



Starling Insights

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To: Starling Trust and to Whom it May Concern

Supervisors on Supervision Feedback

On November 17th 2025, Starling Insights launched a new Deeper Dive report¹, “Supervisors on Supervision” following a global stocktake exercise that received input from many senior financial sector supervisors worldwide. The study collected emerging views regarding reform efforts aimed at culture, risk governance and supervision.

The report’s release as a Public Exposure Draft was intended to solicit feedback from a variety of industry stakeholders to inform a Final Report, due to be released in the second quarter of 2026.

This letter includes my feedback to the “Supervisors on Supervision” document and is structured in 3 sections:

- 1) An overall view, summarized in the main body of this letter;
- 2) Included as **Appendix 1**, an extract from my previous response to a UK Government “Call for Evidence on Financial Services” from December 2024. Much of the content of which remains relevant to this response;
- 3) Included as **Appendix 2**, responses to the specific “Questions for Comment”, as contained in the Supervisors on Supervision report.

Overview

I applaud the work of Starling Insights to progress a collaborative industry effort to focus Supervisors and Banks on the importance of organizational culture as a matter of conduct and prudential concern.

As the report noted, the GFC, the events of 2023 and a raft of other conduct and resilience issues have continued to highlight the criticality of understanding culture and the factors that influence and shape it.

¹ [Supervisors on Supervision Questions and Comments | Starling | Starling Insights](#)

Nonetheless the approaches and focus of Supervisors have been slow to develop, and the efforts to address culture as a matter of Supervisory concern remain piecemeal and lacking consistency and rigour.

Therefore in revisiting the topic, it will be vital to address not only the continued importance of culture, but why, despite overwhelming evidence of its criticality, the focus and resources at both regulatory and firm level are often not forthcoming.

As 2023 showed, the risks can be both existential to a bank and systemically important, and yet momentum for a refreshed approach to a deeper behavioural understanding fades quickly.

In re-addressing the approach it is therefore vital to recognize the factors that lead to this “blind spot” and that continue to delay progress. Otherwise any industry effort, however well intentioned, risks falling prey to the same powerful forces that have hindered focus and improvement previously.

Behaviour as a “meta” risk

A key part of this is that culture and behaviour are unique as a bank and wider industry risk (and compliance, conduct, resilience and performance) challenge. As the behaviour of all actors, both individual and organizational, shape how they seek to address and understand “behaviour”. In this way it is a “meta” risk, where the area you are trying to study is both influenced by, and influencing, the approach you are taking to study it.

This circular dynamic is distinctive for behavioural risk and culture. Other challenges, such as credit risk, market risk, liquidity risk, cyber security and technology risk are perceived as technical, and not directly confronting to a “sense of self”, and to our own perceptions of (and over-confidence in) what drives human behaviour, action and decision making.

Culture as a complex domain

As Sir John Kay noted in the preamble to the report, culture is not constructed, it is ‘emergent.’ It arises from the interactions between participants and from what is repeated, reinforced, and rewarded in a myriad of informal daily activity.

Understanding and embracing this inherent complexity is vital in how we seek to tackle culture as a matter for executive and Supervisory effort.

However, bank executives, boards, regulators and governments (indeed all humans) have a strong attraction to clear causal chains and for compelling linear narratives.

As such we often err towards explanations that are mainly technical (the system failed) or personal (an individual was at fault), rather than embracing the “messy middle”, where there are multiple influencing and confounding factors and emergent patterns.

The topic of “complexity” may seem esoteric or unnecessarily intricate, but the gravitation pull towards inappropriate mechanical and (easily) repeatable solutions, and to frameworks, taxonomies and (often ill-informed) measurement needs to be recognized.

If we take one set of established solutions derived from STEM, finance, accountancy and law, in relation to linear or complicated business challenges, and assume it still applies to a **complex** behavioural domain then meaningful progress will be stymied.

It may lean into our deeply human desire for order, control and narrative, but will be incomplete at best, and potentially misleading or illusory.

It is for these reasons that it is imperative that approaches to culture are best addressed through developing core behavioural capability, competency and expertise (in both the supervisors and the banks) and not through a programmatic lens or using the limited toolset of the past.

Behavioural Capability

Randal Quarles noted in the opening letter to the report that:

“Applied behavioural science can now propose for us rigorous frameworks with which to assess behavioural norms and group dynamics. And advances in artificial intelligence, data science, and social-network analytics offer the possibility of deriving predictive, transparent, and replicable measurements that anticipate organizational performance outcomes. These developments move culture assessment away from rhetoric and closer to science backed evidence, helping both to sharpen and to discipline supervisory judgment”

Whilst I agree that applied behavioural science and psychology are key components to a more informed and predictive approach to culture we equally need to remain ever vigilant that our desire for:

“shared frameworks and established measurements that allow us to ‘show our work’ in culture risk governance and supervision”

..does not nudge us once again into a simplified and reductionist approach that fails to take into account the context of different firms. The gravitational pull towards a straightforward, but misleading, solution once more exerting its damaging influence.

As John Kay states, culture is deeply path dependent and highly is context driven. And

“we must learn from disciplines long ignored in prudential supervision; anthropology, psychology, sociology, the study of complex systems and of ecological cascades. We must also invest in new capabilities: behavioural diagnostics, qualitative analytics, and narrative assessments. These are not ‘soft’ tools. They are the instruments of forward-looking governance”.

I fully endorse this statement and it is incumbent on both the Supervisors and Banks to build out these tools, approaches and capabilities.

Supervisors Culture - Physician heal thyself

If organization culture and a mature approach to its assessment are important to regulated firms then they are equally important to the Regulators.

Randal Quarles highlighted that:

“ Progress in this direction will depend on conditions of candour within supervisory institutions themselves. Supervisors have urged the firms they oversee to build cultures that protect dissent, reward curiosity, and make truth speak-able. If this is good for firms, so too is it good for supervisory agencies; the public sector must demonstrate readiness to take its own medicine”.

I agree that it is essential that the Supervisors recognize the importance of their own culture and that they build their own capabilities and expertise that can be applied not only to those firms that the supervise, but also to themselves.

Having these skills is vital to the credibility of Supervisors, in being able to ask the right questions of the firms they regulate, and in being able to understand and encourage best practice.

It is also critical to the health and resilience of the financial services sector, to systemic risk and from there to the wellbeing of wider society.

Further Details

Further details in line with the specific Public Exposure Draft Questions are as detailed in the attached **Appendix 2** to this response.

Please note that I am happy for all my feedback to be publicly attributable and that I write in both my personal capacity and in my role as Director of Behavior Ltd², a consultancy that focuses on behavioural risk in Financial Services.

Yours faithfully,

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APPENDIX 1- prior response to UK Government Call for Evidence

The below response to a prior exercise by the UK Government on Financial Services has been included as an appendix, given its ongoing relevance to the topic of culture, behaviour and supervision.

Dated: 9th December 2024.

To Whom it May Concern

Responding to the Call for Evidence on the Financial Services Growth and Competitiveness Strategy

In response to the call for evidence on the Financial Services Growth and Competitiveness Strategy as published on the 14th November 2024³

The financial services sector is of huge importance to the UK, accounting for nearly 10% of the economy and playing a vital role in the lives of all companies, organizations and individuals, and facilitating the efficient use of capital, job creation, tax generation, and economic development.

As such, I welcome the Government's renewed focus on the sector, including through the Financial Services Growth & Competitiveness Strategy; and the wider long-term plan for growth and the commitment to restoring stability, increasing investment and reforming the economy to drive up prosperity and living standards across the UK.

Central to the success of Financial Services are both the stability and resilience of individual institutions and the strength of the wider industry to withstand systemic risks.

As acknowledged in the call for evidence paper, one of the key contributing factors to the economic and political headwinds faced over the last 17 years was the fall-out from the Global Financial Crisis (GFC).

This reminded us that crises are hugely costly, with impacts on business and household wealth and confidence, and long term impacts on growth. The risks and damage are magnified in the UK, given the size and significance of banking and other financial services to the wider economy.

In reviewing and revisiting UK financial regulation, to ensure that it is proportionate and supportive of economic growth, it is therefore essential that perceived shorter term gains are not prioritized over longer term resilience and performance, without due consideration of the knock on impacts of these decisions. Whether that is through the process of:

- Finalizing and delivering the concluding stages of the post-crisis Basel 3.1 reforms to bank capital requirements;
- Reassessing specific post-crisis regulations, such as those surrounding the SMCR and Ring-Fencing.

In particular I would highlight the following factors that are crucial to profitability, resilience, risk management and decision making, and that are currently neither sufficiently understood nor invested in, at both the UK regulatory and individual firm level.

³ <https://www.gov.uk/government/calls-for-evidence/financial-services-growth-and-competitiveness-strategy>

Behavioural Risk Management Background

The business of banking is the business of behaviour, with the centrality of trust and the multiple actions and decisions of individuals, firms, customers, regulators, management, staff and other stakeholders.

At the macro level the systemic risks within the financial system are created by people and institutions interacting with each other in the form of endogenous risk⁴. At the company level behavioural risks can manifest through the response of counterparties and deposit holders, when there is a loss of confidence, and through the day to day actions and decisions of customers, boards, management and employees.

The GFC of 2007/08⁵ included predatory lending, excessive risk-taking, and inadequate regulatory oversight; and underpinning that were perverse incentives, conflicts of interest and behavioural blind-spots. The multiple conduct issues over the last 15 years likewise had their roots in the confluence of behavioural risks, opportunity and motivated reasoning.

The centrality of human behaviour to the financial system was further reinforced in 2023 with the series of failures and bankruptcies that took place, primarily in the United States. This necessitated a swift response by banks and regulators to prevent contagion.

Whilst technical and proximate causes of these recent failures can be identified, such as the mis-management of interest rate risks and the concentration of deposit holders, the ultimate sources of these issues were entwined in wider problems of governance, behaviour and decision making.

In Switzerland the emergency takeover of Credit Suisse by UBS was presaged by a long running series of issues and scandals that weakened their position and led to their near collapse as systemic risks spread.

Although the events of 2023 had limited impact on UK financial institutions it would be naïve to assume that some of the root causes are not also present domestically, or that UK based firms and regulators have a markedly more advanced approach to their understanding and action on addressing the underlying behavioural risks.

Behavioural Risk Management Capabilities

Whilst risk management capabilities in firms and regulators are well advanced in most areas that are perceived as technical; such as credit risk, market risk, liquidity risk, cyber security and technology risk, they are less developed in their approach to, and understanding of, the underlying behavioural risks.

These risks can be the root cause of, and manifest in, other domains; such as the liquidity risk issues suffered by Silicon Valley Bank in 2023. They can also directly impact a variety of other areas such as conduct, operational risk, resilience and financial crime.

⁴ Endogenous Risk - <https://www.systemicrisk.ac.uk/endogenous-risk>. Systemic Risk Centre – Research at the LSE: <https://www.systemicrisk.ac.uk/>

⁵ Foster, J. B., & Magdoff, F. (2009). The great financial crisis: Causes and consequences. NYU Press.

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As a counterpoint, behavioural risk management⁶ applies the insights from psychology, behavioural science, physiology and related disciplines to assess the organizational landscape, identify areas of interest, investigate and address.

It evaluates those underlying drivers that underpin behaviours and decision making and which lead to both desirable and undesirable outcomes. In identifying and assessing these drivers it takes full consideration of organizational, social and individual factors, recognizing that traditional approaches that focus excessively on reward and control are incomplete and can be misleading.

Many financial service firms currently have an immature or haphazard approach to these risks, conflating work on aspirational culture statements, training and topic specific work (such as that around diversity and inclusion) as a proxy for wider work on behaviour. Furthermore efforts can be dispersed across different functions, such as the Business, HR, Risk, Compliance and Audit without a common approach nor understanding.

The capabilities and focus of Executive and Non Executive management of Financial Services firms to identify, analyse and act on these risks is limited, and further hindered by the lack of insight and expertise being provided from within their firms.

I perceive similar issues existing at the UK regulatory level, which leads to them having restricted ability to give clarity and direction on their expectations to the wider financial services industry.

Whilst I applaud the recent valuable work of the UK FCA on Non Financial Misconduct⁷ it needs to be recognized that this is addressing a subset issue, specific to personal behaviour, and is not synonymous with addressing wider behavioural risks associated with the GFC, the industry conduct issues and the events of 2023. Although there may be overlap between these topics a more thorough understanding of the organizational environment, context and structures is needed.

I also note the FCA approach to Consumer Duty, in setting higher standards of client protection across financial services, includes the need for a deeper understanding of how consumers actually behave. This infers a recognition of the importance of firms identifying and acting upon the drivers of human behaviour, and is a valuable insight that it is essential is applied equally to the internal dynamics within companies.

I would therefore recommend that the financial regulators:

- Have sufficient internal behavioural risk management capability and expertise, and that it is an area that their Supervisory teams are mandated to pursue with regulated firms;

⁶ Scholten, W & Chesterfield, A (2024). Dear CRO: Behavioural Risk Management is the new thing for you. Journal of Risk Management in Financial Institutions, Vol 17 No 4, August 2024. <https://www.henrystewartpublications.com/jrm/v17>

⁷ FCA publishes results of Non-Financial Misconduct survey. 25/10/2024. <https://www.fca.org.uk/news/press-releases/fca-publishes-results-non-financial-misconduct-survey>

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- Ask regulated firms about their own behavioural risk capabilities and encourage their advancement. There are areas of good practice in the UK and globally that can be referred to in order to help firms develop⁸.

In keeping with the desire to ensure regulatory burdens are minimized and proportionate:

- I would not recommend detailed regulations in relation to behaviour and culture, insofar as the specifics should remain the responsibility of individual firms, and to avoid perverse outcomes from firms working to a comprehensive rule book rather than abiding by principles.
- Expectations on expertise and capability should be balanced in line with the size and importance of financial service firms and their criticality to the wider economy.

Behavioural Risk Management Opportunities

In encouraging the development of behavioural risk management insight and capabilities it is important to note how this approach can mutually re-enforce the current focus on performance, resilience and proportionate regulation and risk management.

Properly implemented, a more thorough and informed consideration of behaviour and decision making can help identify areas where excess process, control and regulation can usefully be trimmed without any detrimental effect.

The traditional approach of incremental and additive control, surveillance, headcount and infrastructure and the attendant costs can be reevaluated with an understanding of where these are ineffective in shaping human behaviour and can lead to perverse outcomes, and what alternative methods may be more successful.

Similarly a fuller understanding of how to encourage internal cooperation, challenge and transparency within a firm can help with their financial performance through increased speed, innovation and removing barriers and duplication.

If the competitive pressure continues to focus the attention of the UK & other Governments, Regulators and Financial Services companies on the need to reform the bank capital requirements and to ease regulations, then the alternative insights gained from a behavioural approach will be invaluable.

Properly implemented the implications for financial services firms are strongly positive. Where additional capability and expertise is required these can be small and targeted, and outweighed by the savings in ineffective bureaucracy, processes and resource. Furthermore the insights are equally as important to long term performance and resilience as they are to risk management.

International co-operation

Given the globally interconnected nature of financial services I urge the UK Government to continue to work with the Financial Policy Committee (FPC), overseas governments and

⁸ Scholten, W & Chesterfield, A (2024). As above. Also Wood (2021) Thomson Reuters -Behavioural science gains traction as more banks seek to mitigate employee risk.

<https://www.thomsonreuters.com/en-us/posts/investigation-fraud-and-risk/behavioral-science-bank-risk/>



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financial sector regulators, and with international partners, such as the Financial Stability Board (FSB), to help develop best practice, secure the resilience of the wider financial system, mitigate vulnerabilities and respond to instances of financial instability as and when they arise.

In addition to the current toolkit and focus of regulation it is imperative that this best practice also includes explicit coverage on the need for behavioural risk capability, expertise, understanding and action in both regulators and regulated firms.

Taking a leading role in this in the UK will further strengthen the domestic Financial Services sector and help position the country at the forefront of leading international approaches.

Yours faithfully,

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[end]

CHAPTER 1 — Culture as a Supervisory Concern

1.1 Definitional Ambiguity and Supervisory Hesitancy

- 1.1 How should we define culture in a manner that demonstrates the importance of culture to the task of supervision? Does culture only matter in so much as it directly affects risk and compliance functions (commonly discussed in terms of “Risk Culture”); or is prudential relevance of culture broader than this (often discussed in terms of “Culture Risk”)?
- (a)

Defining culture carefully is an often overlooked, but essential, step and an important aspect of defining culture, for both banks and supervisors, is to think about it as behaviour in aggregate. It is important to focus on what actually happens, and not to view it as an aspirational or abstract set of values. A working definition is that:

“Culture is the detailed behavioural landscape of the organization as it currently is, encompassing the behaviours and decisions that are made by individuals and groups, with a particular emphasis on those patterns of behaviour that predominate or are missing, and areas that are common or are outliers”

A key element of culture is therefore the imperative to understand the drivers behind individual and collective behaviours and decisions, which may be personal, social, organisational or environmental.

Using this lens it is somewhat abstract to classify culture just as it directly affects risk and compliance functions (commonly discussed in terms of “Risk Culture”) as somehow separate from a broader understanding of what is influencing all behaviour.

In fact the very use of the term “culture” can be problematic insofar as it is freighted with very different meanings by different people. As such I would err towards talking about the topic using the terms of a behavioural landscape, or if it needs to be pointed to where it is an area of specific supervisory concern, as pertaining to behavioural risks.

- 1.1 Some discuss culture in terms of “non-financial risk” or “material operational risk.” Does either formulation offer an effective framework within which to contemplate matters of culture within commonly used frameworks of supervision?
- (b)

No, discussing culture on terms of “non-financial risk” or “material operational risk ”is not a helpful formulation and does not offer an effective nor comprehensive framework.

We need to move away from these piecemeal, partial and somewhat abstract categorizations.

Behavioural and cultural considerations underpin all aspects of Financial Services, whether that is performance, resilience, risk management, compliance, conduct or other. Indeed behavioural factors are also key to market, credit and liquidity, those areas traditionally classed as financial risk.

To conflate culture with terms such as “non-financial risk” or “material operational risk” is very unhelpful and is more likely to confuse rather than enlighten.

As an example, the UK FCA uses the term non-financial risk to mean a specific subset of behaviour as it relates to areas of personal misconduct (such as bullying). This is very much a subgroup of the overall topic of culture, and the two terms should not be used synonymously.

Indeed part of the problem is attempting to retro-fit the topic of “culture” into pre-ordained frameworks and taxonomies. Attempting to bash a square peg into a round hole.

Human behaviour and decision making, and the key factors that exert influence (personal, social, systems, environmental) pervade all aspects business, risk, compliance, conduct and indeed supervision. They need to be understood and assessed in that light.

One important aspect of this is to recognize the reality of the “complex adaptive” nature of the topic of culture, rather than artificially imposing more (misleading) mechanical or linear approaches.

The latter may have an appealing narrative, but unfortunately it is not reflective of reality nor helpful.

- 1.1 What is the relationship between governance, risk management, and culture? Which is of paramount in terms of supervisory significance? Is culture to be viewed as a byproduct of formal risk and governance infrastructure, or is it better viewed as a driver of performance outcomes? Can these matters be assessed independently? If so, should culture be assessed independently of governance and risk management? Why/not?

As noted in the prior responses, it remains important to keep in mind a clear interpretation of what culture is (1.1- a), as that interpretation is key to understanding the interplay between governance, risk management, and culture.

Both governance and risk management are typically based on frameworks, policies, practices and systems that have been established to aid the management of a firm. Culture is the reality of how things are, and the behavioural landscape “as is”, not representing an imposed construct. Culture is not a set of aspirational values, nor the simple byproduct of a formal process.

Culture and the key influences that shape behaviour and decision making are therefore important aspects that feed into the efficacy of governance and risk management.

Nonetheless, as with all complex systems, there are feedback loops and emergent properties where that nature of how governance and risk management have been set up and operated in turn feed back into areas that shape behaviour.

Culture can most assuredly **not** be viewed as (just) a byproduct of formal risk and governance infrastructure. That would be a simplistic and reductionist approach that

denies the reality of the complex interplay of many factors that drive behaviour. Yes formal risk and governance systems would exert some influence on culture, but as one of a wide range of factors (for example including social drivers and norms).

Culture would be better viewed as a driver of outcomes, but not just in performance, also in risk, resilience, compliance, conduct outcomes etc. And that “culture” is itself shaped and influenced by a variety of factors (personal, social, systems, environmental).

To answer the sub question, of whether culture be assessed independently of governance and risk management?

Both Governance and Risk Management can and should be looked at through the twin lenses of 1) formal frameworks, structures, policies and expectations; as well as 2) the behavioural lens which seeks to understand the wider influences on decisions made and unmade, on action and inaction.

For instance a Board Meeting can be considered in relation to 1) its formal processes, quorum, quality of papers etc. But this would be incomplete without assessing 2) the human dynamics, challenge, curiosity and social drivers important to what gets discussed, actioned and the efficacy of governance.

Likewise an assessment of Risk Management would be incomplete if it did not consider the variety of human factors that influence understanding, completeness, transparency and escalation. For example the sometimes perverse impact of measurement and the illusion of control, or the impact of sludgy risk management processes in how people undertake their work.

The assessment of culture therefore needs to take into account a more extensive and scientific set of disciplines such as organizational psychology, behavioural science, behavioural economics, neuroscience and sociology to explore the mix of cognitive, social, and environmental factors that are key to shaping and driving behaviour.

Key principles in this approach should include that:



- Behaviour and culture are looked at and understood using the rigour and lens of science.
- This approach encourages systematic experimentation, observation and analysis of results.
- Context is important and care needs to be taken in extrapolating findings and interventions from one situation, team or location to another.
- There is a need to understand the underlying factors that drive behaviour, many of which will not be visible or obvious.
- Focus should be on understanding social, structural or organizational factors that influence behaviour, and not just individual attributes. This often requires a rebalance of attention from the “apple” (personal) towards the “barrel” (environmental).
- Culture is a complex system, not a linear system. This means that there is very rarely a single cause and effect, and that it cannot be fully understood without looking at both the individual components and at how they interact.
- Culture is not a single uniform phenomenon that exists and is consistent across a whole organization. It is better viewed as a collection of many sub-cultures, which will have different attributes, drivers, strengths and weaknesses.

1.1 (d) With culture defined as a matter of supervisory significance, what is the relationship (if any) between culture and a firm’s stated purpose? Its espoused values? Its ethical stance and practice? The ‘fitness & probity’ of its board and executive management? (Etc.) Are such matters also rightly viewed as being of supervisory significance? Why/why not?

Great care needs to be taken in assuming that there is any meaningful relationship between culture and a firm’s stated purpose or its espoused values.

The former should be seen as the reality of how things are. Whereas purpose and values are often little more than “framing” devices for communications and reputational risk management; they may be seen as necessary but are nowhere near sufficient.

There is nothing inherent in how a firm describes its aspirational values that has any meaningful impact on its lived culture⁹¹⁰.

The coherence and alignment between a firm's ethical stance and the reality of its business practices is also not a given. Indeed a lack of alignment can itself feed into a “knowing” cynicism and affect culture (through a “say-do” gap).

The ‘fitness & probity’ of a board and executive management are important matters of supervisory concern through the robustness of the processes and due diligence, and through the weighting given to diversity of experience and thought. These will both influence, and be influenced by, the culture. However, just focussing on this topic alone will not be sufficient to understand or address culture.

Those matters that should rightly be viewed as being of supervisory significance are therefore those which influence and reflect the reality of day to day organizational life, behaviour and decision making, and not those which are merely aspirational statements.

1.2 The Case for Culture as a Supervisory Concern

- 1.2 Culture is viewed by some as being of relevance to the supervision of conduct risk
- (a) concerns and also as a matter of significance for prudential supervisors. Is culture to be considered differently in either context? If so, how so? Or should conduct and prudential supervisors adopt a standard approach to culture as a precursor to risk considerations more generally?

I agree that culture is of importance to both conduct risk and prudential risk supervision.

⁹ <https://www.ntu.ac.uk/about-us/news/news-articles/2025/01/organisational-culture-survey-shows-widespread-mismatch-between-behaviour-and-policies>

¹⁰ <https://www.gallup.com/471521/indicator-organizational-culture.aspx>

It broad terms, it should not be considered separately or differently, as there is already an unhelpful (and artificial) sub division to the topic that is often applied inside and outside firms and that leads to siloed thinking.

The complex behavioural landscape that comprises culture, and the range of influences behind it (personal, social, systems, environmental) is common to conduct and prudential understanding, and it is important that there is a shared philosophy that under-pins this.

Nonetheless there will of course be areas of specific behavioural focus which are more relevant when looking at the different outcomes of interest. For example in conduct there will be a need to understand how “motivated reasoning” exerts an influence, and in the prudential sphere how resilience is impacted by co-operation and escalation, and from a systemic perspective how fear spreads across organizations.

- 1.2 (b) Many post-mortem inquiries posit risk governance failures as having culture among their root causes. With this in view, should culture be taken to represent a source potential systemic risk? However this is answered, what implications follow?

Yes, culture should be considered as a source of potential systemic risk and as such a key area for consideration amongst prudential supervisors. There are multiple examples within banking and other industries where the source of a business resilience failure can be attributed to organizational or cultural issues. Whether that is the collapse of SVB in 2023, or the space shuttle disasters of 1986 and 2003. Furthermore within banking the escalation from a firm failure to a systemic issue is often psychological, as fear spreads. In the current highly interconnected world this can be rapid.

The implications of this are that prudential supervisors need to both have suitable expertise in house, and to encourage better behavioural capabilities within regulated firms. They also need to make use of the advancements in big data, AI and network analysis to identify on an ongoing basis where there may be developing areas of

concern and outliers. The work on unobtrusive indicators of culture^{11, 12} (UICs) should continue to be pursued particularly given the rapid advancement in analysis capability.

Global prudential regulators also need to ensure that their current focus on operational resilience also covers the human and behavioural angle, and not just the technical; and that this needs to address all organizations, critical infrastructure and suppliers key to financial services.

- 1.2 Failures in culture risk governance and supervision are pointed to by many as having worked to undermine essential public trust in the industry and its overseers. Is this fair? (c) Why/not?

Yes, failures in culture risk governance and supervision are an important element in bank issues such as the GFC and the conduct scandals of the last 20 years. And as such they have worked to undermine essential public trust in the industry and its overseers.

The public are rightly concerned that issues such as the GFC, IBOR, FX, PPI can erupt with there seemingly being little warning or foresight from the banks and the regulators, and indeed sometimes developing off the back of a period of deregulation. The loss of trust further exacerbated when the resultant costs are picked up by wider society.

The more recent issues of 2023 once again showed that the supervisors had a blind spot, for example following the collapse of SVB – see the review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank¹³.

Public trust will one again be undermined if the lessons from prior crises, such as the GFC, are not fully learned and acted upon before a further push for de-regulation. In

¹¹ Reader, T. W., Gillespie, A., Hald, J., & Patterson, M. (2020). Unobtrusive indicators of culture for organizations: A systematic review. *European Journal of Work and Organizational Psychology*, 29(5), 633-649. <https://www.tandfonline.com/doi/abs/10.1080/1359432X.2020.1764536>

¹² Suss, J., Bholat, D., Gillespie, A., & Reader, T. (2021). Organisational culture and bank risk. <https://www.bankofengland.co.uk/working-paper/2021/organisational-culture-and-bank-risk>

¹³ <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf>

particular where the contributing cultural and behavioural aspects have not been properly analysed, understood and addressed in the interim.

- 1.2 To what extent is the culture of supervisory agencies themselves an important driver of the supervisory outcomes such agencies achieve? What specific examples can we point to where supervisory culture was found to have improved supervisory outcomes? What specific examples can we identify where the reverse was in clear and uncontroversial evidence
- (d)

The culture of supervisory agencies themselves is an important driver of the supervisory outcomes they achieve, albeit one of a number of key factors.

Fundamentally if the agencies themselves have issues with their own culture, and in the maturity of their own approaches to supervising culture, then they are unlikely to be challenging and asking the right questions of the banks, nor able to piece together the insights and information they receive.

For example the Federal Reserve's review of Silicon Valley Bank (SVB) highlighted significant cultural issues within the Fed's supervision and regulation. The Fed being too slow to act on SVB's vulnerabilities and their tailoring approach to supervision had reduced standards and increased complexity. The Fed's Michael Barr subsequently emphasizing the need for a culture that empowers supervisors to act in the face of uncertainty and the importance of developing a culture that supports effective supervision.

In the Wells Fargo fake accounts scandal the OCC had examiners embedded at Wells Fargo for years and were deemed to have been too deferential and slow to escalate concerns.

In the Royal Bank of Scotland failure of 2008 the Financial Services Authority (now FCA) practiced "light-touch regulation", with deference to senior bank executives; insufficient scepticism; and belief in principles-based regulation without robust enforcement.

As part of these repeating issues across the industry it is also important to consider how “regulatory capture” can occur¹⁴

Examples where supervisory culture appears to be in alignment with improved supervisory outcomes are noted below, albeit once again the complexity of proving cause and effect should be noted.

- OSFI - Canada avoided major the bank failures in 2008, and OSFI is frequently cited for conservative capital standards, its close but sceptical engagement with bank management, and an early intervention culture.
- MAS - Singapore has highly professionalized supervisory staff. And although it has faced scandals (e.g. 1MDB related), has shown willingness to sanction firms and detail supervisory findings. Its purported cultural strengths include a meritocratic technocracy, and low tolerance for reputational risk.

1.3 Global Convergence and Divergence

- 1.3 What direct and indirect costs are associated with the persistence of fragmented, jurisdiction-specific approaches to and expectations for culture risk governance and supervision? What is the impact for both firms and supervisors?
- (a)

Fragmented and jurisdiction approaches to culture governance and supervision impact costs. And I would further add the lack of mature approaches across most territories further exacerbates this.

Examples include:

Direct costs for firms may include duplicative policy frameworks: Banks operating in multiple jurisdictions designing, implementing, and maintaining disparate culture frameworks tailored to differing regulatory expectations. With customization of approaches, reporting, training and change programs.

¹⁴ Chesterfield, A. M., Reader, T. W., & Gillespie, A. (2025). Cultural capture among regulators: A systematic review. Regulation & Governance. <https://onlinelibrary.wiley.com/doi/full/10.1111/rego.70040>

Indirect costs for firms include inconsistent implementation and limited understanding. Without a consistent underlying comprehension and philosophy of culture there is an increased risk of country and departmental silos, and the lack of dots being joined up. This risk is exacerbated with culture, as the topic itself is often dispersed across different functions, such as the Business, HR, Risk, Compliance and Audit without a common approach nor understanding.

Costs for Supervisors include reduced comparability and benchmarking, slower policy evolution, cross-border coordination weaknesses. There are some leading practices in certain global regulators, and it would be remiss and duplicative for others not to learn from them.

In both Supervisors and Banks developing informed behavioural risk management insight and capabilities it is important to note how this approach can mutually re-enforce a focus on performance, resilience and proportionate regulation and risk management.

Properly implemented, a more thorough and informed consideration of behaviour and decision making can help identify areas where excess process, control and regulation can usefully be trimmed without any detrimental effect.

The traditional approach of incremental and additive control, surveillance, headcount and infrastructure and the attendant costs can be reevaluated with an understanding of where these are ineffective in shaping human behaviour and can lead to perverse outcomes, and what alternative methods may be more successful.

Similarly a fuller understanding of how to encourage internal cooperation, challenge and transparency within organizations can help with their financial performance through increased speed, innovation and removing barriers and duplication.

- 1.3 What direct and indirect costs are associated with the persistence of fragmented, jurisdiction-specific approaches to and expectations for culture risk governance and supervision? What is the impact for both firms and supervisors
- (b)

This is a repeat question of the above. Same answer..

- 1.3 (c) How might international standard-setters, or some other cross-border forum, help to move us from conviction regarding culture as a matter of supervisory significance to convergence around how culture is best addressed in supervisory practice? How should we work to establish and promulgate relevant best practices? Among the practical outcomes that might follow from such a collaborative endeavour, which would be of greatest expected benefit? Why?

As a roadmap for convergence around how culture can best be addressed in Supervisory practice, it will be important for any bodies or standard setters to firstly set out and agree a common philosophy for what they even mean by culture, to avoid parties talking past each other, with different interpretations.

This will need to tackle the reality of culture “as is” with an understanding of the behavioural landscape and drivers, a recognition of the complex domain in which it operates, and an acknowledgment that linear “solutions” may be comforting but will not be effective. This also infers the need to recognize emergent behaviour, context dependency and the importance of expertise and experimentation.

The collaborative effort needs to be wider than just Supervisors and Financial services and also include knowhow from other industries, domains and academia. It will be vital for the efforts to be firmly rooted in disciplines, such as behavioural science, anthropology, psychology, sociology, neuroscience and the study of complex systems.

The focus on convergence should therefore primarily be on what an informed capability looks like (in both Supervisors and firms) rather than a detailed inventory of tasks, procedures, standards or a framework, as the latter will likely lead to the law of unintended consequences.

To help guide the industry to a better place it may be helpful to highlight how investors, funds, ratings agencies and academia are analysing culture as a source of P&L, alpha, and resilience, and how the advance of big data, AI, and analytics is (in conjunction with deeper qualitative work) informing this. Moving culture from a matter of Supervisory

concern to a performance imperative will further focus the minds of executives and boards.

The main practical outcome and greatest benefit that might follow from a collaborative endeavour, would be the recognition, support and development of qualified and experienced behavioural capability in both Supervisors and Banks, and for that to be recognized as an essential requirement. This would help build foresight and pre-emptive actions.

1.4 Legitimacy and Trust as Supervisory Assets

- 1.4 A tension is called out through our stocktake: some value the application of experienced and nuanced supervisory judgement in the course of oversight activities, over the application of a rigid and overly prescriptive rules-based; while, on the one hand, some complain that reliance on supervisory judgement impairs the cause of transparency, consistency, and due-process. In this connection, what views do you espouse? And why?
- (a)

This is a very important topic to address in relation to the specific challenges of the Supervision of culture and behavioural risk. As noted in answer 1.1 C, and in the cover letter, there is a unique aspect to behaviour – in that the behaviour of all actors, both individual and organizational, shape how they seek to address and understand “behaviour”.

In this way it is a “meta” risk, where the area you are trying to study is both influenced by, and influencing, the approach you are taking to study it.

This circular dynamic is distinctive for behavioural risk and culture. Other challenges, such as credit risk, market risk, liquidity risk, cyber security and technology risk are perceived as technical, and not directly confronting to a “sense of self”, and to our own perceptions of (and over-confidence in) what drives human behaviour, action and decision making.

This confounding factor in behavioural risk has very real dangers, in that the more organizations seek to overly prescribe, control and measure culture and behaviour, the more it is likely to create perverse actions, feedback and unexpected outcomes. The dangers of managing to measurement and the illusion of control will develop.

It is therefore vital to recognize this dynamic and the complex domain of culture when setting out both a Supervisory approach and the expectations for firms.

A sensible middle ground would be to ensure that all Supervisors are mandated to have a skilled centre of expertise and capability that is staffed with experienced behavioural scientists, psychologists, and others, that they apply an informed scientific method to understanding the landscape and what good looks like, and that they are engaged to consider both the culture within the Regulators, as well as the approaches taken by Supervisors when they engage with firms. Furthermore that there are expectations that regulated banks will have a similar capability, with appropriate sponsorship, support, expertise and funding.

This does not require a laundry list of all those things that these functions have to do. But if there is no meaningful capability then this should be a matter of Supervisory concern. Culture and behaviour is best addressed through an ongoing capability and suitable expertise, rather than a through a programmatic or framework lens.

- 1.4 How should supervisory bodies approach challenges with regard to their own
(b) organizational cultures, with a view to enable them to exercise supervisory judgement more effectively? To what extent might the culture of a supervisory agency underpin (or undermine) its perceived legitimacy? How might this shape trust in the financial sector, and its participants?

If organization culture and a mature approach to its assessment are important to regulated firms then they are equally important to the Regulators.

It is essential that the Supervisors recognize the importance of their own culture and that they build their own capabilities and expertise that can be applied not only to those firms that they supervise, but also to themselves.

Having these skills is vital to the credibility of Supervisors, in being able to ask the right questions of the firms they regulate, and in being able to understand and encourage best practice.

CHAPTER 2 — Consequences & Challenges

2.1 The cost of delay

- 2.1 With reference to the banking sector turmoil of 2023, what might be attributed to
- (a) governance breakdowns, especially those related to organizational culture?

All of the key examples in the banking sector turmoil of 2023 had key aspects that can be attributed to culture and governance. Using the obvious examples of SVB and Credit Suisse it is clear that as well as the technical and individual causes, there were a raft of organizational and cultural factors that contributed to or exacerbated the situation.

For SVB there was a narrow but coherent institutional identity, where prior success created confidence, not caution, and that led to governance erosion through normalisation. The Fed post mortem¹⁵ highlighted how the board of directors and management failed to appreciate or manage their risks and even operated without a CRO for an extended period.

For Credit Suisse the cultural malaise developed over a longer period, including governance box ticking, elite identity and exceptionalism, moral licensing through history, silos and local rationality, warning signs ignored, silence and learned futility. The report¹⁶ into the Archegos losses highlighted many key cultural issues, including failures in the first and second lines of defence, as well as a lack of risk escalation.

¹⁵ <https://www.federalreserve.gov/publications/2023-April-SVB-Key-Takeaways.htm>

¹⁶ <https://www.paulweiss.com/insights/client-news/credit-suisse-publishes-independent-review-of-archegos-losses>

What is key to understand, both in the examples of 2023 and wider, is that despite the prominence of cultural factors, they still led to little meaningful progress in subsequent remediation at both the Supervisors and the Banks. The complex nature of the “messy middle” of culture not getting the same traction and continuity of focus as the technical proximate causes, or where blame can be attributed to an individual.

The strong human desire for a clear narrative pushing focus away from the more complex and nuanced explanations that reside within the complexity of organizational culture.

- 2.1 What role, if any, might supervisory culture have played in connection with these events?
(b)

As highlighted above, and through numerous analyses, the Supervisors played a significant role in these 2023 events, with their own culture and behaviour being part of the wider context and environment.

For SVB, and as noted in the Fed post mortem, Supervisors did not fully appreciate the extent of the vulnerabilities as SVB grew in size and complexity and when they identified vulnerabilities, they did not take sufficient steps to ensure the bank fixed problems quickly enough. The report noted that they needed to develop a culture that empowered supervisors to act in the face of uncertainty, and that in the case of SVB, supervisors delayed action to gather more evidence even as weaknesses were clear and growing.

The lack of a robust internal function within the Supervisor that could both: 1) monitor the internal drivers of behaviour within their own regulatory organization, and the importance of norms, agency, collaboration and curiosity and 2) apply the same lens and skills via the supervisors into SVB; was a critical blind spot that pervades.

A supervisory culture that does not recognize the importance of culture as a matter for prudential and conduct concern is a problem, and as noted elsewhere in this response is a manifestation of the “meta” nature of behavioural risks and understanding.

- 2.1 How should supervisors approach culture risk governance as a factor in their assessment of a firm’s systems, controls, and critical risk management processes?
- (c)

The key approaches that supervisors should take in assessing culture risk governance as a factor in their assessment of a firm, should be primarily around ensuring suitable capability and expertise is in place, rather than a box-ticking exercise on processes or frameworks, including as follows:

- Ask what dedicated capability a firm has to assess and understand culture and behaviour as a matter of priority for risk, compliance, resilience, conduct and performance.
- Who sponsors and empowers the function(s). What is its reporting line. What is its budget and headcount and remit.
- What is their expertise and experience with regards to behavioural science, organizational psychology and related disciplines. How seriously are these skills taken and how are they supported.
- Are they deemed to be a core competency ongoing, or are they viewed through a programmatic lens. The latter being a red flag.
- How is the topic of culture and behaviour brought together across the firm. A particular challenge in understanding, assessing and seeking to change behaviour inside organizations is that ownership, responsibility and capability are often spread across different teams, with limited co-operation or consistency of approach. Unlike a particular business line, or an area of expertise, such as credit risk or cyber security, behavioural work is in danger of being “everywhere and nowhere”. It is important that all those areas which are

pursuing behavioural and cultural insight, awareness and change work together on developing a common understanding, key principles and where practicable share best practice and expertise.

- Assess whether the firm considers culture from an informed understanding of its complex and emergent nature, and the importance of context and experimentation, and not (just) from a programmatic or framework perspective.
- How is the work of the capability, and a wider understanding of culture and behaviour, being brought together and assessed through Governance. What priority is it given and how is it reported and acted on. Is management information regarded as insights for further consideration, or as metrics for management. The latter being a red flag.

As Lao Tzu said “give a man a fish and you feed him for a day. Teach him how to fish and you feed him for a lifetime”. Culture and behaviour can rarely be understood and changed as part of a one off project, and it is more productive to build an ongoing muscle within the organisation.

The recognition of this is key for Supervisors, but also requires them to have suitable internal skills to recognize what good looks like, and to ask searching questions of the regulated firms.

- 2.1 How should supervisors view the complex interactions between formal governance structures and firm culture? Should supervisory expectations of firms’ governance evolve to ensure that culture is treated as a first-order determinant of institutional resilience? Why? And how?
- (d)

Supervisors need to recognize and understand the complex nature of culture. Formal governance alone is but one factor that feeds into culture (and is itself influenced by culture), but Governance alone is no-where near enough (on its own) to drive or shape culture.

Other aspects of Governance and Culture that need to be considered are:

- For Governance forums to be assessed from a behavioural perspective. How do they aid or impede discussion, escalation, curiosity. Governance efficacy should not just be assessed from a procedural perspective, but also from a psychological one.
- How Governance in itself covers culture and behaviour as a topic of importance. Are the dangers of excess reliance on measurement and frameworks, and the illusion of control recognized. Does the complex and emergent nature of culture get considered, as a counterpoint to the desire for a clear narrative. Is the behavioural landscape and existence of multiple subcultures recognize as compared with a singular view.

Yes - supervisory expectations of firms wider governance does need to evolve to ensure that culture is treated as a key determinant of **institutional** resilience. Likewise, to ensure that culture is treated as a key determinant of **operational** resilience.

As an example, any governance that is looking at the current regulatory requirements on operational resilience needs to ensure that it does not focus just on the technical and procedural components, but also on the (key) behavioural aspects. Even where resilience is framed in technical terms (cyber, IT, 3rd parties, infrastructure) it is vital for cultural aspects (both in BAU and at times of crisis) to be considered. Proximate technical causes of failure are often due to ultimate behavioural ones. It is vital this human lens is reflected in resilience governance.

2.2 The anatomy of structured discretion.

- 2.2 How should supervisors balance establishing evidence of wrongdoing before they take
(a) action versus exercising supervisory judgement to pre-empt problems from happening
 in the first place? How does the necessary posture differ based on legal mandate and
 supervisory tools?

Viewing culture as a topic that should only be actioned when evidence of wrongdoing is present would be a fundamental error. As with all elements of risk, a key element needs to be proactive and predictive.

For example, on conduct, if a firm put no resource into identifying grey areas and dilemmas, as well as being reflective on any latent behavioural risks; then that should be a matter of supervisory action. Not just waiting for the situation to be exploited (through well known behavioural traits) to the detriment of clients or markets.

A key element of culture is to better understand the key factors that shape and influence behaviour (personal, social, systems, environmental) and how that feeds into all decision making.

If those important factors are not being considered and assessed by firms using suitable capabilities and skills then that should be a matter of supervisory concern and action.

Just because the causal relationship between driver and behaviour is often complex and multifaceted this does not absolve firms or supervisors from taking pre-emptive action.

As a comparison, if a firm did not have suitable cyber skills, expertise, budget and resource in place it would quickly be sanctioned by a regulator, regardless of whether an attack or outage had occurred. The same logic needs to be applied to behavioural expertise.

- 2.2 How should supervisory bodies address accusations that they tend towards overreach, (b) on the one hand, versus overly delayed action, on the other?

As noted in 2.1 C the key approach should be not to over-reach on the minutiae of expected processes, controls and frameworks for culture; but rather on asking open questions on (the existence of) core behavioural capabilities and expertise.

Cultural work does not lend itself to detailed box ticking on rules and regulations, and indeed such a process would be subject to the law of unintended consequences.

However, as multiple bank issues have shown, a lack of curiosity and follow through on behavioural issues is a major blind spot and cause of delayed action.

2.2

(c)

How might supervisory bodies work to establish greater trust with regulated entities?

A key approach that Supervisory bodies should take is to ensure an ongoing dialogue and transparency with firms in particular in relation to approaches to culture.

Broadly speaking both the Supervisors and the Regulated firms are at a relative stage of immaturity and needing to build out their capabilities, expertise and approaches at the same time.

This would better be co-created, such that there is a common journey and understanding of what best practice looks like.

2.3 Proportionate early action.

2.3

(a)

What steps might supervisors take to help banks to pre-emptively address culture risk matters before they lead to risk governance failures and enforcement actions?

As noted elsewhere in this response, the most important steps the supervisors should take is to encourage and monitor the creation of suitable behavioural expertise in banks, as this will in itself help create the longer term environment where culture risks are better recognized and acted upon, before they contribute to failure.

2.3

(b)

What tools can a supervisor use to address clear cultural failings within a regulated entity? Are Pillar 2 adjustments and liquidity add-ons (i.e. higher financial requirements)

an adequate response to behavioural issues? If not, what supervisory tools can supervisors use to incentivize banks to address cultural matters?

Clearly Pillar 2 adjustments are not enough. Treating behaviour and culture as something that can just be shaped through financial incentives and disincentives is fundamentally flawed at both a personal and organizational level. It denies the key roles of other influencing factors, including social and environmental.

Pillar 2 capital and liquidity add-ons are blunt, balance-sheet tools. Behavioural and cultural problems are complex, root-cause and pervasive. Capital may cushion losses that arise from misconduct or weak risk culture, but it is unlikely to correct the behaviours that generate the risk in the first place.

There can of course be an element of capital add-on where it is clear that internal governance weaknesses, risk management failures, resilience deficiencies etc are present, and these may well have cultural determinants. But I would err away from this being a main tool for culture, given the limited impact, and the potential perverse behavioural outcomes (where metrics are managed, but not the underlying reality).

Leaning into the meta nature of behavioural risks, we need to be wary of treating culture as if it is the same linear domain as other technical risks.

It would therefore be helpful to add other regulatory aspects to address clear cultural failings, including publicity, comparison with industry norms and benchmarks, tying it into expectations on fit and proper and responsibility regimes (where present), skilled person reviews (with attendant cost and time).

It may also helpful to tie publicity and sanction into how external investors and other stakeholders are increasingly looking at culture as a driver of alpha and investment decisions. This could be useful gunpowder in the nostrils. Rather than increasing capital ratios, supervisors may also consider distribution and growth restrictions.

Taking into account what are more effective behavioural interventions, supervisory tools should look to influence incentives, identity and norms, leadership modelling, accountability structures and decision architecture.

- 2.3 What is the appropriate role for enforcement in addressing culture as sitting among the root causes of risk governance failures?
(c)

Enforcement may have a (limited) role in addressing culture, but it is a back end and blunt “corrective” tool, not a primary culture building instrument. If culture is deemed a driver of risk governance failures, enforcement could focus on signalling boundaries, reinforcing accountability, and resetting incentives, without pretending it can engineer norms directly.

There may be a role for fines, censures, sanctions and licence restrictions etc, operating primarily through deterrence, norm signalling, and executive accountability.

However, it is vital that most supervisory work on culture is focussed ex ante on dialogue and encouraging best practice. If something appears to be going awry then levers such as s.166s and business constraints could be considered. Ex post enforcement should be a (limited) last resort to clearly sanction boundary breaches and reset norms.

There is also the danger that enforcement can create regulatory theatre, encourage legalistic approaches and defensiveness, damage psychological safety and openness, and reduce supervisory trust.

2.4 Institutional memory and accountability

- 2.4 (a) What is needed to ground supervisory judgement operationally and to make interventions in culture related matters more explainable, consistent, and legitimate?

This is a key challenge of supervision. If supervisors intervene on culture, which is inherently complex, qualitative, socially constructed etc then they must avoid arbitrariness. Otherwise, interventions risk being seen as subjective, inconsistent, or mandate-expanding.

However, as noted elsewhere in this response, a key focus should therefore be on assessing whether banks have in place (their own) appropriate behavioural expertise and capability as a primary task, rather than attempting a detailed judgment of (the totality of) a firms culture.

Clearly there may be specific areas which are deemed key drivers or amplifiers of prudential or conduct risk (e.g. suppressed escalation, incentive distortion, weak challenge, siloed activity, board passivity etc) which could be legitimate areas for supervisory review and judgement, but again it would be important to understand how these are themselves the output of deeper behavioural drivers.

CHAPTER 3 — Past Efforts & Outcomes

3.1 Integration into supervision

- 3.1 Should supervisors embrace culture risk supervision as a means by which to prevent
(a) future crises, and how would that change how they approach supervision? What steps would you recommend that supervisory bodies take to ensure that efforts to incorporate culture risk supervision into supervisory frameworks are sustainable over time.

Yes, Supervisors need to embrace culture risk supervision as a means by which to (attempt to) prevent future crises. However, as noted throughout this response, this needs to be more by way of encouraging behavioural capability, expertise and best practice, rather than by (yet more) detailed process and frameworks.

It is vital that culture risk supervision recognizes the different complex domain in which organizational culture exists, and does not attempt to use inappropriate and mechanistic tools or framing.

To make this sustainable over time it is about developing new cultural muscle and expertise in both Supervisors and Banks, not on adding another rulebook.

- 3.1 How do structural conditions — such as legislative mandates, legal frameworks, (b) institutional leadership, and management buy-in — shape a supervisor’s capacity to engage in culture supervision?

Yes, the noted structural conditions do shape a supervisors capacity to engage in culture supervision. This once again highlights the complex nature of culture, whereby the industry environment, the laws, the feedback from government themselves are part of a dynamic system and both shape and are influenced by behaviour.

It is vital to break out of a repeat cycle of the same legalistic and mechanistic thinking which has dogged the industry and which impedes progress. This in turn requires the key actors to recognize the limits of their knowledge on the topic of culture and behaviour, it’s complexity, context dependency, and emergent nature, and the reality that there is very rarely linear cause and effect, but an array of contributory and influencing factors.

As noted elsewhere this can be mediated by supervisors not reaching for a complex rule book, but encouraging capability and best practice.

If the competitive pressure continues to focus the attention of the UK and other Governments, Regulators and Financial Services companies on the need to reform the bank capital requirements and to ease regulations, then the alternative insights gained from a behavioural approach will be invaluable.

Properly implemented the implications for financial services firms are strongly positive. Where additional capability and expertise is required these can be small and targeted, and outweighed by the savings in ineffective bureaucracy, processes and resource. Furthermore the insights are equally as important to long term performance and resilience as they are to risk management.

3.2 Innovation in measurement

- 3.2 What mechanisms and metrics would enable agencies to embed culture risk governance and supervision into routine examination — and to demonstrate the value in doing so?
- (a)

As noted in this document, the key mechanism is to ensure supervisory agencies build in questioning of a firms capability and expertise, and that this (or the lack of it) is a key data point.

Nonetheless other quantitative and qualitative approaches are available that Supervisors can use.

This may involve qualitative work, such as ethnography, observational methods, case studies, structured interviews and focus groups; and quantitative work through surveys, existing data interrogation and more advanced techniques (such as organizational network analysis).

The rapid rise of big data and AI has augmented the insights that can be gathered. Examples include the use of unobtrusive indicators of culture (UICs) , which can be applied internally or externally.

Increasingly, behavioural science combines both quantitative and qualitative methods to provide a more comprehensive understanding of the phenomena being studied. This can involve using qualitative data to inform the design of quantitative studies, or using quantitative data to provide broader context for qualitative findings.

Experimental methods also remain central to behavioural science to ensure a robust understanding of cause and effect. Albeit it is appreciated that this test and learn approach can meet hurdles from within Supervisors.

Nevertheless, as noted by Sir John Kay in the report , *“there is a need to learn from disciplines long ignored in prudential supervision; anthropology, psychology, sociology, the study of complex systems and of ecological cascades. We must also invest in new*

capabilities: behavioural diagnostics, qualitative analytics, and narrative assessments. These are not ‘soft’ tools. They are the instruments of forward-looking governance”.

- 3.2 What new technologies and techniques for collecting, measuring, and shaping culture should be incorporated into new supervisory practices?
- (b)

The main technologies and advanced approaches that Supervisors can use include:

- **Natural Language Processing (NLP):** Regulators can apply NLP to internal documents, communication streams, reports, meeting transcripts and compliance cases to identify behavioural signals, sentiment trends, risk-related language use, and signs of cultural misalignment across organisations. This moves beyond self-reported surveys to unobtrusive indicators of culture.
- **Sentiment Analysis:** Advanced AI and algorithms can detect stress, cynicism, or risk-tolerance cues in supervisory documents, whistleblowing reports, and other narratives to flag cultural weaknesses before they become systemic.
- **Behavioural Metrics:** The use of composite cultural insights from data such as the accuracy and timeliness of regulatory reporting, diversity, retention and promotion data, customer complaints and remediation outcomes.
- **Integrated Regulatory Analytics:** Unified dashboards and “supervisory cockpits” bring together structured and unstructured data, alerts and analytics for culture-related risk exposures. These can be powered by AI search and retrieval systems (e.g., LLM-enhanced supervision assistants) to help regulators spot patterns and historical precedents. Tools such as secure data lakes and single data platforms should enable regulators to integrate internal bank data with external sources (news, social signals, public filings) for richer context.
- **The use of Social Network Analysis:** shifting the lens from what people say (surveys, interviews) to how influence and information actually flow inside the institution. SNA can map relationships between individuals, teams, and functions

using metadata from communications, collaboration systems, decision processes, or workflow tools. AI and SNA Integration could combine NLP sentiment analysis, network centrality, behavioural event data.

It is also very important to note that:

- High value qualitative work itself provides valuable data points that can be triangulated with new technologies. e.g. ethnography and interviews in modern work environments helps understand informal norms and behaviours that other techniques can miss.
- Ongoing caution should continue to be applied with assuming that the output of all these tools is necessarily complete as a “measurement”, and may better be framed as gathering additional insights. And likewise that the output of this work does not lead to an “illusion of control”, whereby the gathering, assessment and reporting of this data is mis-interpreted as revealing a complete, accurate or inviolate picture.

3.3 Supervisory learnings to date

- 3.3 What examples of successes in frameworks and governance processes can the industry point to in the area of culture risk governance and supervision?
- (a)

Within Supervisors and Banks there are pockets of good practice, albeit within an overall landscape where the progress has been slow.

From a Supervisory perspective the work of the Australian Prudential Regulation Authority on deep culture reviews, risk culture analysis and public inquiry reports has been helpful. The MAS in Singapore is developing a strong behavioural capability that is holding the industry and local banks to a high standard and promulgating best practice. The pioneering work of De Nederlandsche Bank in behavioural supervision was foundational, with on-site behavioural observations, psychological expertise embedded in supervision, boardroom dynamics analysis and systematic culture assessments in SREP. The individual accountability regimes, such as the SMCR in the UK, have also

helped push tangible governance reforms linking culture to accountability, albeit they are now coming under political pressure.

From individual bank perspectives, there have been internal behavioural teams established in ING, ABN, Rabo, RBC, Nat West, Macquarie, Citi, Lloyds and others. Nonetheless their mandates have been mixed and their scope and reach is limited.

- 3.3 What has come of past supervisory approaches for improving culture, including
(b) accountability regimes, incentive structures, and tone-from-the-top? What are the limitations or blind spots inherent in these tools, and how can they be addressed?

The main limitation with past supervisory approaches to culture is that they have primarily been based on established methods and frameworks that may be appropriate for technical or process challenges, but are not suitable for complex domains such as organizational culture. They also tend to rely of simplistic understandings of human nature (homo economicus) and basic tools such as communications and training, which have very little impact.

Incentives have impact on behaviour, but are far from complete, and do not take into account the powerful impact of social groups and norms. Likewise accountability regimes have had some success, but are partial and have the danger of encouraging perverse behaviours, where more time is taken in metrics and “proving” an issue has been addressed, than in actually addressing the issue in a meaningful way

The main approach needed to tackle these blind spots is to properly acknowledge the wider suite of things that are key to influencing human behaviour and to build on the learnings and expertise of behavioural science, psychology and related disciplines, and furthermore to reflect the inherent complexity of the topic, and hence be cautious of linear narratives and approaches.

3.4 Re-setting institutional memory

- 3.4 How can supervisory bodies support firms in implementing effective culture risk
(a) governance?

As noted elsewhere in this response the supervisory bodies can best support firms in implementing effective culture risk governance, primarily by questioning whether suitable capability and expertise is in place, rather than a box-ticking exercise on processes or frameworks. This includes:

- Asking what dedicated capability a firm has to assess and understand culture and behaviour as a matter of priority for risk, compliance, resilience, conduct and performance.
- Asking who sponsors and empowers the function(s). What is its reporting line. What is its budget and headcount and remit.
- Questioning what is their expertise and experience with regards to behavioural science, organization psychology and related disciplines. How seriously are these skills taken and how are they supported.

Equally it is important that supervisory bodies do not undermine a thoughtful process to culture by insisting on basic actions such as those heavy on communications, training, frameworks and metrics. An immature approach to culture from a regulator will quickly ripple through the banks.

- 3.4 How can supervisors build the trust, challenge, and engagement with firms needed for effective culture supervision, while avoiding perceptions of regulatory capture?
(b)

As noted in 2.1 C and 2.2 B the key approach should be not to over-reach on the minutiae of expected processes, controls and frameworks for culture; but rather on asking open questions on (the existence of) core behavioural capabilities and expertise.

As noted in 2.2 C, a key approach that Supervisory bodies should take to build trust is to ensure an ongoing dialogue and transparency with firms in particular in relation to approaches to culture.

Broadly speaking both the Supervisors and the Regulated firms are at a relative stage of immaturity and needing to build out their capabilities, expertise and approaches at the same time. This would better be co-created, such that there is a common journey and understanding of what best practice looks like.

The above practices should not lead to (perceptions) of regulatory capture if the approach is made transparent to the industry and to wider society.

A lack of effective action, or backsliding, on the topic of culture and behaviour, despite it's continued identification as a key contributory factor in scandals and crisis, is the more likely path to a loss of public trust, and indeed is the more likely evidence of either 1) regulatory capture or 2) group-think and parallel blind spots in both banks and supervisors.

CHAPTER 4 — Future Directions and Obstacles

4.1 The risk of regulatory drift

- 4.1 What is needed to ensure that culture risk supervision becomes a durably embedded and routinized feature of supervisory regimes, rather than a secondary or transient concern?
- (a)

As noted elsewhere in this response, it is essential that the topic of culture risk supervision in regulators and the parallel work in banks is rooted in a more rigorous and scientific understanding of human behaviour, and is not framed as somehow “soft” when compared to “hard” disciplines.

It needs to be built upon a recognition for expertise and capability on behavioural science, psychology, physiology and related disciplines and to recognize the inherently complex nature of organizational culture.

However, it is vital to acknowledge that the very nature of the topic has an element of in-built resistance that it can engender. A key part of this is that culture and behaviour

are unique as a bank and wider industry risk (and compliance, conduct, resilience and performance) challenge. As the behaviour of all actors, both individual and organizational, shape how they seek to address and understand “behaviour”. In this way it is a “meta” risk, where the area you are trying to study is both influenced by, and influencing, the approach you are taking to study it.

This circular dynamic is distinctive for behavioural risk and culture. Other challenges, such as credit risk, market risk, liquidity risk, cyber security and technology risk are perceived as technical, and not directly confronting to a “sense of self”, and to our own perceptions of (and over-confidence in) what drives human behaviour, action and decision making.

This distinct feature needs to be acknowledged and tackled up front to ensure culture risk supervision becomes a durably embedded, otherwise the gravitational pull against an informed approach will exert a malign influence.

Of course fundamentally this requires a recognition of the challenge, and consistent sponsorship from government, supervisors, executives and other stakeholders.

Clear messages (and the movement of money) from investors, customers and the wider public, that the leading institutions and jurisdictions (in tackling culture as a priority) will be preferred, would be helpful.

- 4.1 (b) What structural, political, or institutional barriers have hindered progress on developing sound protocols for culture risk governance and supervision? What conditions are needed to overcome them?

At every layer of government, politics, regulators, the financial services industry and banks, if the same inappropriate framing and “meta” behavioural risks are in place then the development of sound protocols for culture risk supervision will be hindered.

This includes those factors noted elsewhere in this response, such as:

- The need for all parties to recognize the complex systems nature of organizational culture rather than endlessly assuming (or pretending) that it is a linear system, and hence applying standard single cause and effect and mechanistic approaches, with the recycling of frameworks, processes, communications, training and measurement that are ill suited to the task in hand.
- The need for all parties to recognize the reality of how human behave and what influences it. A move away from homo economicus and the reliance on incentives and punishment, to a richer understanding of the factors that influence behaviour across the personal, social, systems, environmental.
- The need for all parties to recognize the need for an informed and scientific backing to this work. For it to be reframed away from being a “soft” topic, to one with suitable “hard” rigor as educated by behavioural science, psychology, physiology and related disciplines.

If a Government to a Regulator; or a Regulator to a Bank, does not build into their approaches to firm culture, a recognition of this reality then at every layer of the structure, then perverse incentives and behaviours will proliferate, as each layer sets out to “prove” frameworks, training, metrics that have little to no relation to understanding, assessing and shaping culture.

Given the nature of organizational culture it is also important that a drive to Supervise does not end up with a complex and detailed rulebook, but rather an informed understanding of what expertise and capabilities should be in place.

Other factors that play a role, and also as noted on this response include:

- The disparate approach to the topic. Both across regulators and jurisdictions, and also within Banks, where the “ownership” of the topic is disparate and with no common philosophy of what is even meant by culture; witness the different framing of Risk Culture, Compliance Culture, HR approaches etc.
- The lack of applying a longer term time horizon rather than applying short term political expediency from Governments, and short term P&L expediency from Firms.

A practice that is especially puzzling when all evidence shows that a better understanding of human behaviour and nurturing of culture is positive both for performance and resilience.

- 4.1 How can transparency in supervision be advanced in ways that protect confidentiality
(c) but also strengthen public trust, enable peer learning, and reinforce the legitimacy of culture related interventions?

There are no issues on confidentiality in setting out more clearly what best practice looks like for a Bank or Supervisor's approach to Culture.

Even if specific naming of individual banks is not done, then industry wide reports which call out best practice or poor practice would be helpful. For instance this could be a Culture parallel to the UK FCA Industry reports on Conduct that were undertaken until 2019/2020.

It is important that Supervisors are clear in what their expectations are, as this will help encourage action. But as noted elsewhere, this should be more by way of expectations in behavioural expertise, capability and maturity of approach, and less so on detailed processes and metrics.

4.2 The imperative of innovation

- 4.2 What enabling conditions can foster innovation — within supervisory bodies and among
(a) firms alike to help accelerate the development, testing, and adoption of new tools, metrics, and practices for addressing culture-driven risks?

A fundamental factor in a mature approach to culture is to recognize its complex and emergent nature. This recognizes the need to iterate and test & learn, to experiment, and the likelihood that some interventions may not work or backfire.

Hence a key enabling condition within supervisory bodies and among firms, is for them to publicize and encourage experimentation and to treat such experimentation as itself

a sign of a good approach and for that to be celebrated. There needs to be recognition and reward on trying things, not just on proven efficacy.

Indeed an approach to culture that shows no regular experimentation, nor trialling of new ideas and tools, should be regarded as a potential red flag on how concepts, curiosity and challenge may be being stifled.

Research work in conjunction with Academia, other industries and subject matter experts should be looked for as an indicator of cultural health and encouraged. That may relate to new tools, techniques and analytics, and may be qualitative or quantitative.

Where practicable Research that is shared publicly and that calls out the supervisors and banks that have taken part should be encouraged and publicized. Regulatory “sandboxes” for both technical and non technical work put in place.

In summary, Supervisory approaches to culture need to ensure that there is more of an upside from Firms undertaking new, informed and experimental work than there is for sticking to prior (often rigid and inappropriate) frameworks.

- 4.2 What can be done to help supervisors move promising innovations in culture risk supervision beyond pilots and into more widespread and durable practice?
- (b)

As noted above:

- Publicize and encourage experimentation and celebrate those firms and supervisors that embrace test and learn approaches;
- Reward those organizations that are trying things, and not just on proven efficacy;
- Highlight other use-cases where an understanding on the importance of culture are progressing – such as the use by institutional investors and ratings agencies in identifying sources of alpha, performance and resilience;

- Link into academia, research and industry bodies to ensure widespread publicity and knowledge of leading approaches.

4.2 What barriers do firms face in evaluating, testing, and implementing new tools or
(c) innovative governance frameworks for addressing culture risk governance?

As noted elsewhere in this response, one of the key barriers that firms face in innovative approaches for addressing culture risk is the noted meta risk nature of the topic.

As the behaviour of all actors, both individual and organizational, shape how they seek to address and understand “behaviour”. In this way it is a “meta” risk, where the area you are trying to study is both influenced by, and influencing, the approach you are taking to study it.

This circular dynamic is distinctive for behavioural risk and culture. Other challenges, such as credit risk, market risk, liquidity risk, cyber security and technology risk are perceived as technical, and not directly confronting to a “sense of self”, and to our own perceptions of (and over-confidence in) what drives human behaviour, action and decision making.

Hence there are various behavioural hurdles that can get in the way, such as an overconfidence from management in their level of understanding, a desire for linear narratives that the complex nature of culture does not fulfil, the framing of culture as a soft topic, the often excess focus on the personal (apple) rather than the contextual (barrel).

All of this can end up with firms not treating the need to evaluate, test and implement new culture tools with the same level of focus and priority as they do for other topics which they perceive as more technical.

If Supervisors, and other parties (such as investors) made it clear that these areas are a priority this would help with the current asymmetry of focus and resource.

4.3 The need for a common evidentiary basis for decision-making regarding culture

- 4.3 What kinds of tools, processes, or evidence trails might help to enable boards and executives to demonstrate credibly that a firm’s cultural dynamics are aligned with its governance structures, business model, and risk tolerance?
- (a)

Extreme care needs to be taken not to create an artificial framework that purports to evidence to board and executives that particular cultural aspirations or traits are being measured and where they are aligned against perceived tolerances or targets. The gravitational pull back into inappropriate linear structures and the illusion of control is strong.

Where needed particular business outcomes can be considered (e.g. the profitability of a unit or level of outages) and consideration taken of what behaviours and behavioural drivers may contribute, but with the need for a full recognition of the complexity, multifaceted and emergent nature.

As noted throughout this response, the best evidence trails that boards and executives can follow is asking for information on 1) what behavioural skills, expertise and resource is available within the firm and how it is being applied, on 2) how the philosophy is being joined up across the firm, not applied in silos, on 3) what informed qualitative and quantitative work is being undertaken to get better insight into the behavioural landscape, on outliers and on what is driving key aspects of behaviour (this may range from ethnography to big data and AI analysis etc). 4) what experimentation and test & learn is being applied.

It is of fundamental importance that the robustness and scientific underpinning of the approach, tools and capability is the primary area for focus, before any attempts to use frameworks and measurements which may be misleading.

- 4.3 How might the industry and supervisory bodies come together to establish a common evidentiary basis for assessing culture risk governance?
- (b)

The wider industry and supervisory bodies do indeed need to come together to establish a common philosophy of what is even meant by culture and key characteristics. As noted throughout, this should focus more on what best practice looks like by way of expertise capability, expertise and scientific underpinnings, and less on standard frameworks, assessments and metrics.

The way forward is best served by developing capabilities that can iterate and sense make in a complex domain, rather than prescribing common processes.

Collating and disseminating that Best Practice may best be operated through an Industry Body or trans-national agency; but it is important that whomever is responsible straddles input not only from the finance industry but also from academia, other industries (e.g. regulated and safety domains) and from Subject Matter Experts.

4.4 The case for global collaboration

- 4.4 What is the ideal forum for encouraging public and private sector participants to work together in an effort to reach consensus around common approaches to culture risk governance and supervision? What factors need to be in place to support success in that direction?
- (a)

An effective forum for aligning public- and private-sector financial services actors on culture risk governance needs to do three things simultaneously:

- allow frank discussion of sensitive supervisory issues,
- produce practical outputs that institutions can adopt, and
- maintain credibility with regulators, firms, and the public.

The most effective model is a multi-stakeholder, regulator-endorsed industry forum with independent convening.

Examples of analogous models include the work of the Financial Stability Board, & the Basel Committee on Banking Supervision.

That said, it will be imperative for the unique aspects of culture and behaviour not to be shoe-horned into inappropriate frameworks, so care needs to be taken that true cultural expertise is central to the convening exercise. Ideally hosted by a neutral body such as an international organisation, a respected academic centre, a cross-industry non-profit

Participants could include: Public sector (prudential regulators, conduct regulators, central banks); Private sector (major banks, insurers, asset managers, industry bodies); Experts (behavioural scientists, governance specialists, academics, other industries)

It may also be useful to highlight and involve other use-cases where an understanding on the importance of culture are progressing; such as the use by institutional investors and ratings agencies in identifying sources of alpha, performance and resilience.

The key factor that needs to be in place is that the convenors and approach allows new thinking and does not re-enforce current norms around regulation, control, linear thinking, frameworks etc.

- 4.4 Who should take responsibility for leading international collaboration on culture risk governance and supervision, and what kind of mandate or structure would give such leadership legitimacy?
- (b)

See answer above in 4.4 a.

Given the complex and relational nature of culture and culture risk it is essential that all those actors whom may influence how supervision is enacted are involved in any collaborative exercises, from Governments, Regulators, Private Sector.

Examples of bodies who may host may include the Financial Stability Board, & the Basel Committee on Banking Supervision. Albeit, as noted, it will be imperative for the unique aspects of culture and behaviour not to be shoe-horned into inappropriate frameworks, so care needs to be taken that true cultural expertise is also central to the convening exercise (academics, other industries, SMEs).

End.