



TAYLOR BENNETT



Communicating Culture: Internal Engagement Under the Senior Managers Regime

Executive Summary

In the past year, UK regulators – the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) – introduced a range of policy changes to increase individual accountability within the banking sector. This saw the launch of the **Senior Managers Regime (SMR)**. Banks and financial services firms are now required to evidence how they are upholding cultural standards within – a task that is easier said than done. Employee engagement and fostering a culture of openness has never been more important.

With the banking industry implementing these necessary regulatory changes, a feeling of ‘compliance fatigue’ has emerged across the sector. Inspiring employees to engage with new regulation such as the SMR must be done in a creative, relevant, and genuine way.

Communications disciplines in banks have therefore become central to supporting regulatory change and bringing employees along for the journey.

Taylor Bennett is a leading executive search firm specialising in corporate communications. To produce our report, ‘**Communicating Culture: Internal Engagement Under the Senior Managers Regime**’, we engaged with leaders in financial services in the City who are responsible for strategic communications, regulatory engagement, and overall culture change measurement under the SMR. We explore communications best practices around these new, unprecedented regulatory changes which are having a profound impact on the financial services sector now and will continue to do so into the future.

The Senior Managers Regime

The FCA and PRA have introduced a range of policy changes that aim to increase individual accountability within the banking sector. The rules on individual accountability have been introduced following changes set out in the Banking Reform Act 2013, based on the Parliamentary Commission on Banking Standards' recommendations to improve professional standards and culture within the UK banking industry.

The SMR rules make it easier for firms and regulators to be clear about 'who is responsible for what'. Clear individual accountability ought to focus minds, improve standards, and make firms easier to run and to supervise. If things go wrong, the SMR will allow individuals to be held to account where they are at fault for misconduct that falls within their area of responsibility.

The rules apply to:

- banks,
- building societies,
- credit unions,
- the largest investment banks that are regulated by the PRA, and
- branches of foreign banks operating in the UK.

The SMR¹ launched on March 7, 2016 and focuses on the most senior individuals in firms who hold key roles or have overall responsibility for whole areas of relevant firms.

These firms need to:

- ensure each senior manager has a Statement of Responsibilities setting out the areas for which they are personally accountable,
- produce a Firm Responsibilities Map that binds these together, and
- ensure that all Senior Managers are pre-approved by the regulators before carrying out their roles.

The Government has also introduced a 'duty of responsibility', which means senior managers will be required to take the steps that are reasonable for a person in that position to take to prevent a regulatory breach from occurring.

PRA Senior Management Functions for Relevant Firms except small credit unions

Executive

Chief Executive

Chief Finance Function

Chief Risk Function

Head of Internal Audit

Head of Key Business Area

Group Entity Senior Manager

Non-Executive

Chairman

Chair of the Audit Committee

Chair of the Remuneration Committee

Senior Independent Director

(Source: FCA and PRA, 2014)

The Focus on Culture



Responsibility is the central plank of the new Senior Managers Regime. We do want senior managers to feel this responsibility in all that they do and that includes a responsibility for forming and implementing a positive culture throughout the organisation.



Andrew Bailey, Chief Executive Officer, Financial Conduct Authority²

What has changed is that senior leaders now see culture as being more important when managing risk. Previously, there had been a reliance on processes and policies to mitigate risk and catch bad behaviour. Now the reliance is on culture.

¹ The SMR replaces the Approved Persons Regime

² <http://www.bankofengland.co.uk/publications/Pages/speeches/2016/901.aspx>

Reactions to the Senior Managers Regime

We spoke to senior internal communications and employee engagement managers to gauge how their organisations have responded to the SMR. There was a general sense that these regulations are different, due to the emphasis on the individual and on personal responsibility.

“So for me the SMR has been at least a nine-month project. It was very clear from the outset that this one felt different in terms of the accountability that rested with individuals in the organisation in a way that it hasn't previously.”

“Senior managers here have wanted to really get underneath the detail on it, make sure that staff understand it and that it's not just a change in terms of a new piece of regulation like other things that have come before. It has material impact at an individual level.”

“Ignorance is no defence now. The Senior Managers Regime requires a sophisticated approach to communication to ensure that people haven't just been told something, but they have understood it, accepted it, consumed it, and are able and willing to follow it.”

“I think it is a seismic shift in the way that banks have to manage their internal processes and controls and be accountable for the risks that are associated with their business areas.”

“The managers are taking it very seriously. They all have different views, but the general reaction has been fear. And as a result, increased attention. It's been a call to arms in a way, to make them pay attention to the fact that if they don't deal with the risks in their area then they will be personally liable. That brings it home.”

“It's sharpening up what people are responsible for – gone are the days of tossing extra things into people's job titles. Now, if you're responsible for it, you had better understand it.”

Communications Leads the Charge

The nature of the SMR has seen internal communications craft specific messages for some of the business areas that previously wouldn't have required communications support, given these units felt empowered to manage these processes themselves. Now these business areas want strategic support with consistent messages and, moreover, they want to know how to communicate as authentically and accurately as possible. When business leaders are leaning on internal communications in this manner, it's important to make sure the communicators can handle what is being asked of them and provide sound, credible advice.



There were explicit requests from senior management that internal communications sit on the steering committee and be involved in the working groups around the SMR. We would probably be engaged later on with these matters but I had to partner much more with other functions in the bank to really understand the Statement of Responsibilities and the changes to the employment agreements as a result of their Senior Management Functions. What I have been able to do is to get a real handle on the legislation, when it comes into effect, and how best to communicate it.

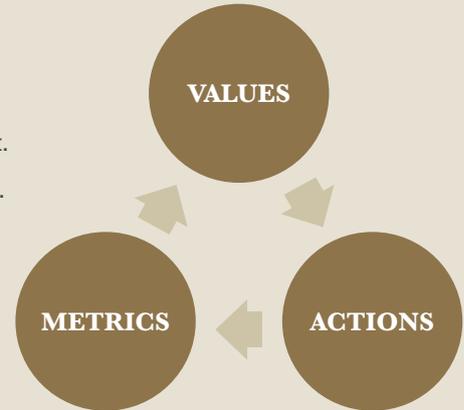


Associate Director, Corporate Communications, London-Based Global Bank

Consistency Counts

We observed that firms tend to encounter barriers when linking their values with actions. Showing these linkages to evidence cultural change is required under the SMR. Many firms rewrote and simplified their values in the wake of the financial crisis. However, communicating these values and showing real evidence and awareness of these values is where some banks are falling short.

Consistent, strategic communications on values are of paramount importance. So too is measuring the content of strategic messages on values. It's not about the number of communications distributed but the quality of those messages that the regulators need to see link back to the firm's overarching values. Importantly, overarching values need to be clearly defined in order to benchmark the content and consistency of values-based messaging. The CEO and executive team must be highly visible in championing desired values and conduct. Internal communications can help to facilitate that process.



Quality Management Information

An emerging reality of the SMR is the need for reliable, genuine and real-time Management Information (MI). Whether anecdotal or quantified, MI is very important in analysing trends, helping forecast the future and solving any problems identified. According to the FCA, firms should use it to monitor customer treatment, expectations and outcomes. The successful adoption of the SMR relies heavily on quality MI and internal and external communications functions are vital in assisting managers to obtain an actual read on sentiment. Claiming ignorance is not a defence under the SMR.



I have never seen senior leaders here pore over data and information like this before. They want real-time awareness and consolidated versions of the truth so they can genuinely say this reflects where we're at now. And as a result, people are wanting to act on it from a comms perspective in a way that I have never seen before.



Associate Director, Corporate Communications,
Global Bank



PRESS
ACTIVITY



EMPLOYEE
SURVEYS



CLIENT
SURVEYS



INTERNAL AUDIT
RESULTS



CLIENT COMPLAINT
DATA



NUMBER
OF FINES



INTERNAL CONDUCT
BREACHES



REGULATORY
REVIEWS

Effective Mechanisms for Engagement

Our research with industry leaders revealed some key mechanisms to implement the SMR and associated regulation, driven by internal communications:



Face-to-face

Some banks have recognised that communicating the SMR and new Conduct Rules couldn't come from a faceless or non-personal leader that employees hadn't either met or engaged with directly. This has seen many regional leaders and senior managers coordinate one-on-one meetings and small town halls (less than 20 people). Clear management talking points produced with the help of internal communications to ensure consistency and clarity has been welcomed by senior leaders in banks.



Focus groups

Small focus groups have been held to coordinate open discussions about business operations and gather MI. Verbatim at these meetings has been recorded by some banks to log the tone of conversation and any feedback from the business network. This also addresses regulatory requirements to report on culture change and overall sentiment across the organisation. Follow-up is also key, in order to capture the gaps and highlight to employees the SMR is not a 'flash in the pan' exercise – it's here to stay.



Celebrate risk-ownership

Through key internal communications channels, the business needs to demonstrate its encouragement of an open, risk-flagging culture. Managers need to reinforce that they are creating a culture that welcomes the discovery of risk so that it can be managed. Publish these discoveries of risk internally. Employees need to see examples of people not being punished for risk-flagging, but rather being celebrated for it. Internal videos and internet news stories provide a straightforward outlet to communicate these success stories. For example, highlight how an employee found 'Issue X' which can now be addressed and mitigated instead of snowballing.



Leverage employee survey data

Whilst common-place for corporate communications to own employee engagement survey insights, the unique difference with the SMR is exploring how to leverage this data. It is critical to ensure the right (culture-oriented) questions are being asked and an adequate number of responses from the relevant parts of the business are collected. Qualitative and quantitative data are required. Linking these insights with the internal risk and legal/compliance functions is important to show a comprehensive firm-wide benchmark.



Benchmarking

One bank interviewed shared its 'corporate calendar' of every single event which could have had an impact on culture. The calendar displayed the introduction of new policies, hires, town halls, conduct breaches – anything related to culture change. It told a story of where the organisation had come from to where it is now, visually displaying progress over a period of time. The calendar is regularly shared with the board and senior executives and provides a more comprehensive benchmarking system than a dashboard on employee engagement could.



Get digital

Some banks have impressive internal web platforms to share knowledge, communicate, and engage geographically dispersed employees on firm-wide news, training, and issues. These are powerful tools to creatively promote risk and compliance initiatives. User-generated content (i.e., videos or WebEx seminars) led by employees at various levels prove an authentic display of a firm's risk awareness and risk culture.

Challenges

There is no silver bullet to implementing effective culture change – no matter the organisation or the industry. Senior internal communications managers identified several challenges in implementing certain change mechanisms.



Cost

Not all banks have budgeted for communications campaigns or invested in the technical platforms aimed at promoting the regulatory information or culture programs. As a result, coming up with creative, low-cost engagement strategies is a commonly-felt challenge.



Resources and time

Having enough dedicated resources and headcount to address regulatory change communications is a challenge for most firms. Additionally, global organisations with many layers are often slow to implement change.



Penetration

How to make employees feel part of the culture rather than just repeatedly reading them the values is a big challenge for internal communications. Repetition and consistency are key.



In an ideal world, tone from middle management can be very effective, but in a very busy, almost over-burdened organisation fatigued by change, you can't rely on your middle managers to be the expert communicators that distill the top message, make it relevant and exciting, and share it with their teams... I think that's the role of the communications function to actually take this and run with it in a more inspiring and engaging, contextual way.

Global Head of Employee Communications,
London-Based Global Bank



Middle management

Engaging middle levels of the firm to cascade the communications around regulation and the SMR was viewed as a barrier as sometimes messages become diluted in the process. To overcome this, some banks tailored talking points to middle management, not just senior levels, to assist with communication dissemination.



Talent retention

As a highly-regulated and changing sector, banks are challenged on how they can remain nimble and interesting to ensure people want to stay and build their careers in the financial services space. Finding creative ways to attract and retain talent is important.



Accurate reporting

What is measured can be managed, and what is published is even more likely to hold organisations to account for making changes in the right areas. That requires an honest and clear starting point and accurate reporting of employee engagement levels – not just a small sample – to evidence culture change and respect for firm values.



The challenge is to ensure it's not overly burdensome and onerous. There's a tipping point with regulation where you spend your whole life being regulated and complying with regulations rather than getting on with the business of providing excellent products to your customers. So those two should go hand-in-hand.

Communications Director, London-Based
Insurance Firm

Opportunities

With challenges come opportunities. The one guarantee is that regulation in financial services is here to stay. In fact, it may even trickle into other regions and less-regulated industries in due course. The SMR provides a real opportunity for forward-thinking strategic communicators to step up and embrace the changes required and reinforce the value they bring to an organisation. This means the time is now for internal communications professionals to ‘get under the hood’ of regulation and culture change to build a substantial track record of know-how and best practices to ensure they are ahead of the curve to meet the needs of current and future employers.

Firms who can get this right will be able to leverage good culture and accountability as a source of competitive advantage. Less time will be absorbed into reactive responses to regulatory change and more focus can be put towards income-generating activities. And this can be used as a source of differentiation – evidence of good culture and transparency has the power to attract talent and customers.

Communicating regulatory change is a journey.

Key steps:		
1	Read and understand the new rules.	Are you equipped to implement the SMR? <ul style="list-style-type: none"> Do you have credible internal communications advisors in place who fully understand the SMR and associated regulation? How is your organisation’s internal communications function partnering with business areas to assist with messaging and engagement on regulation? How is your organisation capturing and recording the business’ feedback on regulatory change, engagement, and culture? Are your employee communications consistently setting the right ‘tone from the top’?
2	Help employees appreciate the rules and why they were introduced.	
3	Help employees to think about how the rules apply to their individual situations.	
4	Find the necessary resources to address these individual needs.	
5	Convince management and stakeholders that addressing the needs is a strategic priority.	
6	Be consistent with implementation. Record and communicate progress.	

The Outlook

Culture alone will not lead firms into enforcement territory with the regulators – it is the crystallised risk that grows out of poor culture that will. Hence, it is the role of internal communications to capture the relevant aspects of the regulation, consistently share that knowledge, and benchmark progress to assist in demonstrating to the regulator that the firm is addressing culture change.

Having the right people in place will be critical for any organisation that wishes to take regulatory change seriously. And micro-management is not the answer. It is impossible for senior managers to have seen every single piece of data on a daily basis within large and fast-paced organisations. Senior managers must surround themselves with people who are comfortable escalating issues. Again, this comes back to culture and consistent, clear communication.



If you’re happy, you’re more motivated, work is a better part of your life, and therefore you’ll whistle-blow because it’s your firm. We want people here to take pride in the firm, recognise themselves in it, and realise that they can bring value to our overall mission.



Head of Communications, London-Based Global Investment Bank

About Taylor Bennett

Taylor Bennett's success as communications executive search specialists is underpinned by an ethos of uncompromising excellence reflected in our extremely high placement rate and our exemplary levels of repeat and referral business. We pride ourselves on our extensive network, our creative approach to clients' needs, our deep understanding of the market, and our reputation for insightful client and candidate counsel. Taylor Bennett – along with our sister companies, Heyman Associates and Taylor Bennett Heyman, – bring together almost 60 years of experience of successful placements in North America, Europe, the Middle East, Asia Pacific and Australasia.

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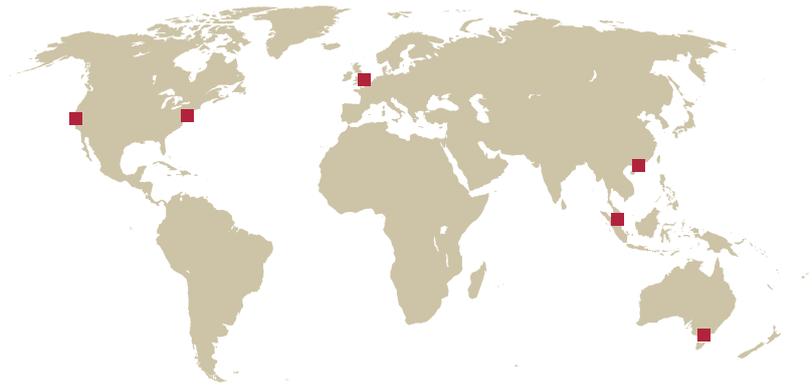
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Useful Reading

Group of 30: Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform http://group30.org/images/uploads/publications/G30_BankingConductandCulture.pdf

The Financial Conduct Authority: The Senior Managers Regime <https://www.the-fca.org.uk/firms/senior-managers-certification-regime>



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