



HONG KONG MONETARY AUTHORITY
香港金融管理局

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22 May 2020

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Report on Review of Self-assessments on Bank Culture

I am writing to share the key observations of our review of the self-assessments on bank culture submitted by the authorized institutions (“AIs”) covered in the first phase of the self-assessment exercise.

Following the announcement of the supervisory measures for bank culture in December 2018, the Hong Kong Monetary Authority (HKMA) commenced the self-assessment exercise in early 2019 by requiring 30 banks (including all major retail banks and selected foreign bank branches with substantial operations in Hong Kong) to conduct self-assessments on their culture enhancement efforts and benchmark themselves against the findings of major conduct incidents outside Hong Kong. The selected banks were given six months to complete the exercise. We have reviewed the self-assessment reports from the selected banks to draw insights from the submissions with a view to providing a range of practices as well as identifying common themes for reference by the industry.

Range of Practices

Overall, the selected banks agree with the need to foster sound bank culture. As there is no one-size-fits-all approach when it comes to culture, the self-assessment exercise is intended to provide an opportunity for the banks to reflect on any insights, lessons learnt and issues encountered on their culture efforts, but not a check-box type compliance exercise. While most banks recognised the self-assessments as an opportunity for the AIs’ board and senior management to reflect on their own culture, we noted that there were variations in the quality and depth of the self-assessments.

Based on the self-assessments, the banks covered in the exercise have implemented a range of culture initiatives and made significant progress in promoting sound bank culture over the past two years. We have identified a range of practices under each of the three pillars: (1) governance, (2) incentive systems, and (3) assessment and feedback mechanisms, which can be a handy reference for AIs as they move on and devise further culture enhancement measures.

Common Themes

AIs are encouraged to pay more attention to some common themes that have been identified from the self-assessments as follows:

- (a) Further work is needed to ensure their incentive systems are designed to promote sound culture and prevent incidents of misconduct;
- (b) Stronger links are required to connect their Hong Kong operations with the culture efforts of their headquarters or upstream entities as well as their downstream operations, as appropriate;
- (c) Deeper analysis is expected to benchmark themselves against the findings from the reviews of the major overseas misconduct incidents;
- (d) More focus is needed to facilitate the undertaking by relevant staff of the continuous professional development under the Enhanced Competency Framework or by other professional bodies to complement the effort of promoting sound culture;
- (e) More effort is needed to tackle the key challenge of culture assessment to identify the gaps between current progress and desired culture;
- (f) More work is needed in promoting an environment which provides “psychological safety” to encourage staff to speak up without fear of adverse consequences; and
- (g) Sustained effort is required in driving cultural changes and banks should be mindful of “culture fatigue”.

More details of the observations including further discussion on the abovementioned range of practices adopted by AIs and common themes identified among AIs in driving culture reform based on the self-assessment exercise are set out in the attached **Report**.

Next Steps

While the key observations are identified from the selected banks covered in the first phase of the self-assessment exercise, these key observations will be relevant to all AIs. We thus encourage **all AIs** to pay attention to the common themes identified, make reference to the range of practices, and consider whether such practices are effective in driving cultural changes based on their desired culture, values and behavioural standards.

We would also like to remind the AIs that were not covered in the first phase of the self-assessment exercise that, they are still expected to reflect on their own culture enhancement efforts, and take into consideration the key observations shared in this circular and the attached Report.

The insights drawn from the self-assessments have informed the HKMA's future work on bank culture supervision. We will, as next steps, conduct focused reviews with an aim to dive deeply into the incentive systems of front offices in the business of distributing banking, investment and/or insurance products in retail banks. As for culture dialogues, we have already commenced such dialogues with several AIs in 2019 and the engagement with AIs will continue going forward. We will inform AIs selected to take part of the details individually.

Looking ahead, the HKMA will continue to work closely with the industry in promoting sound bank culture. We will continue to gauge the progress of bank culture reform in Hong Kong and share industry-wide insights and practices on culture with the industry as and when appropriate. The HKMA will also continue to explore other culture initiatives, taking into account overseas experience and emerging themes that may arise.

Should you have any questions about this circular, you may contact Ms Christine Wong at bankculture@hkma.iclnet.hk.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

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