# John C Williams: Banking culture - the path ahead

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the conference "Building Cultural Capital in the Financial Services Industry: Emerging Practices, Risks and Opportunities", Federal Reserve Bank of New York, New York City, 4 June 2019.

* * *

*As prepared for delivery*

Good morning, everyone. I'd like to begin by welcoming you to the Federal Reserve Bank of New York and to the fifth conference on culture in financial services that we've hosted.

Before I launch into my remarks, it's time I remind everyone that the views I express today are mine alone and do not necessarily reflect those of the Federal Open Market Committee or others in the Federal Reserve System.

When I took on the role as President of the New York Fed last year it so happened that my first day coincided with this conference. In my remarks that day, I emphasized that culture is a long-term project, a constantly evolving one, which is never done.

The trouble with long-term projects with no distinct finish line is that they can lack a sense of urgency. The pressure to make real progress is often missing, especially when there are so many other priorities competing for our time.

Headlines in the financial news illustrate the lack of progress. In the year since our last conference, stories of money laundering and fraud have been an all-too-frequent feature. Culture is at the heart of many of these issues, and addressing the root causes of misconduct must remain a high priority for the industry and regulators.

## The Supervisory Approach

Given this imperative for change, the question is, what can we do to improve culture in financial services?

Culture is like many of the risk management issues challenging businesses. Cyber threats, digital transformation, and climate change are all facts of life that companies face today, and will be facing 10 years from now.

But I don't hear any CEOs saying that securing their servers is a project that can wait until 2029. Nor does anyone think that there are "once and done" fixes for these problems. Indeed, one important lesson from cybersecurity is that this is not purely a technology problem, but one that requires a fundamental shift in mindset and culture over the long term.

So the first thing is the industry, the regulatory agencies, and the banks need to take culture seriously, now.

A major and essential part of this is that there must be meaningful consequences for firms and people when things go wrong. We have learned that simply levying large fines on companies is not enough to create lasting change. More is needed.

Regulators must hold management and boards of directors to account. The legal element of supervision will always remain paramount. And a scandal often spurs change. But if leaders wait until things have gone wrong to think about culture, they're leaving it too late.

## What Do We Do to Get to a "Good" Culture?

The second thing is we need to understand what contributes to a good culture, and what allows a bad one to flourish. What fosters an organizational culture where people feel empowered to speak up? And what leads to a work environment where employees feel emboldened to commit fraud?

That’s one of the things I’m most looking forward to in today’s conference. I can’t wait to hear the insights from such a variety of voices. Looking beyond our own narrow frame of reference to other fields of study, like organizational psychology, will help us understand how to achieve the progress that’s so desperately needed.

Behavioral science really gets to the root of how human nature interacts with an organization’s processes. Everything from how we set goals to how we motivate our staff to achieve those goals has an effect on culture, for better or for worse.

This is where the rubber hits the road for most organizations, in the financial services industry, and beyond.

We’re also going to hear from experts on the role technology plays, including the ethics of data handling, and what artificial intelligence means for relationships with customers.

And I’m particularly looking forward to hearing about how diversity, something that’s a strategic priority for me and this Bank, affects cultural norms. This includes diversity not only in terms of race and gender, but diversity of thought and experience, which also affects an organization’s culture and decision-making.

As an academic at heart, I have a self-confessed bias toward research. But in this case, there’s real value in understanding the full breadth and depth of these issues.

One of the most important reasons is that we can debunk some of the myths that have acted as a security blanket to the industry. Too often, when things go wrong, business leaders blame a single “bad apple” as the cause of the problem.

But focusing on an individual bad actor can obscure a culture in which people feel that misconduct in the pursuit of profit is tolerated, or even condoned. The “bad apple” theory acts as an excuse for not doing the hard work of cultural reform. In this process of blaming bad apples, leaders fail to look at what’s happening to the rest of the barrel. What kind of environment has let the rot set in?

Understanding the full complexity of what forms a culture is important, but our unique position within the financial system means the Federal Reserve Bank of New York must do more.

## Our Role in Achieving Progress

Three principles—“connect,” “convene,” and “catalyze”—guide my thinking in this area.

Connecting people with the latest data and research—and sharing experiences—gives them the insights and tools they need to make change. Conferences like this one are critical—as is our online research hub, which acts as a clearing house for the latest information and initiatives from a wide range of organizations.

But, that’s not enough. In this regard, we recently announced the Education and Industry Forum on Financial Services Culture to support these efforts.

The Forum, which kicked off in April, brings together business schools and industry representatives. Participants will research and design case studies for business school students. This will mean that students planning to enter the industry will have the tools to handle the ethical challenges that can arise in real-life work situations.

“Convene” means bringing together stakeholders to share best practices. And that’s where our Supervisors Roundtable comes in. The Roundtable brings together supervisors from around the world to share their jurisdictions’ approach and what they’ve learned from it. Participants have developed a shared set of tools for supervisors that can be leveraged in cultural assessments.

Finally, let me turn to this principle of “catalyze,” and how we can use our position in the heart of the Financial District, to create change.

As well as talking the talk—we’re walking the walk. This year, for the first time, this Bank is taking the Banking Standards Board (BSB) Assessment.

The BSB Assessment measures the extent to which nine characteristics are demonstrated by an organization, and it includes things like honesty, accountability, and respect. The assessment started in the UK, and the Irish Banking Culture Board now takes a similar approach.

I would love to see firms in the United States adopt an industrywide survey that can measure culture and benchmark banks against their peers. Data gathering is the first step of understanding the nature of organizational culture.

These three concepts—“connect,” “convene,” and “catalyze”—will continue to be our guiding principles on the issue of culture as we build on our current work and explore new initiatives.

Like addressing cyber risks and climate change, the journey toward reforming culture in the banking and financial services industry is a long one. And there’s no single action that a regulator or a bank can take to make it happen. Getting it right is going to require the will and expertise of regulators, financial services firms, academics, and practitioners. And while changing organizational culture is a long-term, complex, and challenging task, I’m optimistic that we can and we will make progress. And the Federal Reserve Bank of New York is committed to being a partner on that journey.

Thank you.