

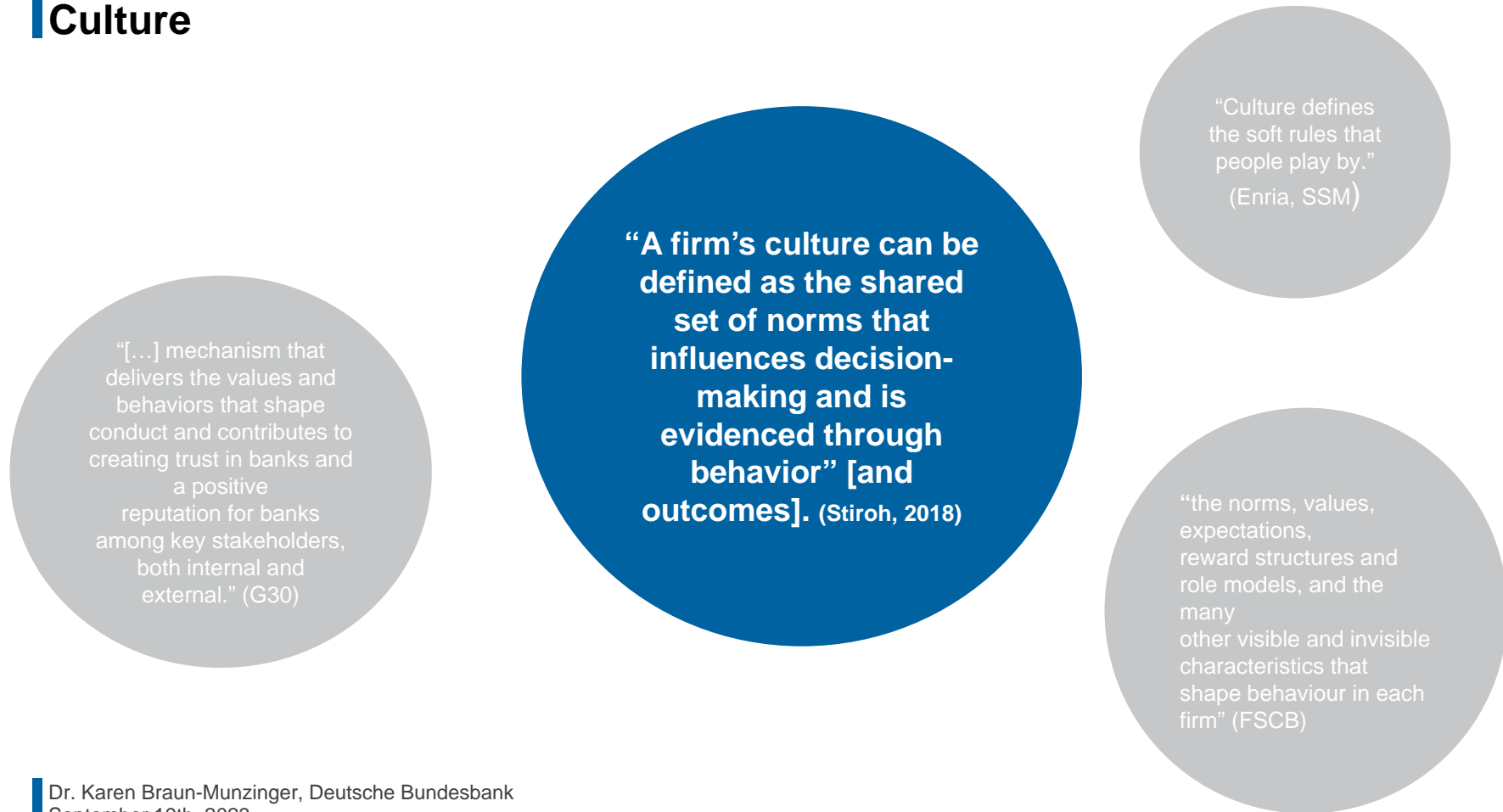


Times of change: why culture matters and how we can shape it

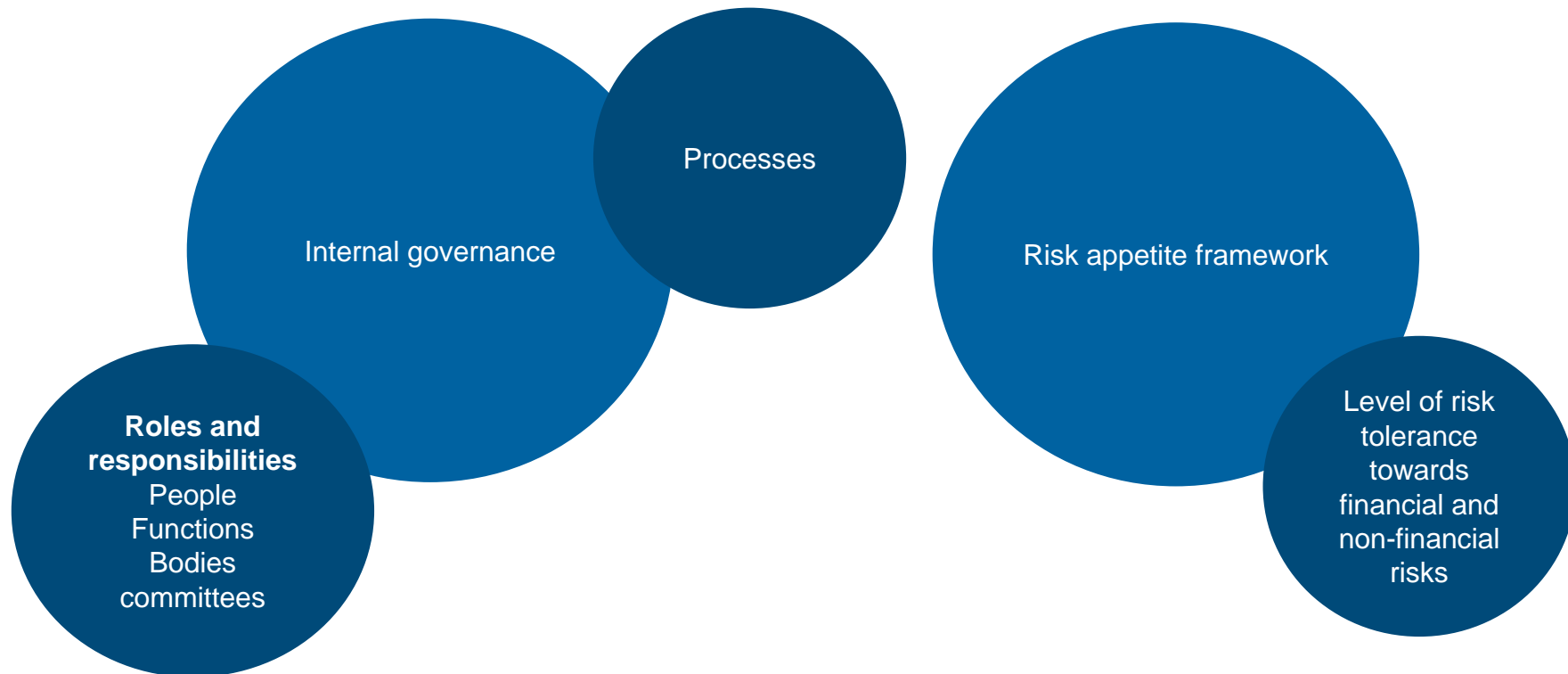
10th Conference on the Banking Union

Dr. Karen Braun-Munzinger, Deputy DG banking and financial supervision

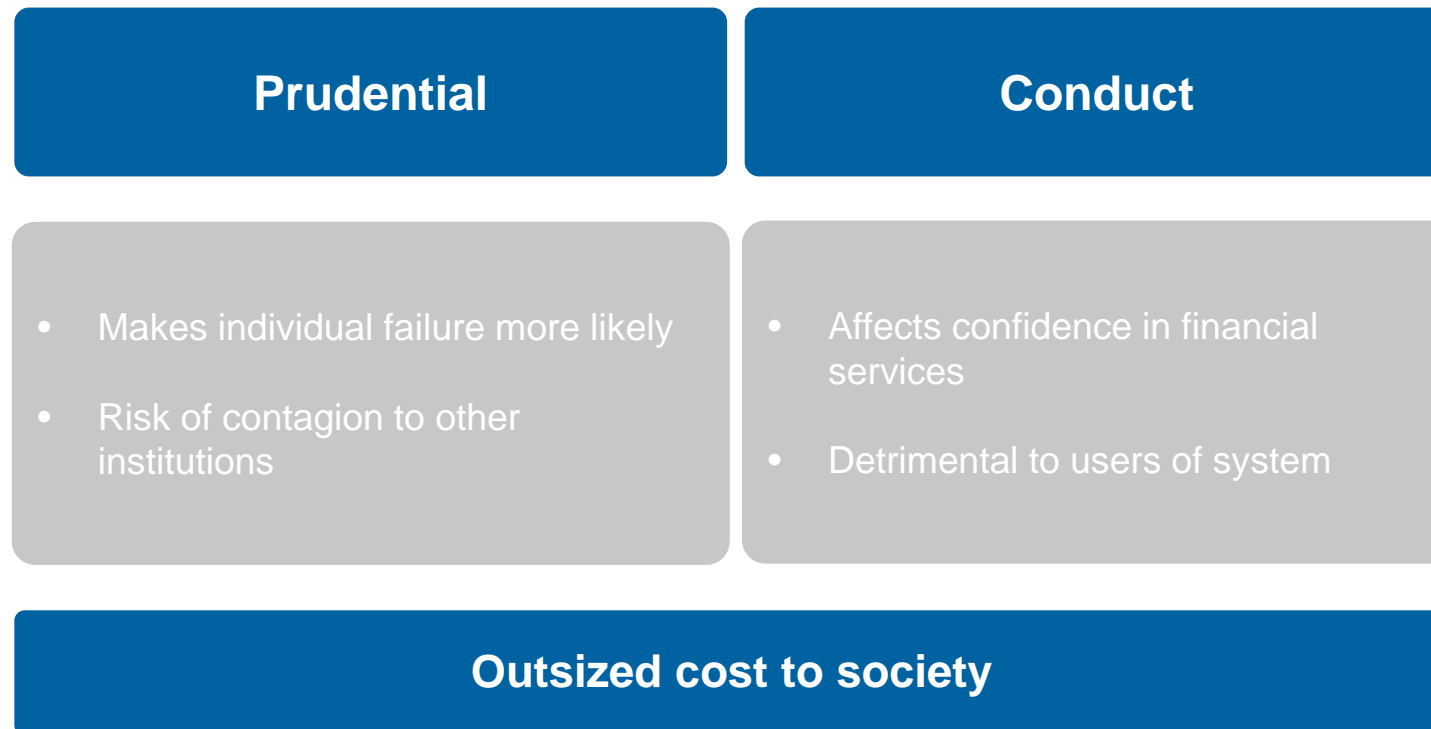
Culture



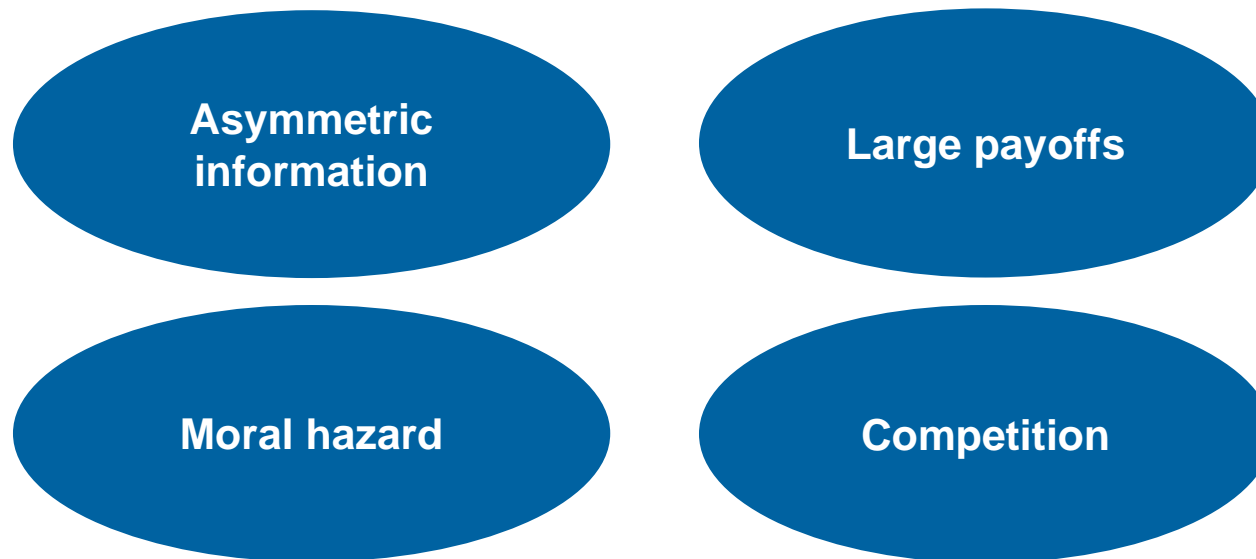
| Governance and formal frameworks



The impact view



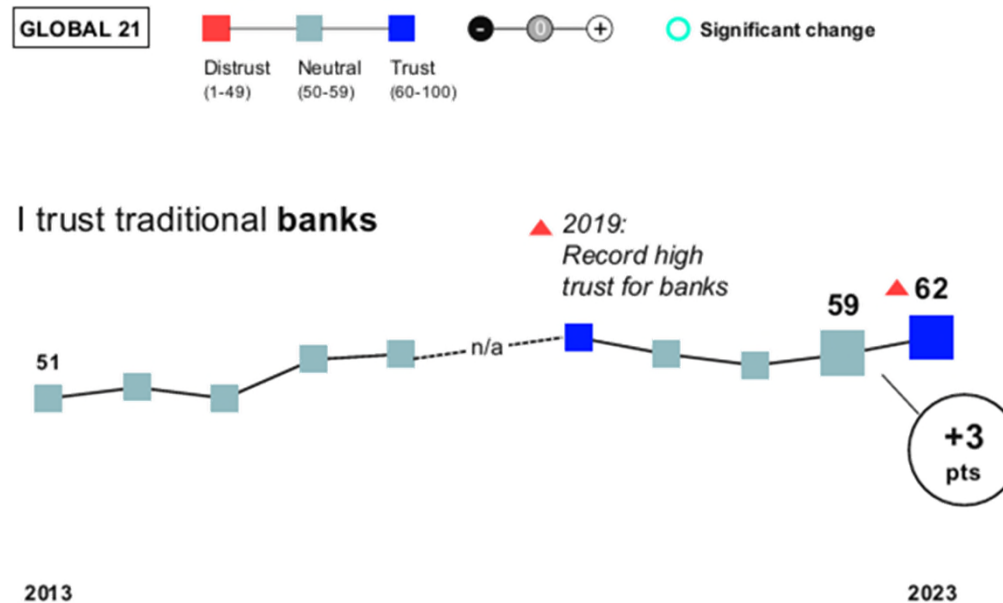
| The market failure view



Sources: *Stephanie Chaly, James Hennessy, Lev Menand, Kevin Stiroh and Joseph Tracy, [Misconduct Risk, Culture, and Supervision](#), December 2017*

Public perception

Trust in Banks Returns to Record High Percent Who Say (Jan. 2023)



Source: Edelman Trust Barometer (2023). Insights for Financial Services, p. 14

Stocktakes

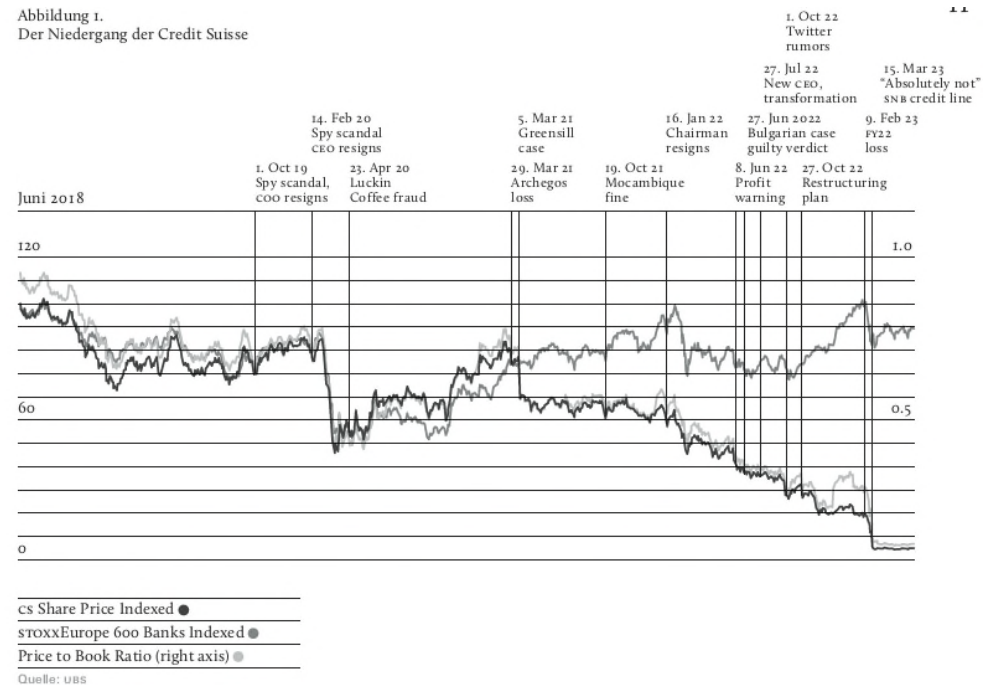
- **Group of 30 report**
 - “banks have endeavored to implement various changes to improve their conduct and culture. And much has indeed been done across the industry”
- **SSM**
 - “Most SIs still need to improve their governance and risk appetite frameworks to be in line with international best practices.”
 - “[risk controls and internal governance] is an area where we are not seeing enough progress.”
- **FSCB**
 - “Interviewees agreed that the most significant cultural change among member firms has been the development of greater awareness of the importance of culture in banks and financial services organisations.”

Source: Group of 30 (2020), SSM Annual Report 2022 (2023), SSM Supervisory Statement on governance and risk appetite (2016), Beunza, D. & Rahanjam, S. (2023)

Recent events

“Silicon Valley Bank (SVB) failed because of a **textbook case of mismanagement** by the bank. Its senior leadership failed to manage basic interest rate and liquidity risk. Its board of directors failed to oversee senior leadership and hold them accountable. And Federal Reserve supervisors failed to take forceful enough action, as detailed in the report.”

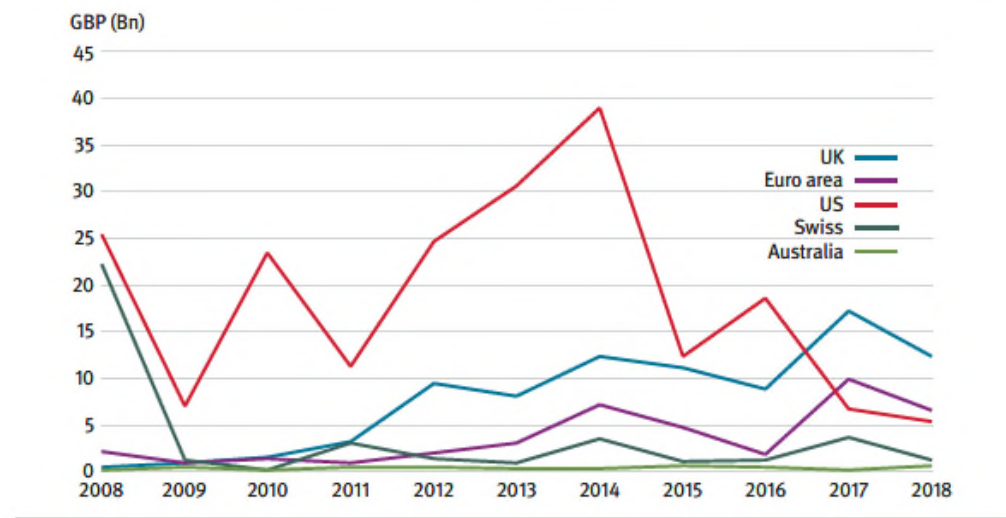
Abbildung 1.
Der Niedergang der Credit Suisse



Source: Review of the Federal Reserve's Supervision and Regulation of Silicon Valley, [Bericht der Expertengruppe](#)

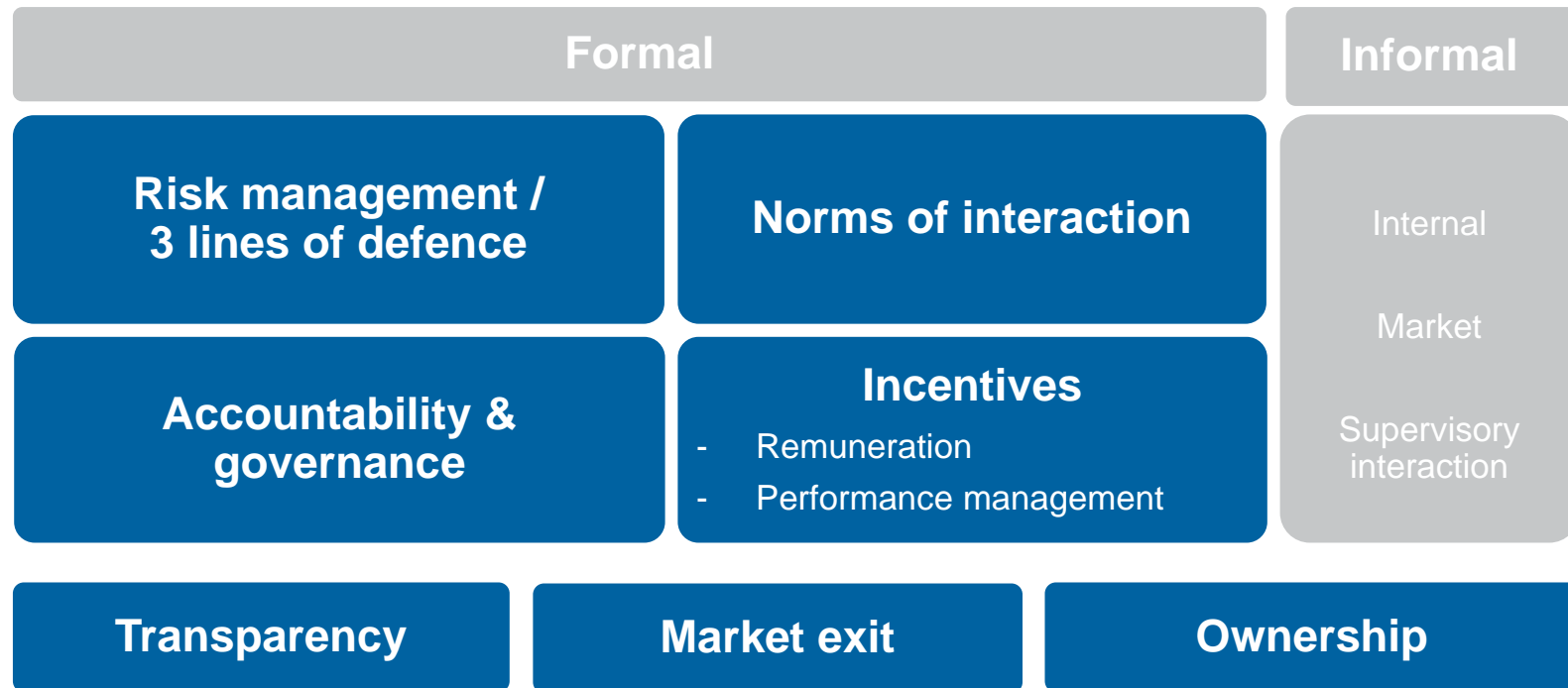
Conduct

Figure 2: CONDUCT COSTS BY GEOGRAPHICAL AREA (GBP Bn)



Source: CBR (2020). *The CBR Conduct Costs Project*, p. 6.

| Levers



Governance

Members of the management body must be at all times of sufficiently good reputation and possess sufficient knowledge, skills and experience to perform their duties (Art. 91 (1) CRD).

Collective suitability (Art. 91 (7) CRD)

- Adequate collective knowledge, skills and experience
- Reflection of an adequately broad range of experience
- Diversity: age, gender, educational and professional background, geographical provenance

Individual suitability (Art. 91 (1) and (8) CRD)

- Good reputation
- Experience (theoretical knowledge, practical experience)
- Conflict of interests and independence of mind
- Sufficient time commitment



Suitability assessments

- Institution's primary responsibility; to be conducted initially as well as on ongoing basis
- Additional assessment by competent authorities: where necessary conditions, obligations, recommendations or even removals

Assessment of acquirers of credit institutions

In order to ensure the sound and prudent management of the credit institution, competent authorities assess inter alia the suitability of a proposed acquirer based on the reputation of the proposed acquirer as well as the reputation, knowledge, skills and experience of any member of the management body (see Art. 23 CRD).

Risk culture

„**Risk culture** means an institution's norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and the controls that shape decisions on risks. Risk culture influences the decisions of management and employees during the day-to-day activities and has an impact on the risks they assume.“

EBA Guidelines on internal governance

Indicators of a sound risk culture:

Tone from the top

Accountability

Effective
communication and
challenge

Incentives



Supervisory approach:

Assessing the processes in place by which core values are communicated, understood, embraced and monitored throughout the institution.

- how the board and senior management systematically assess the risk culture of the institution
- extent to which the institution is able to define its risk culture, document the material elements that support it and actively assess gaps and areas of concern

Supervisory challenges:

- risk culture is a complex issue as it involves behaviours and attitudes and can be difficult to grasp
- means of regulation and scope of audit may reach their limits here: an appropriate risk culture must be lived

| Research

- **Diversity** increases the stability of banks:
 - **Gender** diversity reduces a bank's risk appetite and the likelihood for bail-outs (see e.g. Menicucci & Paolucci, 2022 and Cardillo, Onali & Torluccio, 2021)
 - **Age** diversity leads to less risk-taking and better financial performance (see e.g. Zhou, Kara & Molyneux, 2019)
- **Independence** of the board increases a bank's solvency (see Brogi & Lagasio, 2022)
- Higher **ownership concentration** leads to more capital buffers (see Klein, Maidl & Woyand, 2021)
- **Transparency** (with the meaning of more disclosure) increases financial performance and quality of assets (see Oino, 2019 and Akhigbe, McNulty & Stevenson, 2017) and shapes depositors' behaviour and deposit flows (see Chen, Goldstein, Huang & Vashishtha, 2022)
- **Social desirable** and **ethical values** can be attributes to a positive performance of banks (see Ibrahim, Hashim & Ariff, 2020 and Halamka & Teplý, 2017)

Future challenges

Changes in finance provision

- Technification of finance brings new players and new mindsets into the market
- Decentralised finance moves away from reliance on individuals and roles towards structures

Impact of artificial intelligence

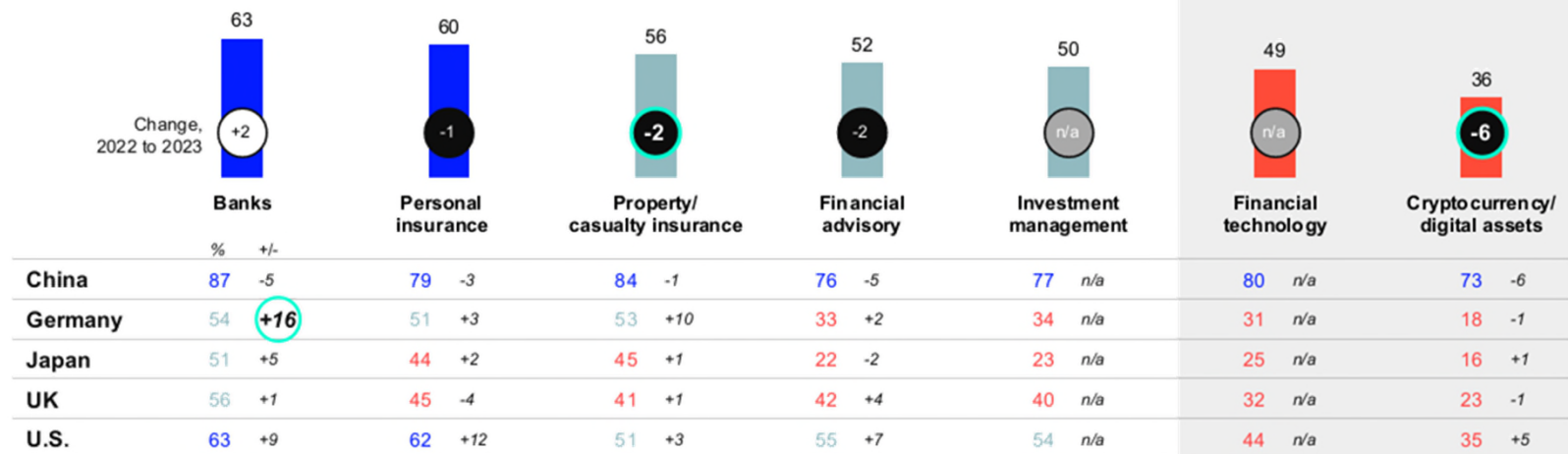
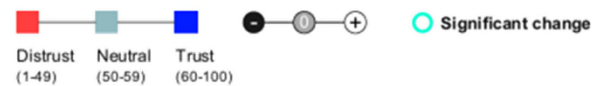
- What 'codes of conduct' will code use?
- Who is responsible?

Macroeconomic environment

- How adaptable is the banking sector?

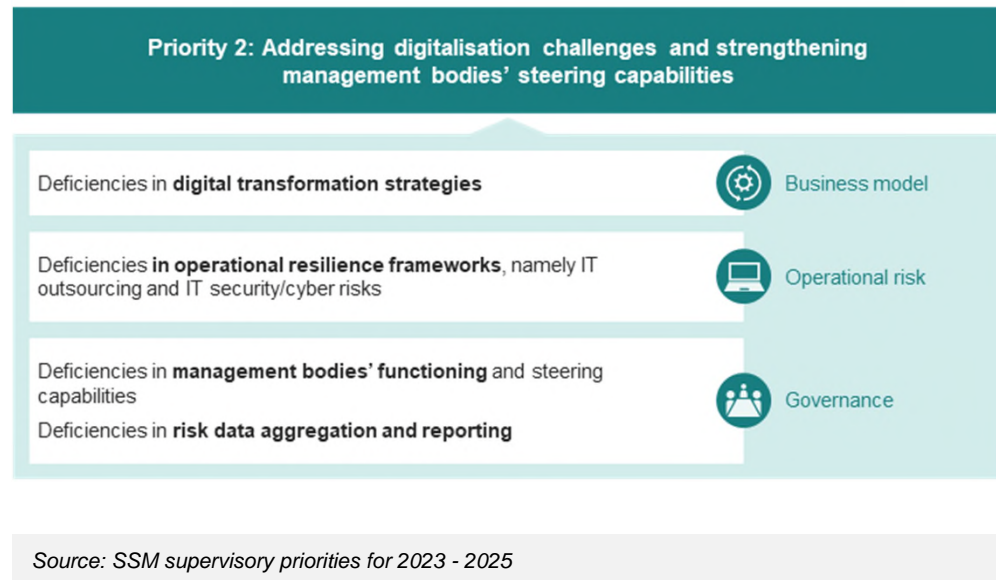
Trust in FinTechs

FinTech Distrusted; Trust in Crypto Collapses Percent Trust



Source: Edelman Trust Barometer (2023). Insights for Financial Services, p. 18

Supervisory priorities

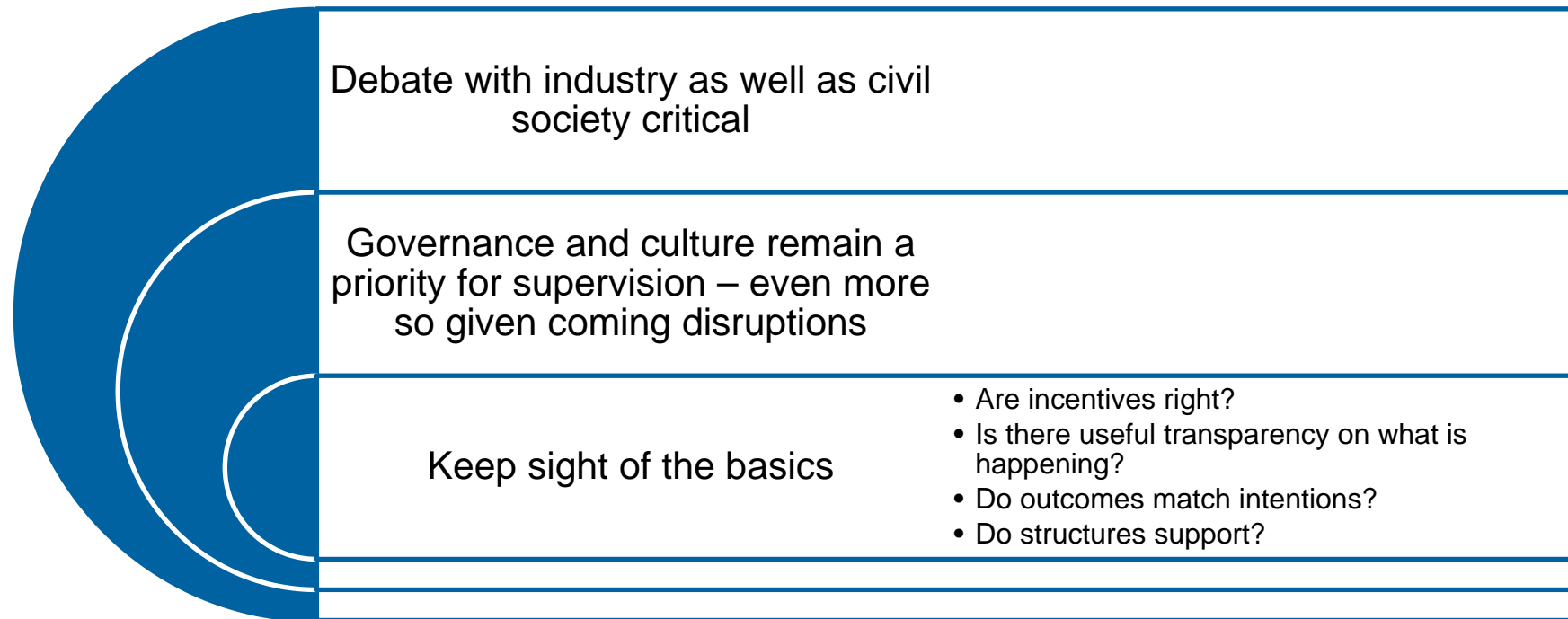


Governance

- Intensive engagement with senior management/supervisory bodies,
- priorities set under Section 30 of the Banking Act and
- horizontal analyses of selected aspects

Source: BaFin and Bundesbank: supervisory priorities for 2023 - 2025

Take aways



Selected references

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Thank you for your attention!