

ESG in 3D: Society and Governance

All the pieces of the conduct puzzle: Governance, culture, D&I, innovation

11 December 2022

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Digest:

- “The FCA expects senior leaders to nurture healthy cultures in the firms they lead. Cultures that are purposeful. That have sound controls and good governance. Where employees feel psychologically safe to speak up and challenge. Where remuneration does not encourage irresponsible behaviour that can ultimately damage the business and wider markets.”
- Through Firm and Portfolio Assessment Models, FCA supervisors look at “purpose, leadership, governance and the approach to people. This includes diversity and inclusion (D&I) as well as psychological safety”.

Source/Context:

“From Zeroes to Heroes: How culture in financial services can change for everyone’s benefit”

In a speech on 28.11.22, the FCA said that: “[the] Consumer Duty... will do the most to address conduct – and therefore culture ...

We have asked firms to think about what a good outcome would be for their customers ... We have also asked that the thinking starts at board level and have requested that there is a consumer duty champion on every board.

The reason is simple: the Duty challenges you to ask significant questions about your purpose.”

“One of the most direct ways managers and leaders can shape culture from the start – and spot when it needs changing – is through language ... the boss and those at C-suite level set the tone for culture.”

What does this mean for the FS and other industries?

The FCA also said that “one of the issues we get the most questions about is the future rules around environmental, social and governance (ESG) products and promotions.

There is – rightly – always a major focus on the E and S part of ESG. But perhaps less so on the G – or governance.

We are looking closely at what support firms offer to employees to improve their culture so that it boosts the conduct of their business or function.”

D&I “can lead to unique insights that can fuel more innovative approaches, greater efficiency and reduced misconduct ...diversity of thought can foster innovation.”

The FCA has “recently completed a study [[“Understanding approaches to D&I in the FS industry”](#)..[which] will be published shortly” into D&I across a range of organisations and found that firms were focused on improving representation at senior level but this dropped off at mid and junior level.”

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