

Is a compliant banking sector likely to produce better outcomes for UK consumers? Only if there is less fear, more empathy and more women leaders

Culture Change in the UK Banking Sector 2012-2016 Insights from the MoralDNA™ Integrity and Culture Diagnostic

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Executive Summary

The MoralDNA™ dataset provides a unique opportunity to present a longitudinal study of UK banking culture and how UK bankers make decisions within this culture.

1. While rule-based decision making has always been prominent, this has increased since 2012. This is consistent with an increase in regulatory scrutiny and compliance focus observed over this time.
2. The effect is particularly pronounced among managers (though it is also observed for leaders): comparing values before and after the announcement of SMCR suggests that it is in middle management that the cultural change has been most notable.
3. Over the period there has also been a noticeable increase in empathy-based decision-making. This appears to have been initially driven by leaders, but with a corresponding increase at manager and employee level. This is consistent with an increase in conduct focus and suggests some success in the “tone from the top” approach.
4. We observe a “fear factor” at work, relatively stable over time and consistent across men and women: rule-based decision making is much higher at work than at home, and similarly empathy-based decision making is higher at home than at work.
5. A notable exception is among women leaders, where we see a convergence between empathy-based decision making at work and at home over time. This supports the thesis that an increased presence of women at senior levels is also allowing women to be more comfortable “bringing themselves to work”. This trend is not yet observed at more junior levels though.

What does this mean for firms and regulators?

1. Boards need to shape and support cultures that are more empathic, more human and more focused on good outcomes for customers. An ethos of “robotic compliance” and a culture of fear not only drives poor outcomes, it’s expensive and stifles the creativity and entrepreneurship required for banks to thrive in a challenging economic environment.
2. An even greater effort is required to promote gender diversity and empathic leadership, and the benefits need to be felt across all levels, not just the boardroom.

3. Regulators need to balance and fine tune the balance of rules, principles and outcomes (“empathy”) in their approach. A greater emphasis on principles and outcomes is desirable in a democratic, socially useful and open market economy. The increased focus on conduct appears to be making a difference.
4. Firms and regulators should consider making greater use of psychometrics such as MoralDNA™, to better understand thinking, feelings, decisions and unconscious bias, as cultural phenomena.

The MoralDNA™ Profile¹

MoralDNA™ is a psychometric profile that measures two aspects of human morality:

1. How we prefer to make moral decisions.
2. What moral values we prefer to consider when doing so.

MoralDNA™ has been developed since 2008 to meet a need for individuals and workplace communities to measure moral character, ethical judgment and culture.

Based on Lawrence Kohlberg’s theory of moral development and Carol Gilligan’s insights into the ethic of care, the preferences assessed are Rules, Principles and Outcomes, also described as Law, Logic and Love.

The normative database is currently over 160,000 profiles across over 200 countries. The UK banking dataset analyzed here contains 6,424 observations over the 2012-16 period.

Context: Key Developments in UK Banking Since 2012

- Weighed down by the aftermath of the crisis, this period saw the industry also adjust to a new “twin peaks” regulatory environment with the establishment of the PRA and FCA (and a renewed focus on strong governance at senior levels).
- The Senior Managers and Certification Regime (SMCR) was announced in 2014, and came into effect in early 2016.
- Both retail and wholesale banks have had to transform the way they do business to meet new conduct standards – this has meant a change in profile of the salesforce in bank branches where sharp remuneration incentives have been altogether replaced by rewards for service.
- While the market has rallied over this period, there have been multiple rounds of cost-cutting and redundancies. This has arisen from the shift to digital and the decline in the branch, the rationalisation of unprofitable business lines in investment banking, and a more general focus on lowering regular spend.
- Women continue to be underrepresented in financial services, but there have been inroads particularly at the senior / board level with better gender balance.

¹ MoralDNA™ is a trading name of Roger Steare Consulting Limited

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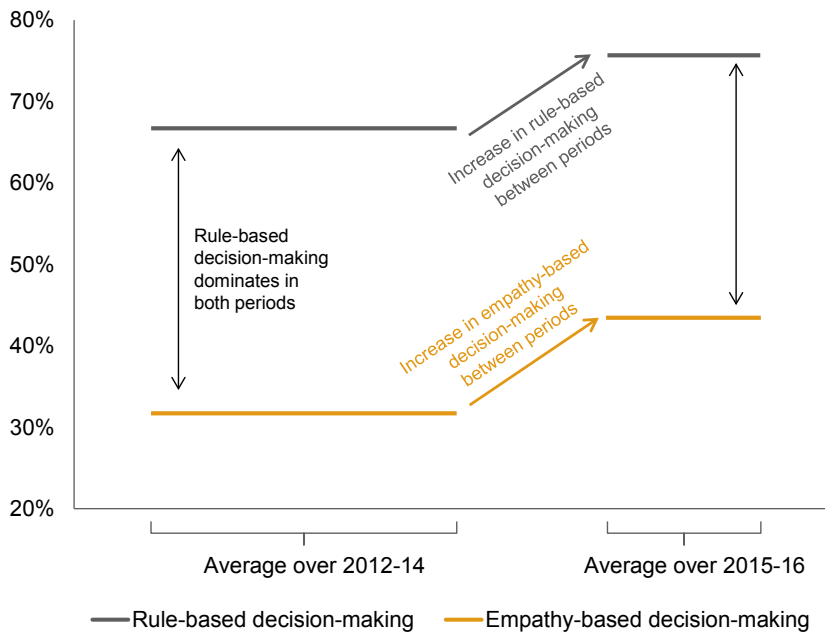
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Rule-based decision making at work dominates throughout the period, with an increase over time

Decision-making across the UK banking population at work Percentiles, averages for 2012-14 and 2015-16

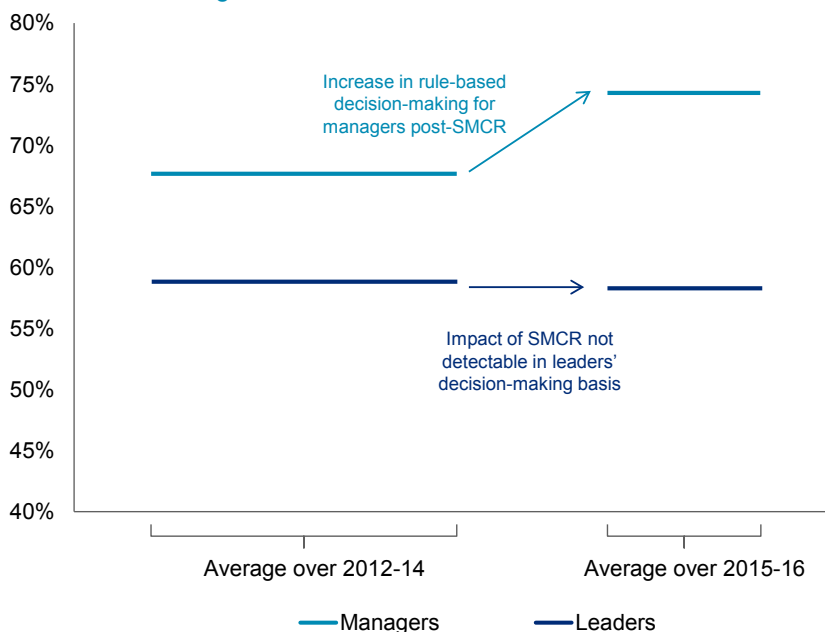


Comments

- Already suffering from the crisis, this period saw the industry adjust to a new “twin peaks” regulatory environment with the establishment of the PRA and FCA (and a renewed focus on strong governance at senior levels)
- While rule-based decision-making has always been prominent, this has increased since 2012
- This is consistent with an increase in regulatory scrutiny and compliance focus observed over this time
- An increase in empathy post-crisis is consistent with the increased conduct-focus driven via regulation (see later slides)
- This has been accompanied by a decrease in principles-based decision-making (not shown)

Rise of the twin peaks and SMCR establishes a new normal in rule-based decision making for top management and executive level

Rule-based decision-making at work: leaders vs. managers Percentiles, averages for 2012-14 and 2015-16



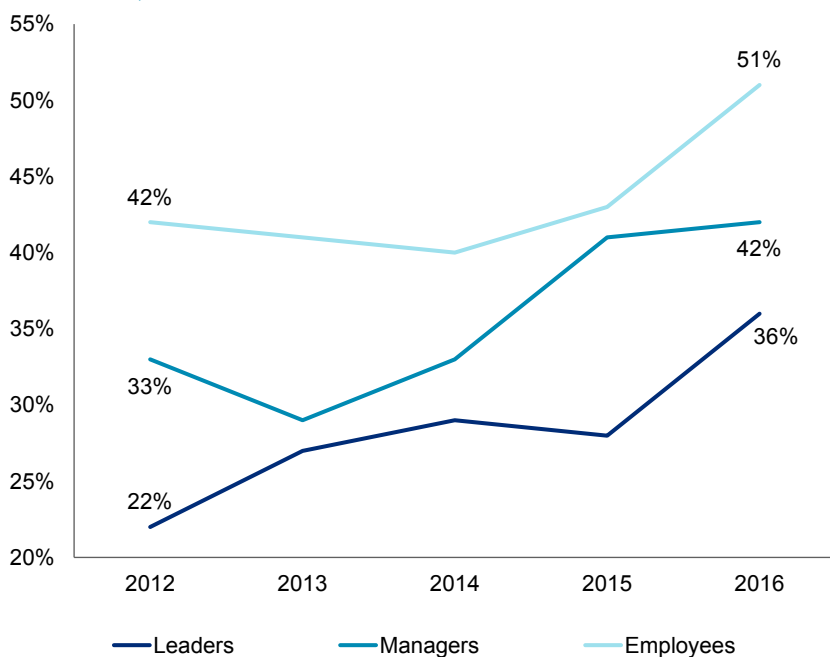
Comments

- The Senior Managers and Certification Regime (SMCR) was announced in 2014, and came into effect in early 2016
- The increased reliance on rule-based decision making at work is particularly prominent among managers (though it is also observed for leaders)
- Comparing values before and after the announcement of SMCR suggests that it is in middle management that the cultural change has been most notable
- This may indicate that leaders have transferred the “SMCR pressure” to managers to ensure compliance

Increase in empathy-based decision making at work is consistent with higher empathy with clients, consistent with new “conduct agenda”

Empathy-driven “outcomes” decision-making at work

Percentiles, 2012–2016



Comments

- Over the period there has been a noticeable increase in empathy-based decision-making
 - Appears to have been initially driven by leaders
 - Corresponding increase for managers and employees
- Consistent with an increase in conduct focus and suggests some success in the “tone from the top” approach
 - Towards a more client relationship-driven culture (vs. sales driven)
 - This shift has also resulted in a change in personnel at the front line, consistent with higher values for employees later in the period

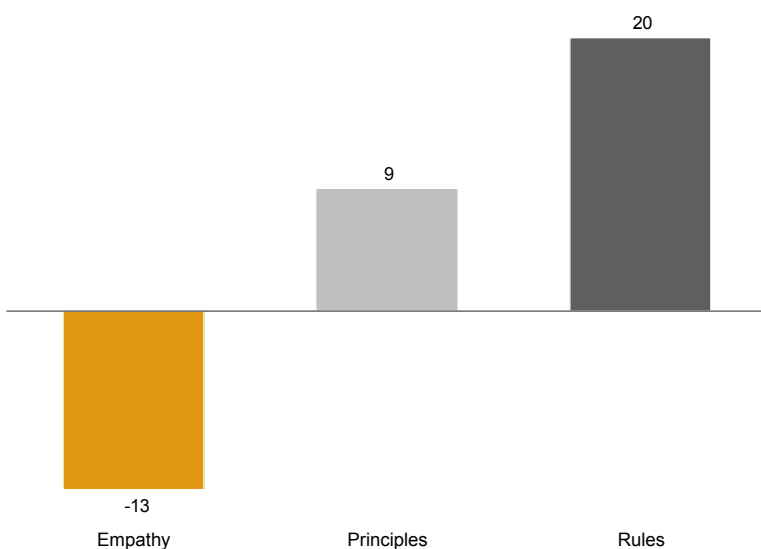
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There is a notable, persistent “fear factor” in UK banking – cost-cutting and redundancies during this period will have contributed to this

Difference in behaviour at work vs. at home across population

Average difference in percentiles, 2012–2016



Comments

- We observe a “fear factor” at work
 - Relatively stable over time
 - Consistent across men and women
- Rule-based decision making is much higher at work than at home, and empathy-based decision making is higher at home than at work
- While the market has rallied over this period, there have been multiple rounds of cost-cutting and redundancies
- This has arisen from the shift to digital and the decline in the branch, the rationalisation of unprofitable business lines in investment banking, and a more general focus on lowering regular spend

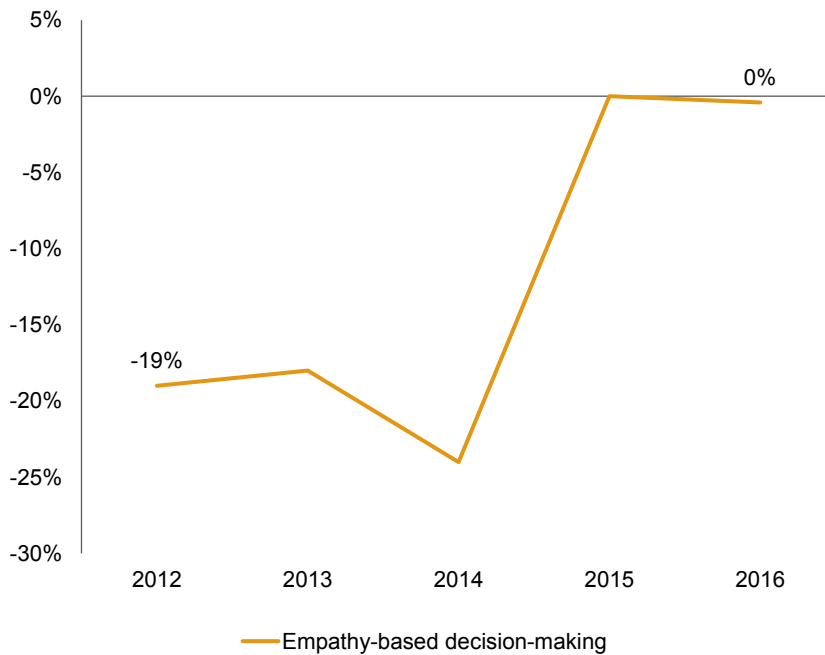
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Senior women are now more likely to deploy their empathy-based decision making at work as they would at home

Difference in behaviour at work vs at home – Women Leaders

Difference in percentiles, 2012–2016



Comments

- Women continue to be underrepresented in financial services, but there have been inroads particularly at the senior / board level with better gender balance
- A notable exception to the “fear factor” finding is among women leaders
 - We observe a convergence between empathy-based decision making at work and at home over time
 - This supports the thesis the increased prominence of women at senior levels is also allowing women to be more comfortable “bringing themselves to work”
 - The trend is not yet observed at more junior levels though

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