (see Figure A2.2).

Table A2.3: Qualitative vs quantative approaches to culture

Qualitative	Quantitative
Deductive process	Inductive process
Mutual simultaneous shaping of factors	Cause and effect
Emerging design – categories identified during research process	Static design – categories isolated before study
Context-bound	Context-free
Patterns, theories developed for understanding	Generalisations leading to prediction, explanation, and understanding
Accurate and reliable through verification	Accurate and reliable through validity and reliability

Participant observation. While there are many other quantitative tools for studying culture, they will often only give you a 'thin' understanding of culture within an organization. To develop a 'thick' and more in-depth understanding of a culture, qualitatives research methods are needed. All the best studies of organziational cultures have involved some used of ethnographic methods. These involve periods of extended participant observation whereby a research spend times observing and to some extent participating in the daily life of the organization. This will allow the research to get beyond the attitudes of employees and espoused values of senior managers. Instead they will be able to identify the artefacts that are important to organizational members, what the range of espoused values are within an organisation, and most importantly what the underlying assumptions are within an organization. Undertaking an ethnographic study involves an extended period of observation which is recorded in field notes and then written up into an ethnographic account. Ethnographic research is time intensive, but can yield insightful in-depth accounts of a particular culture.

Table A2.4: Studies of culture change in banking

Reference	Methods/Sample	Findings
Dietz et al (2004)	Survey of 160 branches of retail bank in the USA. 2,616 branch employees and 17,480 customers	• Increased customer contact correlated to increased customer satisfaction • The idea that there is a unified organizational service climate is refuted – the service climate differed across different branches • Recommendations – Should focus on individual branches not the overall organizational approach to service • Employees who deal with customers have stronger relationships with customer attitudes • Banking service is not the same interaction again and again – it is a relationship
Saparito et al (2004)	Survey of 1093 small firm customers and 217 bank managers	• Relational trust is important in maintaining a good relationship with customers. It prevents customers switching to competitors
Smith (1990)	Interviews with middle managers and corporate trainers in an organizational redesign programme at a bank (systems analysis, credit cards and branch-bank division)	• Consultants and internal corporate trainers blaming "managerial bloat" and middle management for poor performance. • Don't acknowledging the poor strategic decisions made by senior management. Middle management are used as a scapegoat. • Middle management actually play a very important role in productivity • However, attempts were made by senior management to aggressively increase productivity standards. Such attempts were counter-productive as they provided a lack of job security and a decrease in the likelihood of promotion
Weeks (2004)	8 month participant observation with interviews and fieldwork over the next 6 years at one UK bank	• Members of the bank incessantly criticizes the bank as too centralized, bureaucratic, risk averse and not customer focussed, yet display apparently strong loyalty to it • Complaints were actually a way of signalling a shared understanding of the context and culture • Blaming bureaucracy was a way of blaming a faceless system and not individuals for the problems at the bank • Managers used the complaints to legitimise unpopular decisions like cost-cutting • Individuals remained loyal to the bank despite their complaints due to a love of particular branches (not the bank), hopes for the future and that their bank was "better than nothing"
Schneider et al (1980)	Surveys and Interviews of subset of a bank in the USA and 2060 customers	• Employees were sensitive to customer perceptions of branch service quality • Branch employees are more enthusiastic and less bureaucratic about service than management
Ho (2009)	17 month observation and over 100 interviews in New York Investment Bank	• Many recruits are looking for 'the next Harvard' and the social status and elite lifestyle offered • Graduates enter into a 'white-collar sweatshop' with long hours and tough assignments – reinforced by Wall Street's money meritocracy • Despite the money meritocracy one overriding goal of 'shareholder value' underpinned everything • There was a short-term focus and a culture of job insecurity and volatility • Immediate responses to the market leading to a 'strategy of no strategy' and thus no long term plans
Michel (2012)	9 year participant observation including 600 interviews with 200 informants at 2 US investment banks	• Banks espoused autonomy and work-life balance. However, there was habitual overwork that bankers experienced as self-chosen. • Initially the bankers were socialized into a culture of hard-work and long hours. Overwork caused conflict between bankers and their bodies. • After 4 years body breakdowns threatened their performance • By year 6 bankers learnt to 'listen to their bodies'. Inadvertently, this closer relationship with their body led to unquestioning loyalty to hard work. • It was only by accepting natural limitations that the work regime was sustainable
Buono et al (1985)	Surveys and participation at 2 banks pre and post-merger	• During the merger there was a significant issue of "culture shock" between the two banks • Culture was seen as the foundation for one's life providing symbols and meanings
Wright (1990)	Interviews and Surveys with 264 bank tellers (USA)	• For non-career oriented tellers, job satisfaction and organization commitment will be affected positively through association in a cohesive effective work group and prefer a supervisory style • For career oriented tellers, job satisfaction and organizational commitment are enhanced by participation in decision making, job challenge, promotion opportunities and a people-oriented supervisory style

Reference	Methods/Sample	Findings
Benkhoff (1997)	Survey of 340 employees in 41 bank branches in Germany	• Employee commitment is significantly related to the financial success of individual bank branches • Commitment and hard work leads to good branch performance
Knights and McCabe (1998)	Observations, interviews and document analysis. 25 staff at a bank involved in organizational change	• Process of re-engineering sparked political dynamics • Good communication or strong leadership do not fix the problems relating to change • Strong leadership actually generated an intensification of organizational politics • Organizational change altered the identity and self-perception of bank employees
McCabe (2009)	Observation. 54 interviews with management 82 interviews with employees at a UK high street bank	• Deregulation and increased competition in the retail banking sector leding to a sales culture • Job cuts, proliferation of call centres and back office processing centres led to branches becoming selling spaces • Entrepreneurial discourse encouraged by the bank led to employees challenging the bureaucratic structures of the bank using the new rhetoric
Knights and McCabe (1997)	Case Study – multiple methods, observation and interviews. 2 UK bank branches implementing TQM	• Top-down approach to culture and quality was deemed difficult and troublesome due to the difficulty to control employees, the intangibility of customer satisfaction and the complexity of organizational power relations • The procedural-based approach towards quality was ill-suited to address the 'people' or more cultural issues in banking • Culture change was resisted on the shop-floor as tellers solved issues through tacit skills and not reporting issues back to managers
Michel (2014)	2 year observation looking at 2 investment banks	• Bank 1 was particularly poor at changing and reacting to the market. Bank 2, however, were the market leaders • Bank 2's ability to change did not depend on whether top management provided the right design, plan, strategy or leadership. They were successful at changing and adapting due to the mundane decisions individuals made in real time lower down in the organisation
Chreim (2006)	46 Interviews at two federal banks in Canada (24 employees)	• Explores introduction of sales culture and subsequent resistance by employees • Employees opposed the introduction of a sales culture by drawing upon already existing institutional discourses such 'quality service' and resisted and challenged what a sales culture should mean

Reference	Methods/Sample	Findings
Kerr and Robinson (2012)	Historical account of Scottish Banking – focussing particularly on RBS. Sample: Academic papers, financial press and Scottish newspapers.	• The old guard in Scottish banking consisted of paternalistic and conservative notions that reproduced the local Scottish identity of prudence and caution • Rise of a new disposition influence by USA business culture. Senior management gaining MBAs from US business schools • Led to changes to branches that saw them become sales outlets. This process of modernizing saw staff transformed from professional advisors embedded in the community into salespeople with targets to meet • A 'culture of fear' proliferated
Nayak and Beckett (2008)	Historical/secondary sources, consumer data, speeches and 11 interviews.	• Retail banking shifted from a 'social obligation' to creating 'confident consumers' • Until the 1970s banks were characterized by their social obligation to a range of stakeholders. Now, banks are characterized by a strong market orientation that emphasizes shareholder value • Banks previously offer life-time employment, structured progression and welfare-oriented personnel policies. Now employees must learn specific customer related skills reinforced through rigorous monitoring, appraisals and performance related pay • Previously rewards were given for length of service, now they are determined through a workload model (often with points for every product sold) and a series of personal interventions on a daily bases including morning 'phone ins' or 'huddles' hosted by the area manager • Successful achievement of targets is crucial for managers. Their salary, bonus, career progression, status and job security relies on their ability to achieve required results within the performance culture
Hargie et al (2010)	Analysis of public testimony of 4 banking CEOs in response to the crisis	• Expressions of 'regret' by senior leaders was used to avoid culpability • An alignment with others affected by the crisis • Invoke the spectre of impersonal global events which mitigate personal responsibility
Knights and Tullberg (2011)	Analysis of historical documents and empirical research on financial service boards in the UK and Sweden	• The banking crisis stemmed partly from masculine autonomous self • Notions of 'self-interest' linked with masculine discourses common in the the business elite • Poor ethical standards stemmed from the conditioning of individuals to not recognize their social interdependence • High salaries and bonuses serve as a proxy for the social recognition that is so elusive and precarious in the banking industry

Reference	Methods/Sample	Findings
Knights and McCabe (1997)	Questionnaires, case studies and company visits. 96 companies – 55 insurance, 15 banks and 26 building societies. (16% board, 50% middle management, 34% senior management)	• Examining organizational change such as quality circles, flattening hierarchies and encouraging communication • Changing culture is not easily done • Senior management must set the terms for the new agenda and managers need to lead by example, consider new systems of reward and keep in touch with how staff experience the policies they pursue
Carretta et al (2010)	Text-analysis approach Sample: national regulators (Italy), Italian banks and Basel Committee	• There is a significant difference in culture between regulators and banks. This is indicated in the language they used in organisational statements
Harris (2002)	Interviews relating to new technology projects in the UK banking industry 43 bank managers and consultants and 5 case studies	• Learning from past mistakes, or even building upon past successes, continues to be the exception rather than the rule • There is a reluctance to disseminate lessons learned throughout the organization • As a result the full potential offered by new technologies will continue to elude banks • 'Banking Culture' is an attitude of complacency amongst the major players based upon historical success rather than commercial reality. Banking culture tended to reduce their perceived need to learn from past mistakes and hence inhibited the potential of new technologies

One recent approach to ethnographic research which could prove useful in studying banking culture is 'in-house ethnography'. Instead of having a trained ethnography come into an organization and learn the culture from scratch, people who are already embedded within a culture are trained in ethnographic methods so they can record their own culture. This approach has some significant benefits – it overcomes access problems and means the researcher is already seen as an insider. However, it possesses a significant challenge – often the in-house ethnographer finds it difficult to get significant distance from their own organization to begin to see its unique and strange characteristics. To achieve this, they need to be provided with some basic training in concepts of culture and ethnographic methods. They also typically need ongoing support and supervision which ensures they are able to effectively ask questions and gain some degree of perspective on their own organization. This can be facilitated by working alongside other in-house ethnographers in other similar organisations. Some excellent pointers to the practice of in-house ethnography in organisations are provided in Mats Alvesson's book chapter 'at home ethnography.

Culture change in banks. There is a significant body of existing academic literature looking at the process of culture change in banking. To provide a solid background for our research, we undertook a systematic review of the literature on this topic. We located 25 studies exploring culture change in banks which we thought were relevant. Each of these studies used a range of different methods including surveys, historical and archival analysis and extended participant observation. The findings of the studies are extremely varied (See Table A2.2). However, we think there are five themes which cut across these studies:

- **The rise of a sales culture.** Many of these papers track the shift from a more stable 'welfare' oriented culture with-in banking towards a sales culture. They point out this shift mirrored a broader shift in society where society became more consumerist, a culture of 'enterprise' became widespread, and there was a willingness by customers to take on more debt. In addition, these studies point out the rise of sales culture gave rise to profound changes in the way bankers thought about themselves at work. In the words of one book, they started to think about themselves as 'sellers', not as 'tellers'.
- **Bankers become cut off from society and their own bodies.** A number of studies, particularly in the investment banking context, found the hard-driving culture had some profound personal implications for bankers. It meant they began to ignore other demands or issues in society which could not be put into strictly economic terms. It also meant they began to ignore their own bodies, and would often become ill or troubled through overwork.
- **Trying to create a single uniform culture is wishful thinking.** Another finding cutting across many studies is that banks which gave different branches and divisions some freedom to translate a culture to fit with their own specific concerns tended to be more successful in driving through culture change initiatives. People were most loyal to their particular location or branch, not to the bank as a whole. Banks which insisted on a single uniform culture throughout the bank tended to face a far more difficult challenge. Often these uniform change initiatives would be derailed.
- **Culture change sparks resistance and politics.** A number of studies we looked at documented how culture change initatives often sparked intense political jocking and resistance. Often change initiatives were undermined through many processes of resistance within the bank. One study of large UK bank found that multiple change initiatives created a 'culture of complaint'. People were actually bound together by a common fondness for complaining about the most recent managerial initiative.

Appendix Three: Additional Tables

Table 2.1: Timeline of financial crisis

Date:	Scandals	Reports and Policies	Regulations
SEPT 2007	Northern Rock Liquidity Crisis/FSA fines Egg, Liverpool Victoria and Land of Leather over PPI failings		
JAN 2008		Treasury Committee: The run on the Rock	
FEB 2008	Nationalisation of Northern Rock		
JUN 2008		Competition Commission: PPI Market Investigation - provisional findings	
SEP 2008	Collapse of Lehman Brothers / HBOS rescued by Lloyds TSB	Which? Research into credit card PPI / FSA update on PPI sales review	
OCT 2008	Government bails out RBS, Lloyds TSB and HBOS / FSA fines Alliance & Leicester for PPI mis-selling		
NOV 2008			Banking Conduct of Business Sourcebook (BCOBS) comes into effect (excessive fees)
JAN 2009		Competition Commission: PPI - final report	FSA bans sales of single-premium PPIs
FEB 2009			Banking Act 2009 comes into force
MAR 2009		FSA: The Turner Review - A regulatory response to the global banking crisis	
MAY 2009		Treasury Committee: Banking Crisis - dealing with the failure of the UK banks / Treasury Committee: Banking Crisis - reforming corporate governance and pay in the City	
JUL 2009		Treasury Committee: Banking Crisis - regulation and supervision	
SEP 2009		FSA policy paper (09/23): The assessment and redress of PPI complaints	
OCT 2009		FSA: Quality of advice on structured investment products (Lehman-backed structured products - SCARPs) / FSA: Treating customers fairly - structured investment products / OFT: Review of the personal current account market in the UK - follow up report (OFT1123)	
NOV 2009		Walker Report on corporate governance	HMRC Code of Practice on Taxation (voluntary)
DEC 2009			Future of Banking Commission set up by Which? / Supreme Court ruling in favour of banks in OFT overdraft fees case
JAN 2010		FSA Consultation Paper (CP10/3): Effective corporate governance	

Date:	Scandals	Reports and Policies	Regulations
MAR 2010		The Future of Banking Commission Report / FSA policy paper (10/6): The assessment and redress of PPI complaints / OFT: Review of the personal current account market in the UK - unarranged overdrafts (OFT1216)	
APR 2010	FSA fines RBS for poor complaints handling	FSA: Review of complaint handling in banking groups	
MAY 2010		FSA Report: The small firms financial crime review	
JUL 2010		FSA consultation paper (CP10/16): Mortgage Market Review - Responsible lending	
AUG 2010	FSA fines RBS for inefficient money-laundering controls		
SEP 2010		OFT: Review of the personal current account market in the UK - progress update (OFT1275) / FSA policy paper (10/15): Effective governance - final rules	
DEC 2010			CEBS guideline on bonuses
JAN 2011	FSA fines Barclays for mis-selling investment products		Annual levy on banks
MAR 2011		OFT: Review of the personal current account market in the UK - progress update (OFT1319)	
APR 2011		ICB (Vickers) Interim Report	FSA announces new rules for PPI selling / High Court rules against banks in PPI mis-selling case / PPI claims process / Competition Commission order for PPI market

Date:	Scandals	Reports and Policies	Regulations
MAY 2011	FSA fines Bank of Scotland (Lloyds) for poor complaints handling	FSA Consultation paper (CP11/10): Consumer complaints	FSA announces new complaints handling rules
JUN 2011		FSA Report: Banks' management of high money-laundering risk situations	
JUL 2011		Treasury Committee response to ICB Interim Report	
SEP 2011		ICB (Vickers) Final Report	Financial Services Act 2012 passed
OCT 2011		FSA Consultation Paper (CP11/20) on packaged bank accounts	
DEC 2011	FSA fines HSBC (NHFA) for mis-selling investment products	FSA: The failure of the Royal Bank of Scotland / FSA policy paper (PS11/15): Financial Crime - a guide for firms	
FEB 2012	FSA fines Santander for mis-selling structured products / Barclays to pay for aggressive tax avoidance / HMRC case against HSBC for tax avoidance (Jersey, whistle-blower)	FSA Consultation Paper (CP12/17) on packaged bank accounts - final rules	Introducing Banking Reform Act into Parliament
MAR 2012	FSA fines Coutts (RBS) for inefficient money-laundering controls	FSA Structured Product Review - guidance	
APR 2012	Citizens (RBS) settles overdraft fee lawsuit in the US		
JUN 2012	FSA settlements with Barclays, HSBC, Lloyds and RBS over redress for mis-selling interest rate hedging products (IRHPs) / FSA fines Barclays for LIBOR manipulation / LIBOR scandal in the media	HM Treasury/BIS: Banking reform (White paper)	

Date:	Scandals	Reports and Policies	Regulations
JUL 2012	FSA settlements with Co-operative Bank, Santander, Northern Bank, Allied Irish Bank, Bank of Ireland, Clydesdale and Yorkshire banks over redress for mis-selling interest rate hedging products (IRHPs) / Serious Fraud Office criminal investigation into LIBOR manipulation		PCBS appointed / FSA new rules on selling packaged bank accounts
AUG 2012	DFS fines Standard Chartered for inefficient money-laundering controls		
SEP 2012		The Wheatley Review of LIBOR - final report / FSA review of sales incentives	
OCT 2012		CP11/31): Mortgage Market Review - final rules / FSA Consultation Paper (CP12/26): Regulatory rules and guidance relating to approved persons	
NOV 2012	FSA fines CPP for mis-selling card and identity protection		
DEC 2012	Lloyds TSB suspends selling packaged bank accounts (phone/branch) / UBS fined for LIBOR manipulation / DFS fines HSBC for inefficient money-laundering controls		
JAN 2013	FSA fines Co-operative Bank for incorrect handling of PPI complaints	FSA: Final guidance - Risk to customers from financial incentives / OFT: Review of the personal current account market in the UK	
FEB 2013	RBS fined for LIBOR manipulation		
MAR 2013	Santander suspends selling packaged bank accounts	FSA: Interest Rate Hedging Products - Pilot findings	FSA new rules on selling packaged bank accounts come into force

Date:	Scandals	Reports and Policies	Regulations
APR 2013		Salz Review on Barclays' business practices	Financial Services Act 2012 come into force (establishing FCA, PRA, FBC)
MAY 2013	Increase in complaints about packaged bank accounts (Financial Ombudsman)		FSA interest rate hedging products (IRHP) review and redress
JUN 2013	UK Uncut protest against HSBC for tax avoidance in the media	Parliamentary Commission on Banking Standards (PCBS): Changing banking for good	
JUL 2013			BBA: Libor Code of Conduct (FCA confirmed industry guidance)

Date:	Scandals	Reports and Policies	Regulations
AUG 2013	Mis-selling of card and identity protection in the media		Announcement of CPP card and identity protection compensation scheme
SEP 2013			Current account switching service
NOV 2013		Large and Wyman: RBS Independent Lending Review	
DEC 2013	FCA fines Lloyds (TSB, Bank of Scotland, Halifax) for serious sales incentive failings / RBS, Deutsche Bank, JP Morgan fined for LIBOR manipulation (UBS and Citigroup immunity)	BBA: LIBOR Consultation Paper feedback summary	Banking Reform Act passed
JAN 2014	Increase in complaints about packaged bank accounts (Financial Ombudsman)		
FEB 2014		Treasury Committee: Terms on reference for SME lending inquiry	Administration of LIBOR changes from BBA Libor to ICE Benchmarks Limited
APR 2014		FCA research on the overdraft market	Mortgage Market Review changes come into effect
MAY 2014		Lambert Banking Standards Review	
JUN 2014	FCA fines Credit Suisse and Yorkshire Building Society for financial promotion failures (mis-selling of structured products)		
JUL 2014	Lloyds fined for LIBOR manipulation		
AUG 2014	FCA fines RBS for poor mortgage records and advice / DFS fines Standard Chartered for inefficient money-laundering controls		

Table 2.2: Analysis of problems

Type of issue: Economic

Underlying Issues	Description	Resolutions
Boom and bust cycles	Periods of cheap debt led to easy credit, poor investment decisions which eventually go bad resulting in crisis	Monitoring by Bank of England of macro and micro prudential risks
Moral hazard	Banks were ultimately did not did not bare the risk for their activities as they were implicitly backed up national governments. This means they took more risk decisions than they would if they did not have state as backstop.	Alternative mechanism for dealing with failed banks. Bail-ins.

Type of issue: Market-place

Underlying Issues	Description	Resolutions
Lack of competition	Domination of market by small number of banks with similar offers meant no incentives for good behaviour	Personal account switching regime
Increasingly complex products	Financial products were overly complex, making them difficult or impossible to understanding. There was often no justification in customer needs.	FCA investigation and fines of some product classes Voluntary introduction of more simple products by banks
Poorly informed customers	Customers were not given the information they needed to make informed choices. They also did not have financial literacy required to make these choices.	Voluntary provision of information to customers by banks Some campaigns around financial literacy

Type of issue: Psychological

Underlying Issues	Description	Resolutions
Inability to learn from past crises	Many lessons from past asset bubbles and failures in the financial system were largely forgotten. The result was past mistakes were repeated	N/A
Responsibility shifting following failure	Key actor sought to avoid responsibility for failures. They would shift responsibility onto other parties.	Senior Persons Regime
Faith in mathematical models	Rise of automated processes resulted in reliance on decisions by a computer system rather than the use of rounded expert judgement	N/A

Type of issue: Structural

Underlying Issues	Description	Resolutions
Ownership model	Shareholders demand increasingly high short term returns, resulting in pressure for increasingly risky behaviour. When mistakes were made, they would be borne by shareholders, not employees or executives	N/A
Integration of investment and retail banking	Investment bank culture and demands bled into retail banks. This resulted in the rise inappropriate demands and culture in retail banking	Ring fencing of retail and investment banks

Type of issue: Governance

Underlying Issues	Description	Resolutions
Poor understanding of risks taken by institution	Lack of understanding by senior management and board of risks which were being taken at lower levels of the organization. This resulted in high levels of risk taking without appropriate oversight	Increasing monitoring of risk and conduct by FCA. Dramatic expansion of risk and compliance within banks.
Board and senior management ignorance of shareholder interests	Lack of understanding and connection with longer term interests of shareholders. Often high levels of risk were taken with gains being syphoned off by high level employees and losses born by shareholders	Replacement of individual senior management, but no structural changes.
Treatment of legal compliance as substitute for good conduct	Bank executives assumed all they needed to do was comply with regulation. This lead to poor practice which was not strictly outside the bounds of compliance being seen as acceptable.	Increasing monitoring of conduct rather than compliance by FCA
Lack of diversity at senior levels	The lack of diversity gave rise of group-think, which meant many central assumptions were not challenged and fool-hardy risks were taken on.	Some voluntary compliance by banks Some industry initiatives

Type of issue: Incentives

Underlying Issues	Description	Resolutions
Incentives for institutions to pursue rapid growth	Banks and executives were rewarded by financial markets for rapid expansion. This meant they often took on risks from businesses which were not properly understood.	N/A
Poor Incentive structure	High levels of compensation often for poor performance Poor structuring of incentives with cash over short term	Longer bonus vesting period and claw-backs

Type of issue: Punishment

Underlying Issues	Description	Resolutions
Lack of individual responsibility	Individuals were able to take great risks and fail significantly, without an punishment. In particular there were no custodial sentences given out.	Senior persons regime
Lack of ability to speak up	When employees saw wrong doing they did not have proper channels for raising concerns.	Voluntary whistle-blowing mechanisms in banks

Type of issue: Oversight and regulation

Underlying Issues	Description	Resolutions
Tax structure favours debt over equity	The tax structure rewards banks for taking on greater amounts of debt, resulting in a lack of equity to cushion the bank if failure occurs	N/A
Failure of ratings agencies	Credit ratings agencies had conflicts of interest and would often not provide accurate ratings of investment products or institutions.	N/A
Failure of auditors to expose undue risks	Auditors had conflicts of interest and did not do their duty of outline major risks being run by banks	Some switching between auditors of large banks
Lack of strong professional bodies and associated duties	Lack of common professional standards meant bankers were not held together by common morals or norms	Establishment of BSRC

Table 2.4: Overview of key policy reports

Policy documents	Definition of Culture	View of Culture Change	Areas to consider under culture	Metrics proposed	Ownership	Role of regulators	Reporting	Recommended changes (in relation to culture)
Walker Review	Culture as encompassing norms, something more engrained than plain conformity	Change is needed	- Risk management - Board challenge	N/A	Responsibility of the Chairman	N/A	N/A	N/A
The Future of Banking Commission	Culture as good governance	- Change is needed - Change is difficult - Responsibility of management - Reinforce through employee incentives	- Code of conduct - Governance - Remuneration	- Risk assessments - Customer satisfaction - Complaints level and resolution - Regulatory compliance	Board led, senior management supported culture Role of the auditors in transparency and accountability Role of credit rating agencies in transparency	- Industry code of conduct is needed - New professional standards body is needed to set and enforce standards - Regulators only to set limits - Senior executive selection should not be the responsibility of the FSA - FSA to reinforce changes to remuneration	- Effect of the company's activities on the stability of the financial system in the Annual Report - Fund managers to report process they seek to influence banks - Auditors to report all significant risk factors	- Development of an industry Code of Conduct - Introduce governance measures (transparency and independence) - Amend remuneration system (link to customer measures) - Increase shareholder oversight - Strengthen role of accounting - Increase independence of credit rating agencies
ICB Report	Culture as enabler of long-term customer oriented retail banking	N/A	N/A	N/A	N/A	- Culture cannot be regulated - Supporting culture is needed for regulation to work effectively	N/A	Independent governance and culture for ring-fenced banks
FSA: The failure of the Royal Bank of Scotland	Culture as attitude to the balance between risk and growth	N/A	- Board oversight and challenge - CEO's leadership - Risk management	No rigorous mechanism that can accurately assess a firm's culture	N/A	FSA lacking sufficiently detailed approach to identify specific deficiencies / robust approach to ensure that all risks were mitigated	N/A	- Introduce governance measures (appropriateness of appointments) - Increase executive team challenge and teamwork - Encourage positive thinking but not over-optimism - Amend executive remuneration system (link to capital, liquidity, asset quality) - Increase Board oversight and challenge - Enhance role of risk management - External effectiveness review of Board to take place every 2-3 years and to be shared with FSA - Record key elements of Board and sub-committee meetings
Salz Review	Culture as practices and values that show how things are done and should be done	- Rules to be supplemented by a clear set of values - Need clear plan and should monitor/report progress - Reinforce industry standards to address employee scepticism - Culture change is not a goal. Change the tangible things, focus on problems that need changing	- Customer complaints - Code of conduct - Remuneration - Employee engagement - Code of conduct - Whistle-blowing - Recruitment	- Employee, customer and other stakeholder surveys - Breaches of code - Use of the escalation and whistle-blowing procedures	Board's management and oversight	- Regulation alone is not the answer - A new professional body is needed to set and enforce standards	Regularly report on progress made against targets and seek external assurance to rebuild trust	- Establish sense of purpose and develop standards (senior leadership to be responsible and promote) - Develop employee learning programmes (senior management to lead or attend) - Development of Code of Conduct (support shared values) - Set targets and report on progress - Amend remuneration system (link to values) - Enable issue escalation - Reinforce values through recruiting and induction
PCBS: Changing Banking for Good Report	Culture as set of standards	- Change is needed - Change will be slow - Need clear evidence of change	- Code of conduct - Tone/standards at the top - Remuneration - Diversity - Whistleblowing	Gender breakdown	Tone at the top, in the middle and at the bottom	- Financial stability regulations will not remedy poor culture - New professional body as a major force for culture change - FCA to support whistle-blowers	Annual reports to include gender breakdown of trading operation	- Establish new professional body for banking to introduce non-financial incentives - Report on gender breakdown of trading operations - Enable issue escalation (whistleblowing)

Table 2.4: Overview of key policy reports (continued)

Policy documents	Definition of Culture	View of Culture Change	Areas to consider under culture	Metrics proposed	Ownership	Role of regulators	Reporting	Recommended changes (in relation to culture)
Lambert: Banking Standards Review	Culture as shared values that drive or prevent employee decisions and actions	- Change will be slow - Industry should work together	- Tone at the top - Remuneration - Whistleblowing procedures - Customer complaints - Product transparency - Handling businesses in distress - SME lending decisions	- Understanding of values and codes of conduct by employees - Embeddedness of values and codes of conduct - Design and use of whistleblowing procedures - Levels of diversity - Feedback from employee and union representatives	Tone at the top, in the middle and at the bottom	- A new professional body is needed to set and enforce standards - New body to complement and not duplicate regulators' work - Over-reliance on statutory regulation will reduce competition and build barriers to entry and innovation in the sector	Self-assessments to be published every year	- Establish new professional body for banking (Banking Standards Review Council - BSRC) to develop standards and compile good practice (internal challenge, whistleblowing, complaints resolution mechanisms, values, remuneration, customer satisfaction, transparency) - Banks to measure and report progress (self-assessment)
Economist Intelligence Unit: Crisis of Culture	N/A	- Most firms started to change culture - Supported by senior executives - But execs struggle to understand importance - Knowledge gaps need to be understood to be more resilient - lack of communication between departments the norm	- Incentives - Perception of reputation - Employee evaluation - Awareness raising - Code of conduct	N/A	Tone at the top. Integrated management committee and ownership important	Tightened regulation around issues like M & As helped some countries avoid problems during financial crisis.	N/A	N/A
KPMG: Reinvention of Banking	N/A	- Cultural change underway in all big banks - Change will take time and serious will power	- Incentive frameworks - Sales regimes - Training	N/A	Tone at the top.	- Adopt product life - Cycle approach - Provide space for banks to apply regulation based on customer need - Need for global co-ordination among regulators	N/A	N/A
Deloitte: Culture in Banking	Culture as way we do things around here, culture as glue	- Change is underway - Change will be slow (3-4 years) - Most Executives over estimate ability of their firm to change	- Incentives - Metrics - Governance and management knowledge - Whistleblowing	N/A	Tone at the top, business unit heads most important	Too much regulation	N/A	- Performance Metrics metrics which balance risk and reward, and focus on behaviour as well as performance. - Changing compensation composition and timing - Facilitate ability to speak up - Provision of training.

Table 4.1: Summary of interview comments

BARCLAYS BANK PLC	
Historical/Background:	• In 2012, Barclays undertook a fundamental review of how the business operates, looking at the bank in terms of business performance and in terms of culture because of the belief that only a business driven by strong values can deliver strong, sustainable returns. • The result was the launch of the Transform Programme, with the goal to become the 'Go-To' bank, which launched in early 2013 a set of newly defined Purpose and Values across Barclays globally. These are fundamental to Barclays long-term success and represent the set of standards under which all colleagues at Barclays will work, and against which the performance of every employee will be assessed and rewarded. • A fundamental belief that is driving the strategy and building the 'Go-To' Bank is that healthy societies need healthy banks. • The aim is therefore to establish a culture where colleagues can deliver the 'Go-To' goals, who understand how our day-to-day decisions impact on broader society and that we can create products, services and solutions that as well as delivering commercial value can also have a benefit to society.
Definition of Culture	• Since the unveiling of the current strategy, values and behaviours, the culture in Barclays has been progressing and evolving at pace. • At the moment, there are high levels of awareness of the definitions for all of these across the Bank, with attention being focused on the implications of being value-driven, and what impact a common purpose will have on the ways of working
Content of Culture / Espoused Values (i.e. Core Values)	• Barclays has described the transformation as an integrated framework, defined as a goal of becoming the 'Go-To' Bank which can be achieved through the Bank's purpose of 'helping people achieve their ambitions - in the right way', for which explicit values and behaviours have been launched. The overall progress is measured through a defined balance scorecard. • 5 values were launched in 2013 - Respect, Integrity, Service, Excellence and Stewardship, each containing 5 behaviours.
Programmes for Rebuilding Culture	• The approach to transforming Barclays has been holistic, with various activities taking place in parallel across Barclays. These have included communication & engagement campaigns, leadership development, adjustment of processes and systems, among others. The following describe some of the activities most closely connected to affecting culture change. • Since the values and behaviours were launched, all colleagues have been part of face to face Values Workshops in 2013, designed to discuss and better understand the values, purpose and culture that was being launched. • In addition, significant focus has been placed on supporting leaders' development, particularly related to the role they play in creating and supporting the values-driven culture at Barclays. E.g. Leadership Academy, focusing on Authentic, Values-driven Leadership designed for MDs, Global leadership curriculum for leaders and managers, and the Colleague Curriculum for the broader employee population, all of which are connected to the Barclays' values & behaviours and Leadership Capability model.

Programmes for Rebuilding Culture	• The approach to transforming Barclays has been holistic, with various activities taking place in parallel across Barclays. These have included communication & engagement campaigns, leadership development, adjustment of processes and systems, among others. The following describe some of the activities most closely connected to affecting culture change. • Since the values and behaviours were launched, all colleagues have been part of face to face Values Workshops in 2013, designed to discuss and better understand the values, purpose and culture that was being launched. • In addition, significant focus has been placed on supporting leaders' development, particularly related to the role they play in creating and supporting the values-driven culture at Barclays. E.g. Leadership Academy, focusing on Authentic, Values-driven Leadership designed for MDs, Global leadership curriculum for leaders and managers, and the Colleague Curriculum for the broader employee population, all of which are connected to the Barclays' values & behaviours and Leadership Capability model. • The redefined code of conduct has been launched in 2013, known as the Barclays' Way, and outlines the Values and Behaviours which govern the way of working across our business globally. It constitutes a reference point covering all aspects of colleagues' working relationships, specifically (but not exclusively) with other Barclays employees, customers and clients, governments and regulators, business partners, suppliers, competitors and the broader community. • Various communication campaigns have taken place since the launch of Transform to provide awareness and share the experience and applications of how the business is changing across the Bank. One recent example is the 'Millions of Stories' to share examples of the values in action.
Processes Through Which Change Is Achieved	• As described in the previous section, Barclays has undertaken a series of activities to engage all colleagues, with particular emphasis on the leadership of Barclays, to enable greater dialogue and discussion around the transformation process, and to support building accountability for the process. • Currently, the focus is primarily on embedding the new values and behaviours, the use and understanding of new systems and processes, and ensuring colleagues feel confident about their role in driving the transformation of the Bank. • This focus on embedding is connected to the belief that Barclays' values and behaviours are inextricably linked to performance.
Assessment/Measurement /Monitoring of Culture	• Barclays has developed a balanced scorecard model which explicitly introduces a long-term dimension into the setting of short-term objectives for individuals. All employees are assessed through the performance management system with a composite rating based on what they deliver alongside their living of the values, the "how". • Though no single metric is being used to measure culture, a series of surveys, studies and other data points (e.g. Employee Opinion Surveys, external benchmark surveys, the Balance Scorecard metrics) are being used to contribute to the understanding of the progress that is being made • Barclays has established a Balanced Scorecard measured through 5Cs: colleague, citizenship, company, conduct, and client: – Metrics have been set for each C for the group as a whole, which are used as part of the performance reporting process

Assessment/Measurement /Monitoring of Culture (continued)	– Metrics are also set at business and unit levels to ensure alignment and connections through the Bank – BSC metrics are now used as part of the Performance Management system for all colleagues • In addition, effort is underway to continue to build dialogue and transparency across the Bank, which aligns with the expectations set-out through the Transform programme and specifically the values and behaviours that have been defined for Barclays.
Views on Regulation	• Barclays does not comment on its relationship with its regulators.

FIRST DIRECT	
Historical/Background:	• Deep history focusing on customer services. • Business tailor made for the customer. • Mechanisms implemented and designed to manage the customer experience. • Culture very customer focused. • Installing values in employees so that employees place values in customers
Definition of Culture	• Culture very customer centric. • Emphasis placed in improving: - The customer experience. - Personalisation / contact. - Challenging the perceptions of depersonalized direct banking. • Incorporating change to make sure that services were always the best possible. • Culture developed to enhance the quality of the experience from customers.
Content of Culture /Espoused Values (i.e. Core Values)	• Deliberate willingness in designing a customer centric culture (intended culture) • Emphasis placed in management of the customer and employees experience • Employees' experience managed through the notion of "people experience" • First Direct Comment: "obsessed about creating the right context for employees so that they will do the right things for customers".
Programmes For Rebuilding Culture	RECRUITING & TRAINING • Recruiting based on attitudes and personality – emphasis on sharing the brand through training. • Assessment/Analysis of changes in the marketplace. • Tracking the right people, then recruiting them, ensuring these people deliver the best experience to the customer. - 25% of new hires recommended by workers - like-minded people are recruited as a result. • Brand focused training.

Programmes For Rebuilding Culture (continued)	• HSBC and FD: Training focused on: - How to have a conversation with customers. - How to react to needs. - Heavy socialization processes to team. - Environment learning. - Progressive development of relationships with customers. - Heavy support to ease the quality of the relationship with customers. • Mentoring scheme: - Systematic, in team, weekly/monthly meetings. - help identify problems and need for support in each training group. • Nature of the HR: employees VALUE the CUSTOMERS. - Addressing all demands in a timely manner.
Processes Through Which Change Is Achieved	Comprehensive set of metrics: • Focus on (employees) monitoring the quality of the customer experience. • Focus on the quality of interaction ensuring that culture is maintained over time. • Measuring values and their adoption through appropriate behaviours. • Measure on activities: - Quality of interactions with customers. - Focus on understanding the needs of customers. - Analysis of management of customers' contacts. - Efficiency to cover calls (AVG). - Monitoring the happiness, attribution and reasons for leaving the organization. - Evaluation of how employees contribute to create the right environment and culture. - Weekly survey checks on quality of delivery to customers. - Evaluation of speed to resolve customer queries. • Management of risk processes • Conducted audits to evaluate whether regulatory requirements are met • Measurement of the quality of sales
View on Regulation	• Role of regulation is fundamental. • Comment 'a need for balance between getting Banks to do the right thing vs not creating unnecessary steps for customers that prevent from delivering the best service'. • Regulators need to be more customer-centric. • Interpretation of rules and regulations. • Increased engagement with the regulatory body to discuss appropriate interpretations that do not affect negatively the quality of customer services. • Growing competition needed and is about to happen • Push high street Banks to compete more - New entrants will have an easier life Regulators need to emphasise what metrics to monitor for cultural change • Clear explanation of what should be monitored: • Sales' quality • Satisfaction – industry-wide eye on trust and indicators of trust from the customers' perspective

HANDELSBANKEN	
Historical/Background	• Unique/Innovative banking model developed by Jan Wallander Swedish economist based on decentralisation. • Founded in 1871, Handelsbanken was reorganised according to this model in the 1970s. • Proven model - reference to the Swedish financial crisis in 1991 and global financial crisis in 2008. Opened ca.130 of its >180 UK branches since the global financial crisis
Definition Of Culture	• Starting point: "Our Idea of how we should run a successful universal bank is based on trust and respect for the individual, both customers and employees." "We have great confidence in our staff and great respect for what they achieve. We look upon them as sensible and competent and filled with a natural desire to do a good job. We believe that they have great potential, enthusiasm and ability to learn about new conditions, new technology and new forms of work", Jan Wallander. • Refer to staff as "Handelsbankers" to convey a sense that their staff and organisation's values fully align.
Content Of Culture / Espoused Values (I.E. Core Values)	• "Our main goal is achieved through focusing on having the most satisfied customers as well as the lowest costs". • Decentralised customer relations and decentralised decision making. • Trust in individuals. • Employees have more ownership ("You decide"). Long-term approach. Courage to make decisions and take ownership. Collaborate to achieve joint goals.
Programmes For Rebuilding Culture	• "We are not enacting on any program of culture change. Instead, we ensure we protect our culture and allow it to continue growing and flourishing as Handelsbanken does... we are careful to select staff that reflect our values, and truly live and breathe them". • Current programmes in place relating to culture: - Employee recruitment: focus on hiring people who would fit the culture. - Requirement to be passionate about the same values (long term relationship, customer satisfaction). - Performance management: no sales targets. - Evaluation based on how "Handelsbanker" someone is (culture-bearer, interested, engaged). - No bonuses. • Customer satisfaction: "listening system" to ensure customers are heard and responded to.
Processes Through Which Change Is Achieved	• All the senior employees at Handelsbanken act as "culture bearers". Fine tuning of our culture and model is gradual, continual, and an expected part of remaining Handelsbanken. The flat organisational structure (3 mgmt levels) gives confidence for staff to make suggestions or raise issues and for management to listen and respond.
Assessment/Measurement /Monitoring Of Culture	• No current metrics in place to measure effectiveness of culture. Instead a continual process of looking and listening all over the organisation (and power to respond quickly devolved in all areas). Individual performance assessment has "culture bearer" role as a key assessment criterion. • Opposition towards something that would increase centralisation or micromanagement. - 'to measure is to affect'

Assessment/Measurement /Monitoring Of Culture	• Follow outcomes that show overall success: - Financial stability. - Customer satisfaction. - Loyalty.
Views On Regulation	• "Agnostic" towards regulation: it didn't matter how it develops as long as it applies to everyone equally. The bank's only corporate goal is relative to its competitors.

HSBC BANK PLC	
Historical/Background	• 60s-70s close relationship / trust with customers through branch network as sole channel available • 80s-90s importance of growth / development of a culture that over focuses on sales started to emerge • During this last period, shift in the physical contact with less direct contact with people (channel migration) was seen across the FS sector in order to reduce costs and centralise decision making • Also, last period saw significant growth through acquisition for HSBC, which brought about cultural integration challenges which are notoriously different • 00's Increased complexity of products, opportunism and profit motive led to a culture which did not always focus on the interests of the customer. The banks including HSBC borrowed some of the selling techniques of high street retailers to bundle products • Western economic policy and attitudes of consumers to finance changed to be less conservative. Governments including the US drove lending to consumers who possibly could not afford it. Controls and measures were loosened. Consumerism exacerbated the issue • HSBC faired the crisis relatively well - it's prudent policies and early exits from certain products such as PPI and sub-prime meant it withstood the economic crisis well. HSBC had a strong capital position • The cultural issues that affected the rest of the industry impacted HSBC in a slightly different way - The DPA has been the strongest trigger event for HSBC - while the organisation was looked well upon due to its capital position it emerged that we had breached our own standards and we had not had effective controls in place around money laundering and terrorist finance • Culture was inconsistent and not understood - We have embarked on a group-wide assessment of culture though our values embedding approach. The result is that employees worldwide had contributed to a culture where we under pressure drove the numbers and: 1. Conformed and fitted in rather than upholding our values 2. Blindly followed the rules or orders without consideration to the consequence 3. Feared judgement and the consequences of action • What emerges is an organisational bias, where good people let bad things happen to survive • HSBC initiated its cultural embedding work in 2008 through the identification of its values - the programmes continue and are outlined below. It did this before the breaches of values or the DPA emerged.
Definition Of Culture	• Current culture is difficult to define in an organisation of 240,000 people in over 75 countries however there are some emergent themes. We have undertaken various surveys and sampled employees using different tools. The current culture is changing. In 2011 we started to measure our European organisation, starting with the UK bank, in terms of their decision making preferences. We worked with and pioneered a survey now used by Professor Roger Steere. The survey's results in short form show that we: 1. Are very principled in our decision making both at home and work (we use our experience to make judgements) 2. But we do change between work and home - at work we seem to value policy at the expense of care, whereas at home we are very caring people • A bias emerges in the workplace. This has changed over the last few years; unfortunately since the DPA, the strengthening of regulation, widespread criticism of the sector and therefore a growing fear of doing wrong thing we have seen an increase in policy driven behaviour at the same time as a decrease of using our moral compass in decision making. • This is backed up by the research carried out through most recent values embedding programme that demonstrates that when we are not at our best or under pressure we: 1. Conform and fit in rather than upholding our values 2. Blindly follow the rules or orders without consideration to the consequence 3. Fear judgement and the consequences of action • However, it must be noted that since our programmes began there is a very different tone: 1. Senior leadership are visibly sponsoring and leading 2. Attendees to programmes talk of change and a more open culture 3. Groups of advocates or change agents are forming to embed the values in the day to day
Content Of Culture / Espoused Values (I.E. Core Values)	• HSBC recognises that the culture of an organisation has to be aligned to the organisations Vision, Purpose, Strategy and Values. • HSBC has defined its values around Courageous Integrity - - Dependable: Standing firm for what is right, delivering on commitments, being resilient and trustworthy. Taking personal accountability, being decisive, using judgment and common sense, empowering others - Open to different ideas and cultures: Communicating openly, honestly and transparently, welcoming challenge, learning from mistakes. Listening, treating people fairly, being inclusive, valuing different perspectives. - Connected to customers, communities, regulators and each other: Building connections, being aware of external issues, collaborating across boundaries. Caring about individuals and their progress, showing respect, being supportive and responsive. • The values were not defined as part of a marketing proposal but as a way to identify what the organisation itself defines as important. The Values were defined through an appreciative enquiry where more than 5000 employees described us at our best. In addition to the Values HSBC has re-stated its purpose, which was also defined by employees and customers: • Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions. This is our role and purpose. • These statements allow us to build a programme for change and provides a narrative for our people to create meaning in the way they deliver in their roles, wherever they are in HSBC.

Programmes For Rebuilding Culture	• The embedding of values started in 2008 and continues through to today across the organisation: - 2008/9 Values identification through Appreciative Enquiry - 2010 Communication of Values across HSBC - 2012-13 Values Embedding initiated through the development of Values Based Leadership programme c.20,000 leaders attending - 2012 - ongoing Embedding the values in our people processes. Recruitment, Pay and Reward, Recognition, Performance Management etc - 2013-14 - Values Lead High Performance culture programme developed and deployed to all senior management as follow-up to the first programme c.25,000 leaders attending - 2015 - programme redefined as 'At Our Best' asking leaders to bring their best even in adversity. c.120,000 employees targeted in customer facing roles - programme to be leader lead - 2015 - The other supporting initiatives include: • Group wide re-definition of our operating model and structure alongside a revitalised strategy • Development of a Global Standards programme Group wide to ensure the proper standards and controls are in place to protect the bank, customers, shareholders. • Group wide communications campaign to support embedding - telling stories • Leader tool-kits to support deployment • Up skilling organisation wide in six sigma to put customer at the heart of process and product • Exchange - group wide learning circles run to drive continuous improvement and identification of key cultural and performance blockers • Development of group wide capabilities and implementation of values and risk culture elements into all learning curricula • Culture engagement programme supported by a refresh of the leadership curriculum, specifically for first line managers in how to build a Values Led High Performance team. • Follow up with leadership and the development of a group wide group of advocates to embed the change
Processes Through Which Change Is Achieved	There are essentially 3 ways the change is being deployed: 1. Policy, process and procedure - HR and Business processes are being evaluated and designed to support the values embedding and the desired culture. Six sigma is being used to this end. 2. Learning and development - all learning curricula from induction to technical training are being evaluated in terms of the culture they drive. Specific programmes such as Values workshops and leadership training are being run on a project basis and now to be leader led. 3. Communications - the values and culture is being embedded in all group communications. The phase 3 programme will have a group wide campaign of stories describing the culture as we desire it. Examples: • HSBC have 'culture advocates' in the UK who act as advocates to share the values and beliefs of the new culture. 1500 are being developed for 2015. • HSBC run global workshops that 'touch' over 220, 000 employees. • There is a values 360 feedback approach that all senior management go through • HSBC is also pioneering a way to embed the change:
Processes Through Which Change Is Achieved (continued)	1. HSBC uses hard hitting media content as a truth and reconciliation session to help people understand and acknowledge their contribution to the culture even if they have not committed some of the reported acts 2. HSBC has identified the cultural blind spots that caused the issues and is using 3 habits that directly act as cultural antidotes to these issues that overcome the limiting beliefs • The Culture change programme consists of 4 major elements as antidotes to the blind spots: - Case for change - what happened (human impact) and how culture cased it. - Who I am - identification of values and purpose and how it fits in HSBC. - Deciding what's right - how to overcome our personal and organisational bias in decision making - What we Do - creating an environment where we all call out issues and feedback
Assessment/Measurement /Monitoring Of Culture	• Measurement exists in the current form: - Std customer satisfaction and engagement surveys - Employee engagement surveys - Std process metrics and HR measures - complaints, grievances etc - Specific cultural diagnostics • However, HSBC is developing a group wide measurement framework so our Audit teams can audit culture. The measurement framework is being pulled together at group level. The challenge is that some lead measures may be counter intuitive - an open culture will initially increase customer complaints upheld and likely see more grievances. We also: • Conduct behavioural assessments in performance management • have a full assessment of learning effectiveness covering knowledge and behaviour change • In-depth assessments against values at all stages of employee lifecycle • HSBC utilize a measurement tree concerning the relationships between the different processes.
Views On Regulation	• Cultural change is challenging. The first barrier to change is that this issue, in this industry, actually our economy/society, has never happened before. Leaders therefore are unlikely to know how to make the change. There is no corporate memory to solve the issue. • The other barriers we face are cultural. A belief system that says - In order to survive I... 1) have to fit in or conform (we compromise our own values blindly) 2) have to follow the rules (there are too many and rule following without judgement removes empathy) 3) have to look good to get on (corporate performance is judge by hitting targets to market expectations) • This has implications on the environment created for the banking sector: a) media, political and social scrutiny will only increase fear b) over-regulation will have the opposite effect than the desired outcome c) the whole socio-economic and political system needs to support the change

METRO BANK PLC	
Historical/Background	• Inspired by Commerce banks in the US • Ethos - Focus on what customers don't like about their banking experience - This inspired the Metro Business Model
Definition of Culture	• How we treat our colleagues is how they behave... with each other and also with our customers. • So our culture is about enabling colleagues to create FANS by surprising and delighting our customers. Everything aligns to that.
Content Of Culture / Espoused Values (I.E. Core Values)	• Captured in acronym AMAZEING... (The "ING" is about leadership) - Attend to every detail - Make every wrong right - Ask if you're not sure - bump it up - Zest is contagious - share it - Exceed expectations - Inspire colleagues to create fans - Nurture colleagues so they grow = Game change because this is a revolution
Programmes For Rebuilding Culture	• We are not rebuilding culture. Everything we do reinforces our culture. • We hire for attitude and train for skill so we hire for cultural fit.
Programmes For Rebuilding Culture (continued)	• New colleagues spend their first day at Metro Bank attending Visions which is our cultural immersion and ends in a celebration of all the new colleagues who have joined including them being given their M Pin or Metro name badge. • On their second day colleagues explore our AMAZEING behaviours. • We always put behaviours first during discussions with colleagues in reviews and one to ones. • If a colleague is a cultural fit but is in the wrong role we will find them another job... but if they are not a cultural fit we will suggest they go and find somewhere where they do fit and will be happy. • We have no sales or product targets in stores or AMAZE DIrect (our contact centre) - we measure colleagues on service with weekly magic (mysetry) shops, net promoter surveys and customer feedback. • Internally we share brilliant stories which reinforce our culture through yammer and recognise our cultural ambassadors annually at our AMAZE Awards. One of the Award categories is all of our employees who have been awarded an "I AMAZE" (the top rating) for their behaviours in their AMAZEING review and we publish the names of these people for all to see. • We are fanatical about language and make sure that all our communications reinforce our culture and vision including our Revolution Updates (Town Halls) and "In the Know" our weekly e-zine with great customer and colleague stories. • We engage with and listen to colleagues through store and team visits, revolution updates, forums such as "brainiacs", voice of the colleague and of course our annual survey. Our monthly exec team meeting dedicated to people is called the "Voice of the Colleague" meeting and we listen to and learn from our colleagues in the same way that we listen to and learn from our customers.
Processes Through Which Change Is Achieved	• Embodied in architecture - We don't have incentives - Everyone is on the same reward scheme which is linked to company culture/delivery and personal behaviours and delivery. • Presentations are referred to as 'revolution updates' • Importance of consistency of direction • Recruitment – mainly recruit on the basis of interpersonal skills, intellect, work ethic • Focus on vision through various updates • Magic shoppers (not mystery shoppers) • Customer service scores • No set sales targets • Reduced incentive based bonuses • Belief that in how you treat staff is how they treat the customers • Everyone gets share-options – there is a 5 year vesting process • % of employees from friends and family referrals
Assessment/Measurement /Monitoring Of Culture	• Net promoter score and magic shops • Voice of colleague survey • % of hires from friends & family referrals
Views on Regulation	• The regulators are going through their own cultural change process

NATIONWIDE	
Historical/Background	• Nationwide has mutual (as opposed to Public Limited Company) status, which means that it is owned by and run for, the benefit of its members. • Nationwide is the largest building society - significant presence in savings and mortgages. • A major provider of current accounts, credit cards and personal loans. Nationwide has over 14 million members. • It describes itself as a "modern mutual"; traditional and uncomplicated but also ambitious in provding full banking services for members. • Nationwide has over 160 years of expertise and experience at being a building society, looking after the interests of its members.
Definition of Culture	• Member focus to all activities. • PRIDE (see below) is the framework for the decisions Nationwide makes and guides behaviour and the commitment made to members. • PRIDE is well understood throughout the organisation and part of Nationwide's heritage.
Content of culture / espoused values (i.e. core values)	• Nationwide's PRIDE values are: - "Putting Members First - With no shareholders, the interests of our members always come first: 'On your side' - Rewarding Membership - We focus on long term relationships. Members who trust us with more of their money and financial service requirements get more value in return. - Inspiring Trust - We are honest, straightforward and build trust through a fair and decent approach. - Doing the Right Thing - We develop and train our people to stand out from the competition, to stand up for our members and to help them make the most of their money. - Excelling at Service - We strive to offer the best customer experience on the high street, delivering an unbeatable combination of advice, products and service."
Programmes for rebuilding culture	• Not being a bank has helped Nationwide in the run-up, during and after the crisis to focus on member interests. Culture and approach enabled Nationwide to come through the financial crisis unscathed by conduct fines. • Nationwide's values are not a response to the financial crisis: PRIDE has been in place for over 12 years. Having this already well-established values set has been important. • Additionally, having a very stable senior management team to plan for the long-term has been crucial in this.
Processes Through Which Change Is Achieved	• Constantly reviewing PRIDE. October 2013, PRIDE was refreshed to align even more closely to the corporate plan and customer brand promise 'On your side'.
Assessment/Measurement /Monitoring of Culture	• Customers - Nationwide's customer survey scores are industry leading. • Employees - annual employee survey shows that employees display high levels of satisfaction. In particular, Nationwide's engagement and enablement scores are industry-leading. From Nationwide's December 2013 employee satisfaction survey, 90% of employees stated that they fully understood how PRIDE helps them do their job and were proud to work for Nationwide.

Assessment/Measurement /Monitoring of Culture (continued)	• Nationwide were the only building society or bank to feature in the Sunday Times 2014 list of the top 25 best big companies to work for.
Views on Regulation	• There are multiple important regulatory developments in train relating to accountability, responsibility and behaviour in financial services, many arising from the recommendations of the Parliamentary Commission on Banking Standards. Nationwide is constructively engaging with the regulator on these matters. • An individual organisation's integrity and culture cannot be regulated, Nationwide are very supportive of the Banking Standards Review Council as a voluntary, industry-led initiative. • Nationwide were one of the seven organisations that approached Sir Richard Lambert to ask him to come up with proposals for the new body. The Society has been very closely engaged with the BSRC's work from the outset, believing that collective action can play an important role in raising standards across the industry. • As the BSRC takes shape, Nationwide considers useful information sources for the Council to be focused on customer outcomes. Therefore focus should be on customer discussions, employee discussions (at all levels) and discussions with unions. It should also make use of whistleblowing and any complaint data. Mystery shopping will also be an important mechanism for getting a clear picture on customer outcomes.

SHAWBROOK BANK LTD	
Historical/Background	• Formed from a market opportunity when many lenders withdrew from the market following the 2008 financial crisis. • It is private equity backed and launched as Shawbrook Bank in 2011. • It is composed of a savings arm and specialist SME lending business units. • The chairman is Sir George Stephenson. There is limited direct consumer facing activity (primarily savings). Most of the lending business is b2b through intermediary networks.
Definition of Culture	• The bank is forward looking, specialist, operates to high service standard and sees itself very much as a specialist in particular markets. - Retail savings – bonds and notice deposits. - SME lending.
Content Of Culture / Espoused Values (I.E. Core Values)	• Focused on specialist products and service delivery. • Key values: - Personal. - Pragmatic ('get the deal signed'. - Expert (know business area). - Progressive (talk to customers). - Entrepreneurial.
Programmes For Rebuilding Culture	• Transformation programmes to integrate business acquisitions. • Quarterly business updates with stats for each part of the business. • Quarterly staff meetings. • Executive team meetings and cascade meetings. • Professional standards hub. • Provision of industry relevant training – e.g. Online training. • Induction programmes –involve at least CEO and other colleagues. • Ensure people are specialist – e.g. In SME lending making sure that employees are specialists in the business area they are financing e.g. Wheeled vehicle financing, marine, off shore wind farms.
Processes Through Which Change Is Achieved	• Robust compliance management process. • Nimble and smaller company. • Building relationships with SMEs, retail via direct. • Focusing on products and service delivery. • Shawbrooks ensure employees have expert knowledge and customer know how to deliver a personal service.
Assessment/Measurement /Monitoring of Culture	
Views on Regulation	• Clarification concentrating on funding lending via retail deposits. • Further clarification of how the Funding for Lending scheme is structured. • Clarification about access to lending data. • Issues such as capital requirements. • Most of Shawbrook's lending is funded via retail deposits, we have made limited use of access to FLS. Shawbrook is supportive of the Government's commitment to ensuring that SMEs whose lending requests are declined by major high street banks should be signposted to other funding sources. A greater levelling of the field in respect of capital treatment as between 'standardised' firms and 'IRB' firms would be helpful.

THE ROYAL BANK OF SCOTLAND PLC	
Historical/Background	• RBS has experienced unprecedented changes over the last two decades which have had a significant impact on its culture. • Following a period of rapid expansion, the financial crisis and government bailout were a trigger for the bank to re-examine the importance of value and culture. • In the wake of the crisis, the bank's immediate priority was to rebuild its balance sheet and demonstrate that it no longer posed a risk to financial stability. • Following this period, in early 2012 we moved our focus to how our shared vision and values could galvanise the organisation, reenergise our staff and rebuild our reputation with customers and communities. • Following consultation with our leadership teams, employees and customers, we developed a shared bank-wide Purpose, Vision and Values which centred around our commitments to serve our customer well and set about engaging all our employees in what this meant for the future. • Since becoming Chief Executive in 2013, Ross McEwan has cemented our customer purpose by clearly articulating our ambition to become No.1 for Customer advocacy, trust and service by 2020.
Definition of Culture	• Our culture has been derived from how we work and our priorities, which themselves have evolved with a greater emphasis on customers. • We have a critical focus on execution, which has been a core strength of rebuilding the Bank - but over the course of the last few years, and with the introduction of our 'Values approach' we are incorporating a more long term view. • The depth and breadth of regulatory changes have also resulted in a compliance focus, which now needs to be tempered with empowerment - allowing our managers and employees to provide the best possible customer service. Hence the focus on ethical decision making and doing the right thing. • Our culture was more 'closed' than 'open' - a retrenchment following the crisis has an impact on the information that could be shared, and external reputational images meant our front line, mainly branch, staff were having to defend the actions of the whole organisation to the public; people were scared to talk about working here for fear of recrimination. This meant we turned in on ourselves. • Finally, we had a more 'internal facing' than 'customer facing' - rebuilding the organisation was something we needed to do to regain a sure footing and trust in the investment community. Coming through this means we now need to look outward to secure our continuing success, and regain some of the pride experienced over the previous 200 years of banking.

Content of culture / espoused values (i.e. core values)	• Our ambition is to be No. 1 for Customer Advocacy, Trust and Service for 2020, underpinned by our Values of Serving Customers, Working Together, Doing the Right Thing and Thinking Long Term. We will be measuring our progress on service via regular customer feedback surveys – primarily net promoter score.
Programmes For Rebuilding Culture	• In 2012 we undertook extensive work to define our shared Purpose, Vision and Values - working with leaders and people from across the Bank and defining our approach over the coming year. • In 2013 - 2014 we moved into the phase of engaging our people and starting our change. • Our change programme was split into 5 key components: 1) Campaign – Think outside the bank communications campaign underpinned by our values. 2) Involvement - How our people understand, engage with and own our values. 3) Organisational change – How we'll embed our values in our business and people practices. 4) Local change – Improvements within our businesses, embedding our values and changing the way we operate. 5) Measurement – Develop and implement a measurement framework. • The Involvement stage of the change included over 3,000 senior leaders across the bank attending a Think outside the bank Regional Leadership Workshop designed to help them to understand and engage with our purpose and values and to equip them to lead the onward engagement of the organisation. This was subsequently followed up with Local events for those Leaders to deliver in their businesses. • In 2014 we are embedding changes above and identifying further areas for improvement.
Processes through which change is achieved	• A series of 'behavioural observations' have been implemented in our Markets Business. Trained observers attend key meetings across the spectrum of business activities, and observe and give feedback on 'Values in action'. • As well as specific campaigns and initiatives to embed our values internally, it is important that cultural change is championed by senior management. Since becoming Chief Executive, Ross McEwan has driven widespread structural and cultural change at the bank, underpinned by how we treat and think about our customers. • The bank continues to work through conduct issues, which can be damaging to trust and staff morale. The way in which we respond to these events is also important in realising cultural change. As evidenced with recent conduct issues, the bank has taken a proactive stance in: condemning wrongdoing, accepting responsibility and underscoring the importance maintain the highest standards of conducts and ethics.
Assessment/Measurement /Monitoring of Culture	• An extremely comprehensive approach is taken towards measurement and monitoring across the Bank including HR, employee, customer, risk, financial and conduct measures. • In this respect our HR team managing this also work very closely with our Audit function to ensure the approach is robust, repeatable and indeed telling us what we need to know.
Views on Regulation	• Regulators are making a similar shift in culture to the banks • Any organisation needs to examine regulation from the start point of 'what behaviour are we trying to change / adapt?' and therefore ensure the application and assurance of regulation is integrated into the organisations way of doing things rather than 'bolted' on to the side.
Views on Regulation (continued)	• Regulators needs to be cogniscent of this to ensure the best outcomes for consumers, employees, regulators and stakeholders.

SANTANDER	
Historical/Background	• Santander UK is an autonomous subsidiary of Santander Group. • Since Santander's entry into the UK market in November 2004, Santander UK has been transformed, moving from its heritage of three former building societies (Abbey National, Alliance & Leicester, Bradford and Bingley) focused on mortgages and savings into a full-service retail and commercial bank. • At the core of its transformation has been a programme to change its culture, so that all we do is Simple, Personal and Fair. Our extensive opinion research of our customers and our team revealed that these three words embody all they want for their bank and place of work".
Definition of Culture	• Our aspiration is that everything we do is simple, personal and fair for our people, customers, shareholders and communities. • We do not see culture as a programme or the responsibility of one individual; to us, culture is how we live and work every day. So our programme of change, while led by the CEO and senior leaderships, is one in which everyone has a part to play.
Content of culture / espoused values (i.e. core values)	• Our purpose is to help people and businesses prosper. • We will do this by being simple, personal and fair for our people, customers, shareholders and communities (the Santander Way) • This provides a framework for everyone in the bank to make decisions about what they do and how they do it.
Programmes For Rebuilding Culture	• Through establishing and embedding a simple set of values: simple, personal and fair, Santander UK is driving a transformation of its business for all our stakeholders. • This includes providing our people with a clear direction on Santander UK's goals and reinforcing how being simple, personal and fair can link to everyone's day-to-day work. • This framework extends to our approach to risk. Everyone in the bank is responsible for identifying, assessing, managing and reporting risk, and simple, personal and fair helps everyone understand when they should raise their voice. • To this end, we facilitate an open culture which encourages everyone to manage risk and a workplace in which no one is afraid to speak up when they see problems or have concerns.
Processes through which change is achieved	• Simple, personal and fair guides our objectives and performance measurement, from our company goals right down to each individual. • Simple, personal and fair is central to the balanced score card for the company - the Santander Compass - and is embedded in our performance management and people processes. • For this reason, it is central to decision-making across the company - for example, in how we design products and provide services to obtain the right outcomes for customers.

Assessment/Measurement /Monitoring of Culture	· The Santander Compass (our balanced scorecard) contains performance indicators that measure our progress towards specific targets for each of the quadrants: people, customers, shareholders, communities. · Contribution to progress towards Santander's goals are measured also through external quantitative and qualitative research. This includes an employee opinion survey: general questions and culture-specific questions, focused around Simple, Personal, Fair; and also an extensive programme of regular quantitative research into customers' views as to whether the bank is Simple, Personal and Fair. · Analysis of leadership/management styles · Additional measures: - Attrition - Long term absence rates - Customer complaints - Customer satisfaction - dashboard scores
Views on Regulation	• Since the financial crisis, there has been a regulatory overhaul accompanied by a more activist approach from the authorities, looking into unfair practices from the industry, and tougher enforcement. • The industry is working closely with the regulators to identify best practices and overcome the legacy of the pre-crisis period.

TSB BANK PLC	
Historical/Background	• TSB has been established to bring more competition to the UK and better banking to UK consumers. • Significant consumer research has told us that customers are looking for banks to be straight forward – to be clear about how customers money is being used and to offer straightforward products with "no funny stuff". They also want their banks to be safe. • This is why we have the culture of a challenger, but a responsible challenger that is focused on long-term growth, careful with our customers money and focused on service over sales. We have a culture that is open and transparent about how we make money, how we run the bank, our products and in how we communicate with each other across all levels of the business.
Definition of Culture	• "TSB's culture is borne out of our heritage. We were specifically created to bring greater competition to retail by delivering a better deal for customers". • "We provide local Banking for Britain to help local people, businesses and communities thrive together". TSB have a culture of • Service over sales • Transparency - Operattions/Product base • Partnership – "as the first UK bank to pioneer a shared-ownership structure, we have a culture where employees are vested in the long-term success of the business rather than short-term gain".
Content of culture / espoused values (i.e. core values)	"Our values guide us in all we do and how we do it". TSB has five core values. • Straightforward • Collaborative • Transparent • Responsible • Pioneering
Programmes For Rebuilding Culture	• "In launching TSB as a values-led challenger brand, we built our culture from a blank sheet of paper". Focus on: • Shared ownership – "At IPO every TSB colleague became a Partner in the business when they were awarded with £100 worth of shares". – "In order to be remunerated employees have to hold on to these shares so that they continue to have a stake in the long-term success of the business". • Shared reward based on customer service. – "The TSB Award is an annual performance-related reward that, if awarded, would pay to all recipients a percentage of annual salary, determined on the same basis for everyone, from CEO to front-line branch staff". • "We believe this move towards fixed rather than variable pay will promote a responsible working culture within TSB. Moreover, the award will only be paid to individual TSB Partners if they achieve key customer service metrics and the Bank is returning profit".

Programmes For Rebuilding Culture	• Collaboration and listening – To promote a bottom-up culture we have the Link programme. Every year 80 Partners across the business can apply to join our five Links – in Edinburgh, Sunderland, Birmingham, London and Gloucester. The Partners in these groups are from across the full range of business functions and grades in the region and meet in person every two months to: – Share information on significant activities and changes which have implications for both colleagues, customers and communities. – Encourage open feedback - discussing things openly, with a clear route to getting problems sorted. • Get under the skin of the major topics in our business. • Help innovate and shape our business; what products we might want to provide, how we connect with our customers, and communities. • Take action - Our people in The Link will take an active part in moulding our business.
Processes through which change is achieved	• TSB has established a formal cultural transformation programme that focuses on initiatives helps to shape, embed, measure and reinforce the right behaviours and processes that will support the development of a culture which will out the customer at the heart of all that we do and help build a strong values-led brand • Strong tone and direction is given from Senior Executive & Board: A robust executive led communications plan is in place which is delivered to all partners across TSB and clearly sets the cultural tone from the top – there is a key focus on conduct risk and doing the right thing for our customers. • Codes of Responsibility: TSB codes of responsibility communicated within the business and forms part of the mandatory training plan for TSB. • We have in place an ongoing cultural programme across the branch network to deliver customer centric service • Bottom-up processes to feedback the cultural change through TSB Link and Interlink. • Redesign of HR processes from start to exit. – Recruiting – Induction – Socialisation – Management of HR processes
Assessment/Measurement /Monitoring of Culture	TSB has several key ways in which we can monitor culture: • TSB Pulse: An annual survey that measures what Partners think about performance, leadership an identity • Interlink: All employees are free to air concerns or questions on the interlink forum. This provides us with an informal way of measuring culture • Cultural Dashboard • Customer satisfaction surveys including Net Promoter Scores • Complaints handling process

Views on Regulation	• TSB believes that regulation in the banking sector is very important and we are calling for more regulatory reform in a number of areas. • However, culture must come from individual businesses if it is going to be effective. • Same belief as Richard Lambert - "prime responsibility lies with the leadership of individual companies. Unless they are determined to change the culture of their business – to shape the implicit norms that guide behaviour in the absence of regulations – then nothing will happen."

A summary of our interview with Virgin Money is available in the online version of this report.
The report is available at http://newcityagenda.co.uk/ .

References to Reports

CMA (2014) Personal Current Accounts: Market Study Update.

Delliotte (2013) Culture and Banking: Under the microscope.

Economist Intelligence Unit (2013) A Crisis in Culture: Valuing Ethics and Knowledge in Financial Services.

FCA and CMA (2014) Banking Services to Small and Medium Sized Enterprises.

Financial Services Authority (2011) The failure of the Royal Bank of Scotland (2011).

FSA (2012) Guidance Consultation: Risks to Customers from Financial Incentives.

HM Treasury (2013) Sound Banking: Delivering Reform.

HM Treasury / BIS (2013) White paper: Banking Reform.

House of Commons Treasury Committee (2011) Independent Commission on Banking (response to ICB Report 2011).

Independent Commission on Banking (2011) Final Report: Recommendations.

KPMG (2013) Reinvention of Banking.

Lambert, R. (2014): Banking Standards Review.

Large, A (2013) RBS Independent Lending Review.

Parliamentary Commission on Banking Standards (2013) Changing Banking for Good, Volume 1.

Parliamentary Commission on Banking Standards (2013) Changing Banking for Good, Volume 2.

PWC (2014) Stand out for the right reasons: How Financial Services Lost its Mojo – and how it can get it back.

Salz, A. (2013) An Independent Review of Barclays' Business Practices.

The Future of Banking Commission (2010).

Walker Review (2009) A review of corporate governance in UK banks and other financial industry entities.

Which? (2012) Here to Help? Bank staff reveal the truth about working for Britian's biggest banks.

References to Academic Studies

Adkins, C.L., Ravlin, E.C., & Meglino, B.M. (1996). Value congruence between co-workers and its relationship to work outcomes. Group and Organization Management, 21, 439-460.

Alexander, M. (1978). Organizational Norms Opinionnaire. In J.W. Pfeiffer and J.E. Jones, The 1978 annual handbook for group facilitators. San Diego, CA: University Associates Inc.

Barratt, E. (2003). Representing enterprise: The texts of recruitment and change in the UK banking sector. Culture and Organization, 9(3), 145-160.

Benkhoff, B. (1997). Ignoring commitment is costly: new approaches establish the missing link between commitment and performance. Human relations, 50(6), 701-726.

Blair-Loy, M., Wharton, A. S., & Goodstein, J. (2011). Exploring the relationship between mission statements and work-life practices in organisations. Organization Studies, 32(3), 427-450.

Buono, A. F., Bowditch, J. L., & Lewis, J. W. (1985). When cultures collide: The anatomy of a merger. Human relations, 38(5), 477-500.

Calori, R., & Sarnin, P. (1991). Corporate culture and economic performance: A French study. Organization Studies, 12, 49-74.

Carretta, A., Farina, V., & Schwizer, P. (2010). The "day after" Basel 2: do regulators comply with banking culture?. Journal of Financial Regulation and Compliance, 18(4), 316-332.

Chatman, J. (1991). Matching people and organisations: Selection and socialization in public accounting firms. Administrative Science Quartely, 36, 459-484.

Chatman, J.A., & Jehn, K.A. (1994). Assessing the relationship between industry characteristics and organizational culture: How different can you be? Academy of Management Journal, 37, 522-553.

Chreim, S. (2006). Managerial frames and institutional discourses of change: employee appropriation and resistance. Organization Studies, 27(9), 1261-1287.

Cooke, R.A., & Lafferty, J.C. (1989). Organizational Culture Inventory, Plymouth: Human Synergistics.

Dietz, J., Pugh, S. D., & Wiley, J. W. (2004). Service climate effects on customer attitudes: An examination of boundary conditions. Academy of Management Journal, 47(1), 81-92.

Gordon, G.G., & Di Tomaso, N. (1992). Predicting corporate performance from organizational culture. Journal of Management Studies, 29, 783-798.

Hargie, O., Stapleton, K., & Tourish, D. (2010). Interpretations of CEO public apologies for the banking crisis: attributions of blame and avoidance of responsibility. Organization, 17(6), 721-742.

Harris, L. (2002). The learning organisation–myth or reality? Examples from the UK retail banking industry. Learning Organization, The, 9(2), 78-88.

Ho, K. (2009). Liquidated: an ethnography of Wall Street. Duke University Press.

Hofstede, G., Neuijen, B., Ohayv, D.D., & Sanders, G. (1990). Measuring organizational cultures: A qualitative and quantitative study across twenty cases. Administrative Science Quartely, 35, 286-316.

Kerr, R., & Robinson, S. (2012). From symbolic violence to economic violence: The globalizing of the Scottish banking elite. Organization Studies, 33(2), 247-266.

Kilman, R.H., & Saxton, M.J. (1983). The Kilman-Saxton Culture Gap Survey. Pittsburgh: Organizational Design Consultants.

Knights, D., & McCabe, D. (1997). 'How would you measure something like that?': Quality in a retail bank. Journal of Management Studies, 34(3), 371-388.

Knights, D., & McCabe, D. (1998). 'What happens when the phone goes wild?': staff, stress and spaces for escape in a BPR telephone banking work regime. Journal of management Studies, 35(2), 163-194.

Knights, D., & McCabe, D. (1998). When" Life Is but a Dream": Obliterating Politics Through Business Process Reengineering?. Human Relations, 51(6), 761-798.

Knights, D., & Tullberg, M. (2012). Managing masculinity/mismanaging the corporation. Organization, 19(4), 385-404.

Litwin, G.H., & Stringer, R.A. (1968). Motivation and organizational climate. Cambridge: Harvard University Press.

McCabe, D. (2009). Enterprise contested: Betwixt and between the discourses of career and enterprise in a UK bank. Human Relations, 62(10), 1551-1579.

Meglino, B.M., Ravlin, E.C., & Adkins, C.L. (1989). A work values approach to corporate culture: A field test of the value congruence process and its relationship to individual outcomes. Journal of Applied Psychology, 74, 424-432.

Michel, A. (2012). Transcending socialization: A nine-year ethnography of the body's role in organizational control and knowledge workers' transformation. Administrative Science Quarterly

Michel, A. (2014). The Mutual Constitution of Persons and Organisations: An Ontological Perspective on Organizational Change. Organization Science.

Nayak, A., & Beckett, A. (2008). Infantilized adults or confident consumers? Enterprise discourse in the UK retail banking industry. Organization, 15(3), 407-425.

O'Reilly, C.A., Chatman, J., & Caldwell, D. (1991). People and organizational culture: A profile comparaison approach to assessing person-organization fit. Academy ofManagement Journal, 34, 487-516.

Poumadère, M. (1985). SYMLOG et les valeurs de l'organisation. In R. Reitter and B. Ramantsoa, Pouvoir et Politique: Au-delà de la culture d'entreprise. Paris: McGraw Hill.

Quinn, R.E., & Spreitzer, G.M. (1991). The psychometrics of the competing values culture instrument and an analysis of the impact of organizational culture on quality of life. Research in Organizational Change and Development, 5, 115-142.

Reynolds, P.O. (1986). Organizational culture as related to industry, position and performance: A preliminary report. Journal of Management Studies, 23, 333-345.

Roberts, J., & Ng, W. (2012). Against economic (mis) conceptions of the individual: Constructing financial agency in the credit crisis. Culture and Organization, 18(2), 91-105.

Rohrbaugh, J. (1981). Operationalizing the Competing Values approach: Measuring performance in the employment service. Public Productivity Review, June, 141-159.

Saparito, P. A., Chen, C. C., & Sapienza, H. J. (2004). The role of relational trust in bank–small firm relationships. Academy of Management Journal, 47(3), 400-410

Sashkin, M. (1984). Pillars of excellence: Organizational Beliefs Questionnaire. Bryn Mawr: Organizational Design and Development.

Schein, E.H. (1985). Organizational culture and leadership: A dynamic view. San Francisco, CA: Jossey Bass.

Schneider, B., Parkington, J. J., & Buxton, V. M. (1980). Employee and customer perceptions of service in banks. Administrative Science Quarterly, 252-267.

Sheridan, J.E. (1992). Organizational culture and employee retention. Academy of Management Journal, 35, 1036-1056.

Smith, V. (1990). Managing in the corporate interest. Berkeley, CA: Univ. of California press.

Wallach, E.J. (1983). Individuals and organisations: The cultural match. Training and Development Journal, February, 29-36.

Weeks, J. (2004). Unpopular culture: The ritual of complaint in a British bank. University of Chicago Press.

Wright, P. L. (1990). Teller job satisfaction and organization commitment as they relate to career orientations. Human Relations, 43(4), 369-381.

NEW CITY AGENDA

Cass Business School
CITY UNIVERSITY LONDON

Designed by APDA London, www.apda-london.com