Key Takeaways

1 Social Capital – Broad us-them antagonisms were replete in the past year, many exacerbated by the COVID-19 crisis, leading to a heightened demand that we rebuild our 'social capital.' Many look to the business-sector to take the lead. Mitigating misconduct, and the social harm it may cause, is not enough: there is now insistence that firms demonstrate an ability to do social good.

2 ESG Imperatives – Social and economic tensions and imbalances laid bare by the Covid-crisis have very clearly contributed to calls for 'reimagining capitalism,' and this is seen in the growing emphasis on ESG interests across global markets. Concern for good governance and beneficial social outcomes, such as improved DE&I, are now especially prominent amidst the culture and conduct risk reform agenda.

3 Governance, Audit & Regulatory Failures – The last year brought stark examples of governance failures at firms in many industries, compounded by startling lapses on the part of the auditors and regulators relied upon to assure the integrity of market participants. The audit profession and many bank regulators now face calls for the urgent reform of their own culture and conduct risk governance.

4 Outcome vs. Intent – Against the backdrop of the Covid-crisis, we see the heightened significance of firm culture for regulators. Their emphasis has shifted from an examination of the *inputs* of good culture, governance and risk management to the *outputs* of relevant control measures. Firms are expected to demonstrate an ability to assure good outcomes *ex ante*.

5 Personal Liability – The steady march of executive 'accountability regimes' saw continued expansion over the past year, increasing the individual liability for executives who preside over misconduct scandals. With this comes a marked shift away from the traditional 'detect and correct' approach to conduct risk management towards a 'predict and prevent' imperative.

6 Forward-Looking Metrics – Past consumer, investor and social harms, coming as a consequence of overt misconduct and/or well-intended risk management failures, has led to a call for the development of leading indicators of such outcomes. These predictive metrics must move beyond assessment of risk management systems and processes to examine the cultural norms and 'people dynamics' within a firm.

7 Behavioral Science – In recent years, bank regulators have looked to behavioral science to better assess conduct norms, propensities and risks among firms. Now, many firms have begun to turn their own attention to behavioral science, in the context of operational risk management, but also with a view to improving the performance of business units and corporate functions.

8 Psychological Safety – Among others, bank regulators are asking whether employees feel free to issue challenge when faced with questionable management instructions or peer conduct. They argue that firms must promote an atmosphere of 'psychological safety' if such a 'speak-up culture' is to prevail. This element of firm culture will see greater attention from supervisors, investors, and media.

9 Work-Life Balance – Work-from-Home protocols have blurred definitions of 'the workplace,' and the established parameters for the 'work day,' even as staff are left feeling cut off from the social support structures they previously enjoyed on the job. The result is a new range of culture, conduct and performance risks for which we struggle to devise effective management.

10 RegTech – The RegTech ecosystem has achieved greater maturity in many key financial markets. We now see more regular and coherent collaboration with RegTech pioneers among regulators, central bankers, industry associations and standard setting bodies, investors, board directors, and firm leadership, at a pace accelerated by Covid-challenges.