Executive **summary**

The banking collapses in 2023 highlighted the need for greater transparency on issues leading to operational losses and reputational risk at banks, which as a consequence is what a strong risk culture supports. Trusted information is crucial for building resilience and prudential risk taking in the financial services industry, and throughout this report we discuss how accountancy professionals can serve as risk culture super-networkers, aiding teams in making informed decisions and sharing knowledge within and outside the firm. By telling the stories, our profession can raise risk awareness, promote new insights, and effectively influence the performance of the organisation.

Learning lessons and paving the way forward

As green and digital transitions only further increase stakeholders' expectations, how banks and their regulators learn from the 2023 collapses might prove to be one of the most critical chapters in a lifetime for the financial services industry. From a risk culture perspective, ACCA members from banks around the world have emphasised the importance of gaining a fresh, more vigorous perspective on 'accepted non-financial risks'.

Credit Suisse admitted 'material weaknesses' in its internal controls over financial reporting and risk assessments in 2022 and 2021, which related to the failure to design and maintain an effective process for identifying the risk of material misstatements in its financial reporting. The Swiss Financial Market Supervisory Authority's December 2023 report on the lessons learnt from the crisis also stated that although Credit Suisse satisfied regulatory capital requirements, they were not enough to prevent the bank's demise. The message from ACCA members worldwide in this industry was clear-cut: while greater dialogue between banks and regulators is needed, there is a complexity that is fast becoming recognised as a 'must tackle' for successful bank risk cultures and that is behavioural science.

The rise of behavioural metrics

Risks have become so widespread that many ACCA members from banks use the words 'threats' or 'hazards' instead, and say it makes sense to focus on the behaviours behind the risks because behaviour is something you can measure, monitor, and strengthen. Adopting a more behaviourally informed approach to understanding risk requires acknowledging the key part of the environment in driving behaviour and accepting deeper systemic root causes. For managers this means adopting an approach that reinforces their own responsibility and places their own attitudes under the spotlight too.

Understanding the blind spots and reasoning that can cloud management's vision, and investing in informed behavioural-risk methods, are all very critical to crafting a successful approach to risk management. Unique among risks, behaviour is influenced by numerous powerful biases that are formidable obstacles to creating a successful risk culture. The first step is to recognise this.

Perspectives of accountancy professionals at banks

We discuss how accountancy professionals in various roles at banks have become more focused on helping turn risk management into a value-added mindset, helping institutions meet their objectives, especially those related to the sustainability agenda, and this includes ensuring the integrity of environmental, social and governance (ESG) reporting. However, respondents working in risk roles often expressed frustration about not having the necessary buy-in and investment during such pivotal times.

Members explain how risks are increasingly influencing and exacerbating one another, with many CROs and risk heads also pointing to growing geopolitical complexities manifesting through supply chain disruptions, ransomwares, and third-party threats. Through our quarterly Global Risks Survey we see how political instability typically concerns financial services respondents through the 'technology, data, and cybersecurity' lens, while individuals working at non-financial corporates perceive such concerns more as 'business-critical' risks, ranging from transportation issues to customer service and reputation risks.

Leadership setting the course – for success or failure

It is important to consider the leadership risk perspective and how this influences the definitions, decisions, approaches, and reactions to a bank's risk culture. Several participants in our banking roundtables also brought up the notion of how the risk disposition of their leaders may affect performance, and we found a growing body of literature on this subject given the amount of accessible external data about banks and the backgrounds of their executives. Understanding how different team leaders across the organisation think about risk – for example, what is acceptable and what is not – helps major decision makers influence the organisational behavioural change needed to achieve goals and turn the dial in the right direction.

Additionally, we found that middle managers who understand how different people on their team deal with risk are better at capitalising on the various individual strengths of each team member. The point is that strong leadership involves an appreciation of perspectives that challenge and complement each other in a way that creates value and sustainable investment returns.

AI is changing the banking industry faster than meets the eye

Unsurprisingly, the report highlights the significant impact of AI on banking, particularly in risk management and the insights it provides. By the end of 2023, some banks were exploring ways to identify conduct risks using unstructured data from various communications channels, including advanced analytics to detect previously unsuspected behavioural issues and patterns. These advancements provide highly productive and predictive capabilities, but they also have potential unintended consequences.

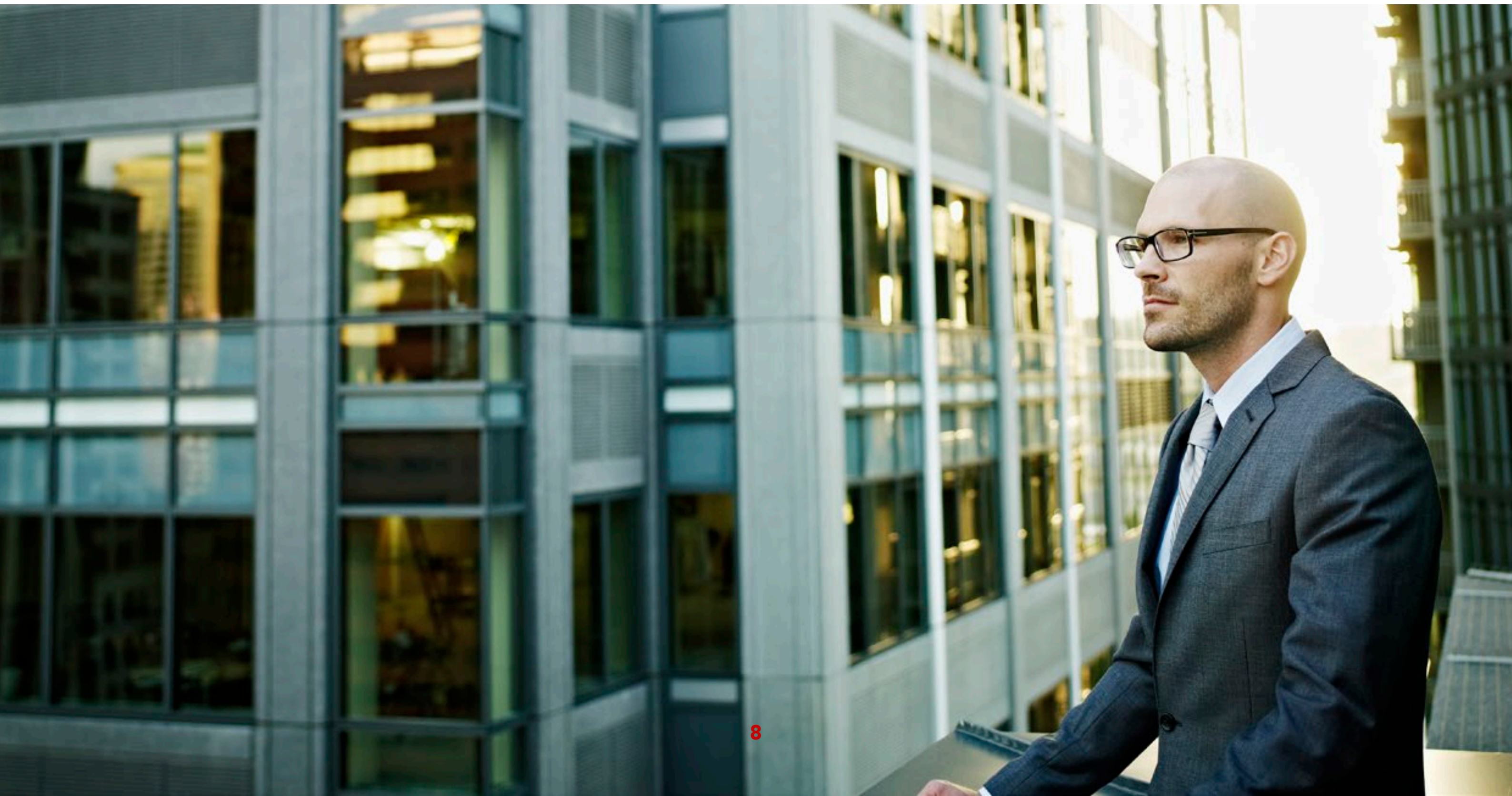
ACCA members emphasise the importance of considering both existing and new use cases together, as understanding the desired outcomes and unintended consequences is crucial for stakeholders and shareholders. In the near term, new technologies like chatbots are emerging, and we found several banks configuring various versions of their own in-house. The value of these technologies lies in their true integration into business processes, and it will take time for the risk and compliance community to ensure they operate as expected. Accountancy professionals can strike a balance between numerical data and what is happening in practice, which is essential for decision making and maintaining trust during rapid transformation.

Accountability and collaboration across the three lines

The report also delves into how organisations enhance collaboration and decision making across the 'three lines' – where risk and accountancy professionals come together. We explain how institutions can ensure that accountability is embedded across teams by deploying structural 'drivers', reinforcing core actions so that senior leaders are ultimately accountable for outcomes within their remit.

Our ongoing discussions about the evolving relationship between risk and ethics continues to shine a light on how this is being integrated across the three lines. Through our banking roundtables, we discover examples of dedicated teams of ethics practitioners being formed to define policies that help mitigate cultural and governance risks.

Building a strong risk culture requires a collective effort, with every employee embracing accountability as a fundamental set of three behaviours: understanding, acting, and recording. By implementing these drivers and activators, institutions can mitigate emerging risks and foster a healthily balanced risk culture.



Ten action points for banks

Our special report on risk cultures in the banking industry includes a list of key takeaways at the end of each chapter to help risk and accountancy professionals take action.

1. Accountancy professionals have a crucial role in delivering effective risk culture within organisations, prioritising value and risk management even amid cutting costs.

2. Responsible accounting for operational risk and non-financial risks requires precise measurement, transparent reporting, and continuous improvement in risk management practices.

3. Risk and financial leaders must demonstrate awareness of risk culture as a critical risk governance concern and cooperate with regulators about what constitutes good behaviour.

4. As banks put more focus on prioritising risks and identifying behavioural patterns, accountancy professionals can help senior management understand and promote positive behaviour more strategically.

5. Senior management must be aware of blind spots and biases that can hinder their approach to risk culture and should assess their preparedness and knowledge of risks and opportunities in addressing cultural concerns.

6. Understanding different perspectives on risk taking is crucial for decision makers to influence behavioural change, and shadow boards and employee task force groups can make a profound difference.

7. Risk and financial professionals must convene with other teams to address the challenges posed by the AI paradigm shift and ensure the safe and ethical use of AI.

8. The three lines have inevitably been blurred by the disruption of today's dynamic risk landscape. This necessitates greater collaboration, agility and innovation for effective risk governance.

9. Accountability is essential in preventing bank failures, and businesses should incentivise and quantify a risk culture that involves everyone in the organisation.

10. ACCA professionals should fulfil their job requirements confidently, emphasising vigilance, accountability, and ethical practices to prevent further scandals.