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Building trust through ethical culture: A guide for SME firms

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This is an interactive document with hyperlinks throughout

Foreword

About us

The Chartered Insurance Institute is the professional body dedicated to building trust in the insurance and financial planning profession. Our strapline Standards. Professionalism. Trust. embodies our commitment to driving confidence in the power of professional standards: competence, integrity and care for the customer.

We deliver that commitment through relevant learning, insightful leadership and an engaged membership. Our 127,000 members commit to high professional standards by maintaining continuous professional development and abiding by our Code of Ethics. The Chartered Insurance Institute is proud to be a member of the Chartered Body Alliance and the Institute for Global Insurance Education.

Find out more at: **cii.co.uk**

About the Author

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Trust and insurance

Insurance is all about trust. And that trust is something the public relies upon, because most people find insurance to be a difficult product to understand.

As a result, this means that the people and the firms that the public puts their trust in will, in the long term, prosper and thrive.

Yet for insurance professionals, trust is not something you take down off a shelf, or open up from a folder on your computer. Building trust, and sustaining trust, involves effort and character.

And the reason why you want to be trusted matters too. The public is able to distinguish between the person who wants to be trusted because it's a good way of winning business, and the person who wants to be trusted because it is 'the right thing to do'. The motivation for being trusted matters.

Insurance executives are recognising the links between trust and success. A survey in 2017 by the consultants PricewaterhouseCoopers found that 28% of insurance CEOs were 'extremely concerned' that trust would affect their firm's growth.

All this you are undoubtedly familiar with. You know that the more trust that clients have in you and your firm, the more likely they are to keep doing business with you and recommend you to a friend.

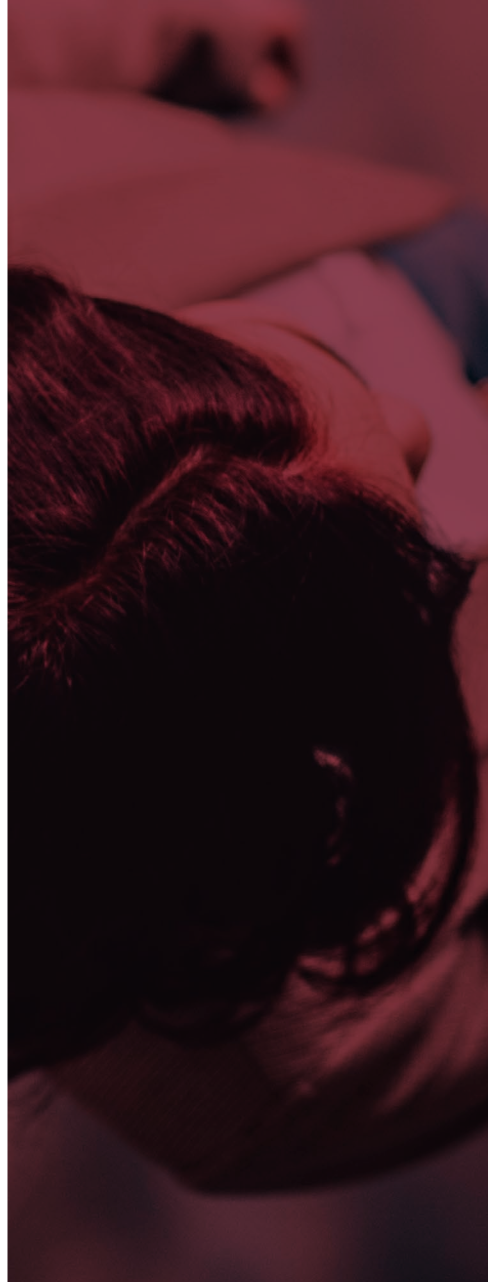
Does trust just happen naturally though? Of course not. Trust is something that insurance people and insurance firms have to keep working at.

So what can insurance firms do to build and sustain the public's trust? Clearly, it is important that they take steps to manage the behaviours, beliefs and habits of the people working for them. Those are what the public experiences when in contact with the insurance sector.

For example, if the sales people at an insurance firm believe that it's right to put the customer's interests first, the experience of those customers will be quite different to those of another firm whose people put their own interests first.

So how does an insurance firm go about addressing the behaviours, beliefs and habits of the people working for it? This needs to be done on several levels, such as how the firm is led and how its people are rewarded, to name but two.

When you add all those behaviours, beliefs and habits together, you get something that is often referred to as the culture of the firm. This type of culture has been summed up as 'the way things get done round here'. And it can have a huge influence on how people work, often without them realising it.



This guide

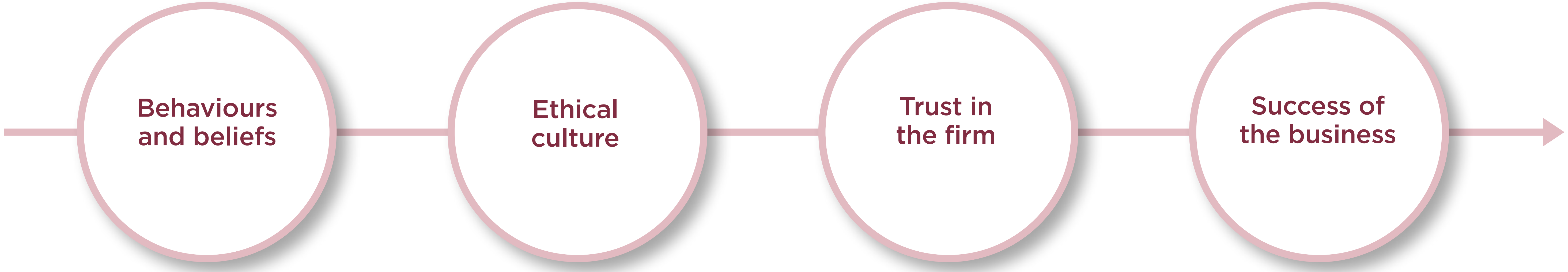
This guide sets out the steps that small to medium firms can take to understand and influence the culture at their firms, so that as a result, trust in their firm is more certain, more sustained.

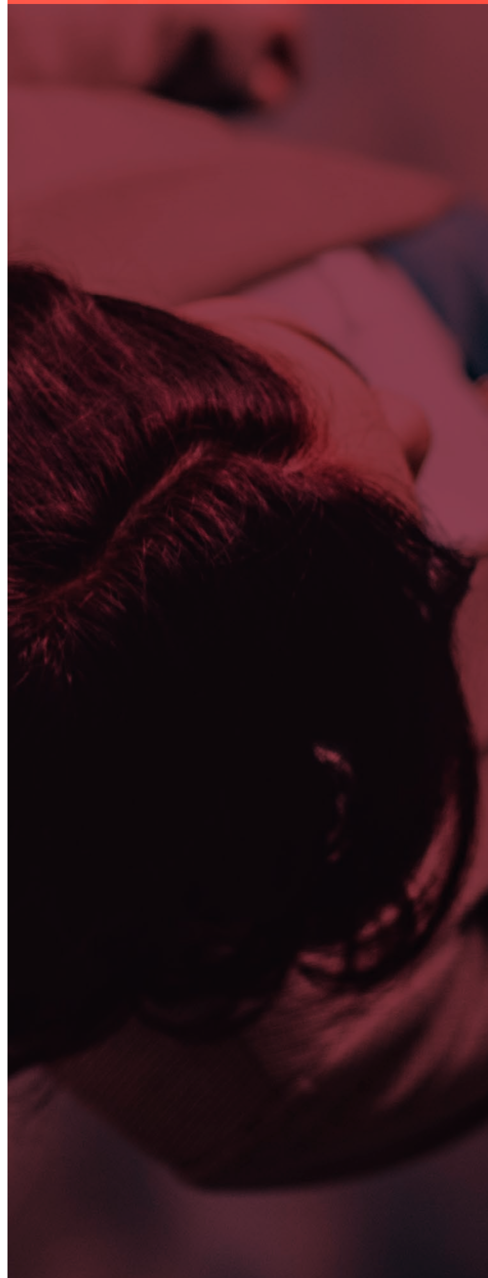
As trust focuses on what drives those behaviours, beliefs and habits, it looks in particular at what makes up a firm's ethical culture. The reason for this focus is simple. Any old behaviours, beliefs and habits won't do. They have to be ones that deliver on ethical values like fairness, honesty and respect. That's why ethics is referred to as the foundations upon which trust is built.

To build trust in your firm, you need to address the ethics of the behaviours, beliefs and habits within its culture.

Let's bring these strands together. Those behaviours, beliefs and habits will determine the ethical culture within the firm. That ethical culture will influence the trust that people have in the firm. Trust will influence the success of the firm. This is illustrated below:

"To build trust in your firm, you need to address the ethics of the behaviours, beliefs and habits within its culture."





Introduction

Every firm has a culture. It doesn't matter if you employ 10 or 10,000 people. The behaviours, beliefs and habits of those people will add up to the culture of your firm.

That culture influences how your firm goes about its business and as a result, shapes how your firm succeeds. It's worth spending a little time thinking about your firm's culture because what you learn will help your firm become that bit more trusted, that bit more successful.

You've probably been aware of the culture in the different firms you've worked at. You may not have thought of it in those terms, but it would have influenced how you felt about those workplaces.

This guide looks at a key component of culture that is receiving more attention in insurance markets: a firm's ethical culture. One reason why a lot more attention is now being given to ethical culture is because it is the lens through which conduct regulators like the FCA are now viewing the risk that your firm is presenting.

Reflect on this...

Take a few minutes to think about some of the places you've worked at...

- did some of them feel different to others?
- were some more enjoyable experiences?
- what made some more fulfilling places to work than others?

What you're actually recalling are the cultures in each of those firms and how those cultures influenced your experience of those firms.

At the time, you reacted to those different cultures by being more committed in those you enjoyed, or detached from those you didn't enjoy. Culture is real and around us all the time.

Introduction - continued

This guide is not about compliance however. Ethical culture is not something that comes about through compliance type measures. The key point of this guide is that by focusing on ethical culture from a trust perspective, a firm both makes its success more certain, and helps it demonstrate compliance with relevant conduct regulations, all as natural consequences of 'doing the right thing'.

But what is this thing called ethical culture? It's the outcome of all those ways in which we behave, listen, talk with colleagues and clients, and the way in which we make decisions, all without thinking consciously about it.

This guide shows a firm how to use ethical culture to build and safeguard the trust people have in your firm. After reading this paper, you'll know more about:

- how ethical culture links with leadership, trust and professionalism;
- the influence your firm's ethical culture has on customers and employees;
- how to weigh up your firm's existing ethical culture, and;
- how you can change it for the better.

For small and medium firms (SMEs), trust is of particular importance. It encapsulates much of what people talk about in terms of what it feels like to do business with an SME firm: personable and responsiveness for example.

While on the one hand, an SME firm full of good people might not see the relevance of addressing their ethical culture, on the other hand, it makes sense to do so given that it is the foundation upon which trust in the firm has been built.

SME firms often just do ethical culture naturally, without thinking about it. That's great, but unfortunately, no longer enough. What's changed is that trust is becoming more evidence-based. Firms have to show that their good people are making good decisions, that the firm is managing the scope for bad decisions.

Bad decisions do happen, and they can wreck trust in a firm. Remember that quote: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently".

All firms, big and small, are expected to reduce the potential for good people to make poor decisions, and the lever being adopted for this is ethical culture. .

"A good culture makes it more likely that a firm and its people will be trusted."

Culture and business

Let's look a bit closer at what exactly 'culture' means in a business context. As mentioned earlier, in its simplest form, ethical culture is about 'how things get done round here'.

Don't confuse that with the process manual though; it's more broad and more subtle than that.

Culture is the habits and behaviours that characterise a particular organisation. It's made up of shared beliefs held by people who work together. Those shared beliefs can include how to engage with customers, how to tackle problems, how to bring in new business, and so on. Those beliefs influence the way that we act, speak, listen and make decisions, usually without us consciously thinking about it.

Sitting underneath these habits and behaviours are the mindsets within people's heads: the beliefs and values that people feel are important. No two firms are made up of the same mindsets. That's because each firm is different, in terms of its size, its priorities, leadership style and many other things.

But what influences those mindsets? A great deal of influence comes from how the firm organises itself.

> "Culture is about how things get done round here."

The four influences on culture

The particular culture of a firm will largely be determined by **four factors**:

1. The style of **leadership** at the firm. This is sometimes referred to as the 'tone from the top'. So the way in which these leaders 'role model' the types of behaviours they're looking for from people in their firm will be an important factor in its culture.
2. The **practices** in the firm that tell people what they need to do to be successful. This is the way in which people are recruited, rewarded and promoted will send signals about how the firm expects them to behave.
3. The tone given to the firm's strategies, plans and targets. These explain what the firm wants to achieve, how to achieve it and what is important. As such, they provide a **narrative** that tells people what to put first.
4. The **capabilities** of the firm and its people. A firm that is full of people great at selling, but short of people who understand customer needs, will have a culture quite different to one in which these capabilities are reversed.

These four factors are important collectively as well as individually. A firm might be strong on the second, third and fourth factors, but find that a new chief executive undermines this by not giving the right 'tone from the top'.

A firm might stress teamwork in its corporate values statement, but hands out bonuses according to how people rank in a sales league table. The culture of that firm would invoke more rivalry than teamwork.

This is not to say that competition amongst colleagues is bad; just that if you overtly tie what many people find important (remuneration) to a measure of individual performance (a league table), that will automatically downplay the importance of practicing teamwork within your firm. That will be an issue when you need to rely on teamwork to deliver something of importance to the business.

An SME firm may look at these four factors and wonder about the extent to which they are relevant. Each of these four factors do exist in firms with only an office or two. While they may not exist in as formalised a manner as in large firms, they are still influencing how people go about their work, and as such, are just as important. We'll look at this in more detail in Part 3.

The four influences on culture - continued

Two examples of the influence that culture can have in a business setting...

1. Confidential Information

Your role might involve you having access to a client's confidential information, some of which might be valuable in some way. If there's a shared assumption amongst you and your colleagues about how important it is that this client information should be kept confidential, then that will influence the care and attention given to looking after it. However, if that client information is often talked about and divulged to those who have no involvement with that client, then it is far less likely to be looked after.
This is culture at work.

2. Client Recommendations

When acting as the client's agent, a firm would be expected to present the client with a recommendation drawn from a full range of appropriate alternatives. However, if people in the firm pay more attention to the commission to be earned from different providers, then the client could well be presented with a recommendation that is not in their best interests. Again, this is culture at work.

Why pay attention to ethical culture now?

The ethical culture in your firm is something that has been with it since it was formed and became a success. It's now part of what your firm represents, part of how it works.

So why start paying attention to it now, when there's plenty of other demands on your time?

The ongoing trust of clients and work colleagues is an important output from paying attention to ethical culture. Yet there's a lot of confidence amongst small firms that the trust that others have in them is secure. If it hadn't been, they wouldn't still be in business, so the argument goes. But what's the problem?

The problem is that the public does not have enough trust in the overall market. Even with many great firms in the market, there are frequent calls for more to be done to secure that wider trust. And those calls for greater trust have become centred around the issue of ethical culture.

As a result, firms are now being expected to provide evidence of the type of ethical culture they have and how it is being managed. That's why all firms in the financial services market (both big and small) now have to pay attention to their ethical culture.

The template that they are expected to adopt for this in the UK is being shaped by the requirements of the Senior Managers and Certification Regime (SMCR). Even the best of firms have to use the SMCR to confirm their ethical culture. It's a 'here and now' issues for all firms.

> "Even the best of firms have to use the Senior Managers and Certification Regime to confirm their ethical culture."

Professionalism and culture

On top of the value of building and sustaining trust in your firm, and on top of complying with regulations, there is a third reason why it's worth paying attention to your firm's ethical culture, and that is professionalism.

Professionalism plays an important role in the insurance and financial planning sectors. There's a wide range of often complex products and services on offer. The public wants help to navigate through all the options, to find what's right for them. And the market is a changing one, with new types of cover and new ways of accessing them being introduced on a regular basis.

You can see therefore that the education, experience and integrity of professionals matters. The provision of qualifications, ongoing training and a code of ethics by the CII encapsulates the expectations of the public.

The differentiation that professionalism offers is therefore underpinned with appropriate behaviours, beliefs and habits. In other words, the right ethical culture.

You may see regulatory initiatives like the SMCR as 'requiring' you to do ethical culture, but it is professionalism that helps you see beyond 'what you have to do', to recognise 'why you should do it'.

That difference is important, for your intentions should be to want to be trusted, rather than seeing it as something that you are required to fulfil. The public can often recognise the difference, if not at once, then certainly over time.

Professionalism provides a framework of how to approach ethical culture in terms of what is right, rather than just what is required.

Whose responsibility is it to look after ethical culture?

While everyone can be said to have some responsibility for their firm's ethical culture (as they are all part of it), some people have more responsibility than others.

To find out who those people are, we need to look at how that ethical culture came into being in the first place.

The way in which a firm's ethical culture has shaped the mindsets of those working there is something that has been going on since its earliest days. The people who have had a pivotal role in the early and then continued success of your firm are the ones who have become 'custodians' of its ethical culture. They formed the practices and the narrative for success, as well as built up its capabilities.

Who are these people then? They will include the firm's founder, who in a small firm may still play an active role. They will include the executives currently driving the firm forward, as well as some of its main revenue earners. They may even include some long established members of staff.

If you want to change your firm's ethical culture, these types of people have a pivotal role to play. They need to be 'on board' for change. They have to recognise that there might be reasons for departing from long running habits and for moving onto new ways of working.

In small firms, these pivotal people will often be close at hand, known personally by everyone in the firm. That can be both a strength and weakness. The stability this proximity gives is a strength, but could also be a weakness when the ethical culture of the firm needs to change in some way.

Case Study: **Success and culture**

This broking firm is successful, enjoying year on year growth for several years. It's got some intelligent and energetic people driving it forward, with long experience of how the market works. And it's efficiently run, with good systems, checks and reporting.

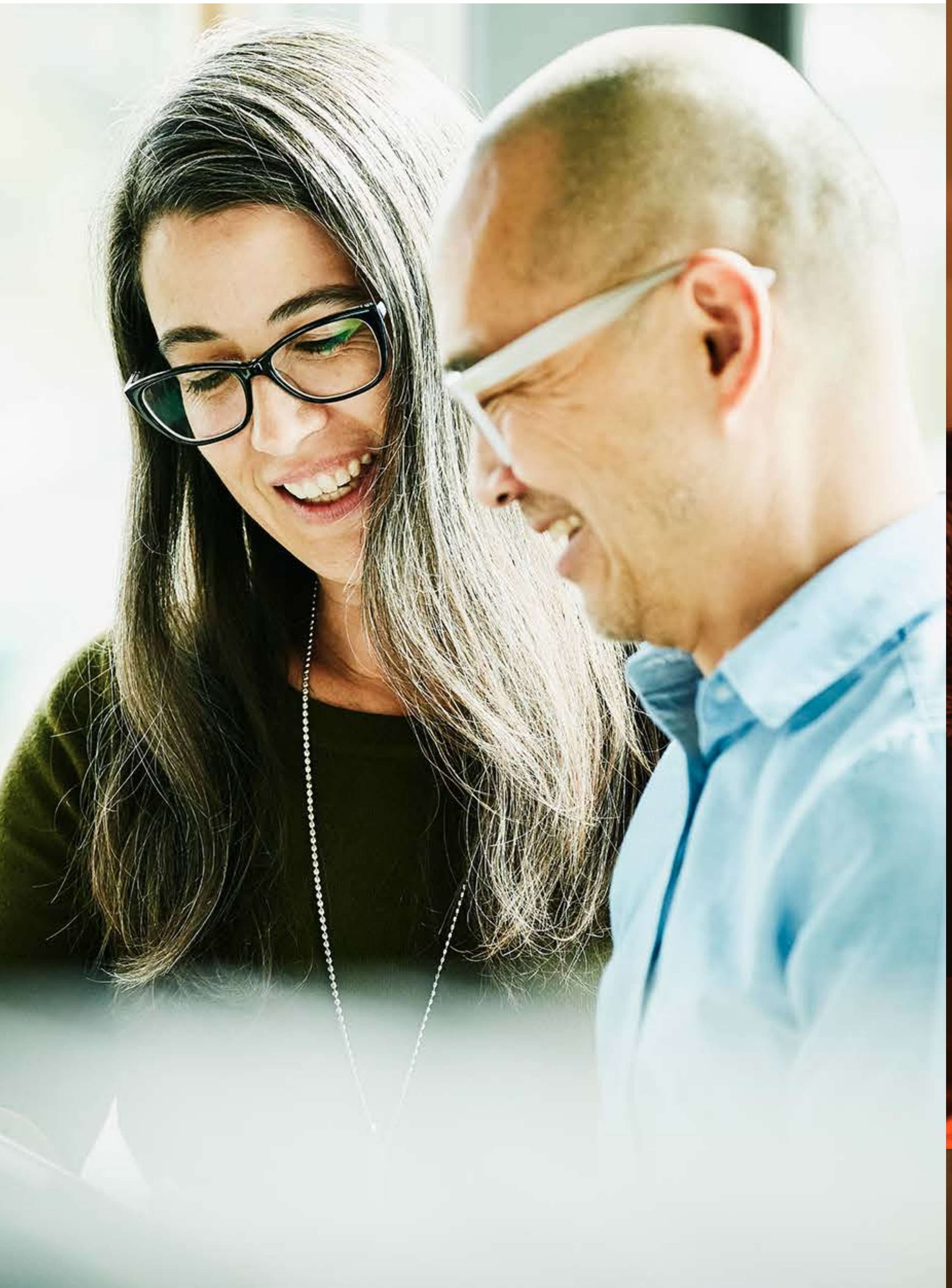
Surely then this firm has nothing to worry about in terms of ethical culture? After all, if it's successful, it must have the right ethical culture? Not quite – it doesn't always add up that way.

A firm could, for a period of time, acquire business by all sorts of means. New clients could exceed departing clients. Revenue could be generated in many different ways. The key questions to ask are about how that growth has been achieved, and about how new clients were acquired and why existing clients departed.

A firm full of intelligent and energetic people doesn't mean that they would also act with integrity. A famous investor once said that all three traits were needed, otherwise the person would be too dangerous to work with. This is not to say that no one in this firm has integrity. It is saying that influential people may not be recognising how a shortfall in integrity might be creeping into some of their decisions.

A well run firm points to its executives understanding the business of insurance broking, but that can't automatically be taken to then mean that it has the right approach to maintaining the right culture. The key questions to ask are about what its plans emphasise, about what its systems encompass, and about what its controls monitor.

Unless those executives ask these and other key questions relating to culture, they are in danger of assuming that their achievements equate to their firm having the right culture. What it does equate to is the firm having the right culture to achieve those results. That's not necessarily the same as having the right culture to achieve outcomes to build and sustain client trust.



Introduction

Regulatory initiatives like the Senior Managers and Certification Regime (SMCR) do not require firms to change their culture.

They do however expect them to understand their culture, recognise where it needs to be improved and then take steps to improve it. You may be very confident that your firm's culture is just right, but you now have to prepare the evidence to back up that judgement.

So what evidence can you draw together to evidence your firm's culture? There is of course no easy measure or document that sums up that culture. Instead, you should look at a series of indicators of that culture. These indicators point to how that culture is shaping the decisions people are taking. Join them together and a picture of your firm's ethical culture starts to form.

These indicators fall into the four categories mentioned earlier: leadership, practices, narratives and capabilities.

What's different about ethical culture in SME firms?

What is different about the ethical culture in SME firms, compared with that of big firms? There are three key differences:

Firstly, the evidence of ethical culture in SME firms is less likely to be structured (in the form of written down strategies, plans, policies and processes) and more likely to be unstructured (in the form of personal interactions, such as discussions and meetings). This means that SME firms may have to work that bit harder to evidence their ethical culture.

At the same time, that evidence should be proportionate to the firm. There is no point drawing up lots of policies and plans in order to tick a box or two. To understand your firm's culture, you should evidence what you're doing, rather than what's expected of you.

Secondly, it's more likely that the ethical culture in an SME firm will be under the substantial influence of its founder, or someone of particular importance to its ongoing success. It is their influence that will have done much to set the existing ethical culture in a small firm. This can be both a strength and a weakness. It's a strength in that it has given stability and drive to the firm as it grew, but it's a weakness when it comes to recognising where that culture might at some point need to change, and then changing it.

And **thirdly**, small firms are by their very size, more personable work environments, with shorter and more direct lines of communication. This allows suggestions, decisions and feedback on ethical behaviours to be shared more effectively. The danger of course is that this won't happen unless there is a climate of openness at the firm. This would point to ease of communication as an important factor towards ethical culture.

"To understand your firm's culture, you should evidence what you're doing, rather than what's expected of you."

Leadership

Ethical culture will be influenced by the style of leadership at the firm. It's often referred to as the 'tone from the top'. This involves the leadership of the firm being clear about the types of behaviours they want from people at the firm and then role modelling those behaviours themselves. The firm's directors are certainly important in giving such leadership, but so are influential managers in the middle.

Evidence that a small firm can use:

- some form of statement of the firm's values or a record of what ethical behaviours should be upheld. This may be its own code of ethics or that of a professional body;
- talks or briefings in which senior people have explained to staff about why ethical behaviours are important to the business;
- references in agendas and minutes showing that senior people have from time to time discussed issues to do with ethics, trust, reputation or culture;
- evidence that senior people are actively supporting people making decisions in line with those values and code.

Understanding your firm's ethical culture
Introduction
What's different about ethical culture in SME firms?
Leadership
Practices
Narratives
Capabilities
Case study: The trust legacy

Practices

These are the practices in the firm that tell people what they need to do to be successful. These have to do with how people are recruited, rewarded and promoted. They send signals about how the firm expects its people to behave.

Evidence that a small firm can use:

- that the firm raises questions about ethics and values when recruiting people to the firm;
- that the firm has been clearly telling its people about the ethical behaviours it expects them to work to, and telling them about behaviours that will not be tolerated;
- that the firm takes account of the extent to which people have been demonstrating ethical behaviours when appraising their performance;
- that the firm takes account of that performance in its decisions on incentives, rewards and overall compensation;
- that the firm has also been monitoring the way in which people are remunerated, as this might cause them to act in ways that benefit them but not the client;
- that the firm's decisions on promotion within the firm are being influenced by people exhibiting those ethical behaviours.

The challenge for SME firms lies in the extent to which it records these types of decisions. Informal processes may need to become a little more formal in order to provide this evidence.

Narratives

These are the narratives that circulate in a firm about what it is trying to achieve, how it will achieve that and why it is important. The most important narratives can be found in strategies, business plans and performance targets, as these set expectations and influence the extent to which ethical behaviours are upheld or compromised. The narratives to concentrate on are those that are referred to most often and which are shared the most.

Evidence that a small firm can use:

- strategies in which there is balance between what is to be achieved and how it is to be achieved;
- business plans that set expectations that are in line with the firm's resources;
- performance targets that reflect customer outcomes just as much as corporate outcomes such as sales results;
- sales strategies that talk not only about products and target markets, but about appropriate behaviours as well;
- the monitoring of sales results in areas where the risk of unethical behaviours could be high.

Capabilities

This is about how well equipped a firm's people are to exhibit the ethical behaviours expected of them. Have they been shown how to carry out their work in line with the ethical expectations that the firm has set for them? If a firm is full of people who are great at selling but short on understanding customer needs, then this presents a quite different conduct risk to another firm whose people have been trained to relate to a customer and to problem solve a solution for them.

Evidence that a small firm can use:

- that the firm has thought about what support its people might need to meet the ethical expectations set for them, and has some form of plan to deliver that support;
- that in providing such support, the firm has focussed on those activities which the main pressures on ethical behaviour lie;
- that such support has included both what to do and why it's importantto do it;
- that such support is given to recruits and to both front and back office staff;
- appraisals take account of staff actively taking up such support.

The type of support provided could certainly be in the form of training, but for small firms, it could equally be in the form of team discussions and CPD records.

Case Study: **The trust legacy**

The founder of a small insurance broking firm wants to take steps to ensure that the trust that clients have in the firm will continue to be strong after he has retired. He has a strong, personal sense of ‘doing the right thing’, but he also knows that it’s a tough market, with competitors using all sorts of tactics to get ahead.

He doesn’t want to do this as a tick box exercise, yet he needs to nail down things he’s previously just thought of as ‘the right way of doing things’. He wants the new leaders of the firm to understand what this means.

He starts to ask colleagues and one or two clients about what is behind the trust they have in the firm. ‘Honesty’ comes up a lot, as well as the way in which people are treated at work. He decides to capture this with a proposal to the board that the firm adopts three ethical values: fairness, honesty and respect. There’s some debate about how these will sit alongside business values like teamwork and being energetic, but the board concludes they’re mutually supportive: there’s no teamwork without honesty.

He’s tempted to think that the job’s now done, but he decides to nail this down a little bit more. He asks a couple of people, one a long standing employee, the other more recent, for some examples of what they think these three ethical values mean. In the feedback, these five points stand out:

- doing what they said they’d do at appraisals;
- everyone sticking within the hospitality rules;
- not doing something just because their competitors get away with it;
- being able to raise a concern without worrying about the consequences;
- getting help with difficult choices.

He realises that ethical values like these don’t just look after themselves – they need attending to. When it comes to trust in the firm, his legacy is only secure if everyone has the habit of attending to those values. He takes steps to have the feedback points addressed, and to encourage people to think about these ethical values as active things, not passive things.

Further thoughts: A firm’s ethical culture is often best addressed when some significant change is happening: in this case study, the retirement of the firm’s founder. He’s taken steps on work out where more needs to be done on leadership, practices and capabilities. And he’s sought to make this a habit for the firm, turning it into something the firm does as a matter of course.

Introduction

Improving your firm's ethical culture involves two decisions: what to improve, and how to go about delivering those improvements.

Both need to be proportionate to the capacity of SME firms, yet able to achieve the right outcomes.

Remember that if there is a problem with a firm's ethical culture, then the FCA will want to see it addressed, whether the firm employs 10 or 10,000 people. It's achieving the right outcomes that matters.

The overriding consideration for SME firms seeking improvements to their ethical culture is focus and simplicity. Complicatedness must be avoided.

How to deliver improvements – a very simple approach to get started

There is one very simple approach you can use to start improving the ethical culture at your firm. It is to ask questions, and to listen to those that others raise.

And these questions should be along the lines of "why are we doing this in this way?" and "is there not a better way of doing this?".

Questions like these encourage people to reflect upon their actions and consider the possible outcomes. They help to bring in alternative viewpoints and to see a situation over a longer time horizon. This can often lead to better, more ethical decisions.

Encouraging people to ask questions, and listening and taking on board what they're saying, is a key part of moving your firm's ethical culture in the right direction.

Case Study: **Raising a question**

A specialist underwriter has just been called into her first meeting with all the firm's managers since she joined a couple of months ago. It's going to be a tough one, for the small insurer she works at has just predicted its first drop in revenue for as long as anyone can remember. There's only one quarter left of the financial year, so the firm will have to pull something pretty dramatic out of the hat.

The firm's response plan surprises her, for it's centred around the schemes side of the business. The top 10 supporting brokers are going to be offered enticing targets to pull as much business as possible her firm's way. There'll be a package of commission incentives, with some business support goodies added in as well.

It's been cleverly thought through, for the brokers would be fools to put business elsewhere. Yet when she hears this, she can't help but wonder about the clients her firm will end up insuring. When she asks about what this plan will mean for them, the director of underwriting reassures her that there will be control over the quality of incoming business.

That's not quite what she had meant by her question. It just didn't feel right that her firm was incentivising its top brokers to ignore the interests of their clients. So she puts her hand up again and asks about the impact this plan could have on the firm's reputation with brokers: might some of them get into trouble for funnelling so much business their way?

Lucky for her, the firm's compliance manager is also present at the meeting and he comments that she's got a point. It's a risky thing for the brokers to do, and risky too for the insurer to encourage it. The director of underwriting mentions that the plan is still being finalised and that there's still time for this new input to be factored in.

In the end, a package is put together that will still interest their brokers, but with incentives and inducements that allow for the interests of the insurer, broker and client to be more in balance. Added into the mix this time is a series of face-to-face meetings with the brokers, designed to emphasise the insurer's reputation as a trusted partner to do business with.

How to deliver improvements – a 5 step approach

There is one very simple approach you can use to start improving the ethical culture at your firm. It is to ask questions, and to listen to those that others raise. Once a firm feels that its ethical culture is starting to move in the right direction, it can support this with a simple but more organised approach. This can involve steps such as these five:

Step 1 : Be clear about the overall 'why'

Write down something specific about what the business will get out of devoting time to its ethical culture. And remember to be clear about who will benefit from this.

Example: We want our staff to feel comfortable talking with clients about trust in our firm and in what we are recommending.

Step 2: Set an achievable goal

This goal should benefit the business and mean something to staff. Don't make it too big – start with something reasonably achievable. And don't make it long term - give it only a month or two. Listen to what people in the firm have to say, and then involve them in that change.

Example: Create clearer rules and reporting for business gifts and hospitality by the end of next month.

Thinking back to those four factors to ethical culture, this would be a 'practices' one.

Step 3: Choose an 'ethics coordinator'

The ethics coordinator's job is to encourage cooperation in your firm for achieving this goal. Note that it's not their responsibility to achieve the goal – in a small firm, everyone is responsible for achieving it.

So who should be an ethics coordinator? Someone who stands to gain something from the goal being achieved, and/or someone who people will listen to.

Example: The accounts manager could lead on changes to the rules and reporting for business gifts and hospitality.

Step 4: Get the 'tone from the top' right

The senior people in the firm need to support the improvement and be seen to support it. They should talk about why it's necessary and how they're following it themselves. If this doesn't happen, then others will follow their cue and not bother either.

Example: Directors log all hospitality before it takes place.

Step 5: Challenge excuses

It's common to hear phrases such as 'no one is worse off from doing this' in defence of maintaining the status quo. You should have arguments ready to challenge such comments. Here are the phrases to watch out for:

- Everyone else does this!
- We deserve this!
- What's the alternative?
- No one is going to be worse off!

People will try to stick with old habits. Use these five steps to make sure people see the reason for change and are comfortable making it.

These five steps will get you started. The question then remains: what should I address? You can address this in one of two ways.

Deciding what to improve on – a simple approach

This first approach involves you turning to the earlier tables.

Read through each of the bullet points under the four factors of leadership, practices, narratives and capabilities, and think about how well your firm is doing on each of those bullet points. Mark each with either a green, amber or red.

There’s one danger you need to be aware of at this stage. Be careful not to dismiss some of the bullet points under those four factors as irrelevant. Your evidence for them may vary, but their relevance to any regulated firm will vary far less. If you’re not sure, treat them as relevant.

Now ask one or two other people in your firm to do the same assessment, but without conferring. Each person should make their own estimate of how well the firm is doing. Then bring everyone together and note any bullet points that the majority of you have marked as red. Those are the ones that need addressing first.

Then refer to the 5 step approach. Agree a clear reason for why a ‘red’ bullet point needs to change, then set an achievable goal, and so on.

This is a simple way of focusing in on gaps or problems in your firm’s ethical culture. It is a somewhat top down approach and as such, carries the risk of people influential to the firm’s current culture seeing it through a ‘status quo’ lens. The second approach is orientated around more bottom up thinking.

Deciding what to improve on – a bottom up approach

This second approach is orientated around ethical values and asks people in different roles to weigh up any gaps between the 'talk' and the 'walk'.

Start by thinking of any specific ethical values that your firm wants its people to uphold. If it doesn't have any just now, consider adopting three common ones: fairness, honesty and respect. Then, with the help of a colleague or two, explain each ethical value in terms that mean something to staff: for example, "when it comes to honesty, we want our people to…."

Use those three values to build a 'trust vision' for your firm. This would be a short statement that connects those three values with the trust that clients have in your firm and the benefit the firm gains from such trust. An example of this might be: "Securing the trust of our clients and colleagues is central to the firm's long-term success. To achieve this, we put fairness, honesty and respect at the heart of what we do."

Personalise that trust vision and/or those ethical values, by getting people in your firm to talk about what these values mean to their particular areas of work. For example, the accounts team could use one of their weekly team meetings to come up with a suggestion or two about the importance of honesty to their work, or fairness or respect, or all three. For example, if there's four teams in your firm, they could all together come up with about eight or more of these personalised interpretations.

Create a small, one-off team of two to three people to bring together those personalised interpretations of that trust vision and/or those ethical values, and work out which ones are difficult to achieve. This could be down to people too often ignoring them, or down to them being too vague or too easily by-passed. What you're doing here is looking for the gaps between how you think you should work, and how you might actually be working. Where might you be no longer 'walking the talk'?

Then that small, one-off team should ask itself some questions…

- which of these ethics gaps are we going to address first?
- do senior people in the firm recognise the situation as something worth fixing?
- will those senior people give their support to sorting it out?
- what's causing the situation to be the problem that it is?

Deciding what to improve on – a bottom up approach - continued

That last question involves you returning to those earlier tables about practices, narratives and capabilities, and using those bullet points to work out what is behind the problem. Let's continue with that accounts team previously mentioned.

That accounts team see it as fair that business gifts and hospitality expenditure are proportionate and necessary. However, there's a problem: a noticeable increase in such expenditure has been identified, with a great deal of variability across sales people.

This problem could be down to one or more of these reasons:

- Leadership – executives have not themselves been sticking within expenditure limits of hospitality;
- Capabilities – recent recruits have brought in poor attitudes on gift reporting from their old firm. This needs to be addressed at induction;
- Narratives – sales targets are proving too onerous, causing people to resort to gifts to help influence deals. Review sales targets and reemphasise gift reporting guidelines;
- Practices – last year's top salesperson was known to have been generous with hospitality for clients and others are following her example. Revise appraisal guidelines to ensure ethical behaviours are being emphasised and tighten hospitality sign-off procedures.

The simple goal the firm sets for this is to implement tighter sign-off procedures, with the emphasis on pre-event rather than post-event sign-off.

Case Study: **Walking the talk**

You are the local office director of a mid-sized insurance broking firm. It is the end of the third quarter of your firm's financial year and, in preparation for a meeting of your local management team, you are casting an eye over some financial reports.

You can't help but smile at the new business figures, both actual and projected. After a quiet first quarter, new business started to pick up and the third quarter figures are superb. It looks like you could be heading for top place in the firm's new business league, with all the status and bonus that goes with it.

You continue looking through the financial reports and get to one on expenses. They are much higher than they should be for this time of the year, so you go into the accounts system and drill down into the detail. It turns out that expenses for business development have shot up, most notably because of some tablet computers bought early on at the beginning of the second quarter.

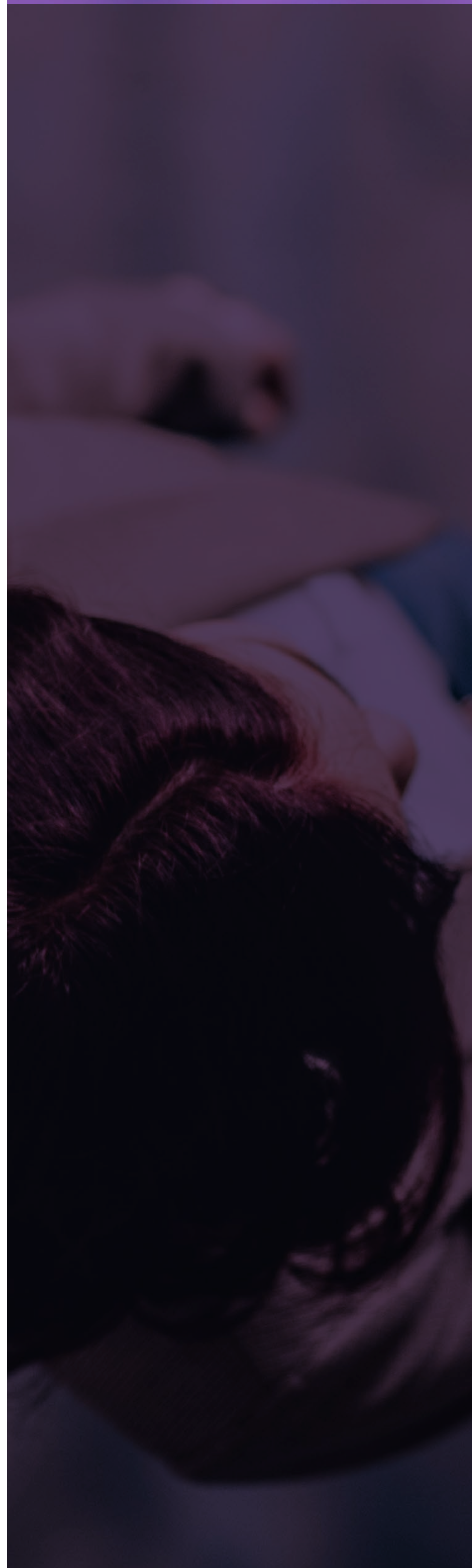
You ask the local business development manager into your office for a chat about what's been going on. It turns out that bids are being left with prospects on high specification tablet computers, with a hint that the tablets would only be collected if the quotes weren't needed. Clearly, your talk earlier in the year about 'doing whatever it takes' to be this year's top firm for new business has been interpreted more literally than you intended.

One part of you leans towards a tough exchange with this manager, to make clear what was wrong with what he was doing. Another part of you realises that the problem could be more deep-seated than this. You check the firm's business gifts and hospitality policy and find that the tablets are priced well over the policy's gift limits. Clearly, it's being ignored. Didn't anyone listen to what you said about the policy when it was introduced four years ago?

You ask the accounts manager to review the way in which expense controls are being applied, and make clear that you expect 100% compliance with the business gifts and hospitality policy from now on. She asks you what she should do about the golf weekend you're going to soon with your partner, hosted by one of the firm's main suppliers. You tell her to wait and see.

The next morning, you call managers together and tell them that you're no longer going to the golf weekend, explaining how you, and it appears others in the meeting, have been failing to work within the business gifts and hospitality policy. You ask them to look back over the last quarter and provide Finance with a list of similar lapses so that any risks to the business can be resolved. One manager asks whether the risk is all that it's made out to be – "No one is actually worse off, and who's going to know anyway?" It's your cue to emphasise how much you believe in competing on fair terms and winning business by people's expertise and experience – "If or when we get to the top of that league table, I want to be proud of how we achieved it, happy to share our ideas with other offices in the firm."

Recommended reading



Ethics in general

Your starting point should be the Codes of Ethics for the CII and the PFS. These are supported by the following resources:

- Guides to the Code called ‘Demystifying the Code of Ethics’, again with both a CII and PFS version
- A 30 min video – ‘CII Code of Ethics Explained’
- Short ethics courses for members to take
- Six ethics podcasts, each of 5 minutes duration
- A Digital Companion to the Code of Ethics, which looks at what members should consider in a digitising market

Guidance on ethical culture

A range of guidance documents about ethical culture are available to CII members.

- Ethical Culture: a Practical Guide for Small Firms (this guide)
- Ethical Culture: Building a Culture of Integrity
- Ethical Culture: Developing a Culture of Personal Responsibility in a Regulated Environment
- Ethical Culture: the Challenge for Insurance Marketers
- Ethical Culture: Changing the Story – Reasons to Believe
- Good Leadership: Culture, Ethics and Conduct in Financial Services

Relevant speeches by FCA directors on ethical culture

To understand more about the FCA’s thinking on ethical culture, read these three speeches, available on the FCA website:

- “Getting culture and conduct right - the role of the regulator” by Jonathan Davidson (Director of Supervision – Retail and Authorisations) on 12th July 2016
- “Culture in financial institutions: it’s everywhere and nowhere” by Andrew Bailey (Chief Executive) on 16th March 2017
- “Culture and conduct - extending the accountability regime”, by Jonathan Davidson (Director of Supervision – Retail and Authorisations) on 20th September 2017

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