Environmental, social and governance: financial services and insurance markets

Reflections caught: Culture, Conduct and Covid 2020-21

Summary of responses from current and former London Market practitioners, 2020-21

Foreword by Melissa Collett, Chartered Insurance Institute

Browne Jacobson

Contents

Foreword

"By holding up a mirror to the market and sharing good practice, this report can help firms develop cultures which achieve better outcomes..."

Melissa Collett
Professional Standards Director,
Chartered Insurance Institute

I welcome this survey and report into culture, commissioned and written by Browne Jacobson. The culture of organisations is of vital importance to building an insurance market that the public can trust with protecting its assets, income, and infrastructure that underpins our modern economy.

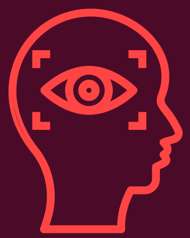
In light of the enormous challenges wrought by the pandemic, it is a critical time for firms to review their culture and look for ways of improving it. The Chartered Insurance Institute supports firms that strive for a better culture for staff and customers, as well as those who seek to have a more positive impact on wider society – this is what our Chartered Ethos is all about. By holding up a mirror to the market and sharing good practice, this report can help firms develop cultures which achieve better outcomes for those that rely on their professional expertise – to help people and businesses face the future with confidence.

Melissa Collett
Professional Standards Director

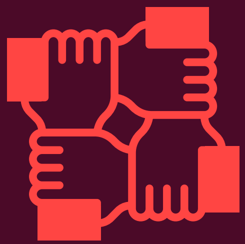
Chartered Insurance Institute

The report in three concepts

Perceptions



Culture



Set-backs

A reflection of London Market culture

This report reflects London insurance market practitioners' views on governance, conduct and culture just before, and then during the main 'lockdown' phase of, the pandemic. Practitioners perceive that the steps taken by firms to maintain good standards of governance and conduct, and consequently healthy cultures, risk being insufficiently effective for those working remotely compared with working in the office.

The components and methodology which underpin how this overall perception comes into focus are explained in the key findings below. It may be that the perception results from the psychological effects of long periods of isolation from colleagues, counterparties and clients. Even so, negative perceptions of the culture within firms and the market more broadly could manifest themselves in adverse action, e.g.:

- failures in recruitment or retention of personnel,
- reduced commitment to initiatives for change,
- decisions against investment.

In any event, it seems that returning to the office cannot come soon enough for firms to make further headway in improving culture and conduct in the London Market. But what if remote or 'hybrid' working is to be a permanent feature of firms' operations?

Key findings

Between the 1st quarter of 2020 and the 1st quarter of 2021, Browne Jacobson commissioned two surveys of 50 individuals who are, or have recently been, involved in a variety of roles in the London Market ("LM"). The respondent sample in each year may have been small, but it is statistically credible, and suitably representative across the market. The surveys were on four discrete but related factors which inform practitioners' overall perception of the reality of LM governance, conduct and culture (details in the appendices).

UK insurance market governance, conduct and culture had come under close scrutiny by regulators by the time that Covid-19 started to take hold. The FCA warned in publications in January 2020 of the 'prevalence' of non-financial misconduct and the need for firms to change their culture. A firm's culture engenders and evidences its capability to address risks and opportunities presented by changes in Environmental, Social and Governance ("ESG") sustainability and responsibility standards.

The survey was of practitioners' perceptions of the culture at LM firms at which practitioners have worked or of which they are otherwise aware. Views were canvassed on LM senior managers' approach to questions of:

- conduct risk (in short, the risk of breaching regulatory rules as to the carrying on of business, especially in relation to the treatment of customers) and, in particular,
- non-financial misconduct (in short, bullying, harassment or discrimination).

The FCA has highlighted that non-financial misconduct has the potential to be an indicator or driver of conduct risk: behaviour within firms influences the behaviour of those firms towards customers and other third parties.

The most striking findings from these surveys is that the overwhelming majority of **practitioners perceive** that between 2020 and 2021:

- **nearly all firms have increased efforts to prevent or deter non-financial misconduct**, and this is a result of stimulus from regulators and assistance (training and education) from professional bodies (e.g. the CII),

but at the same time

- **the risk of committing non-financial misconduct has increased, and this is a result of remote working.**

In relation to conduct risk, the dominant perceptions were:

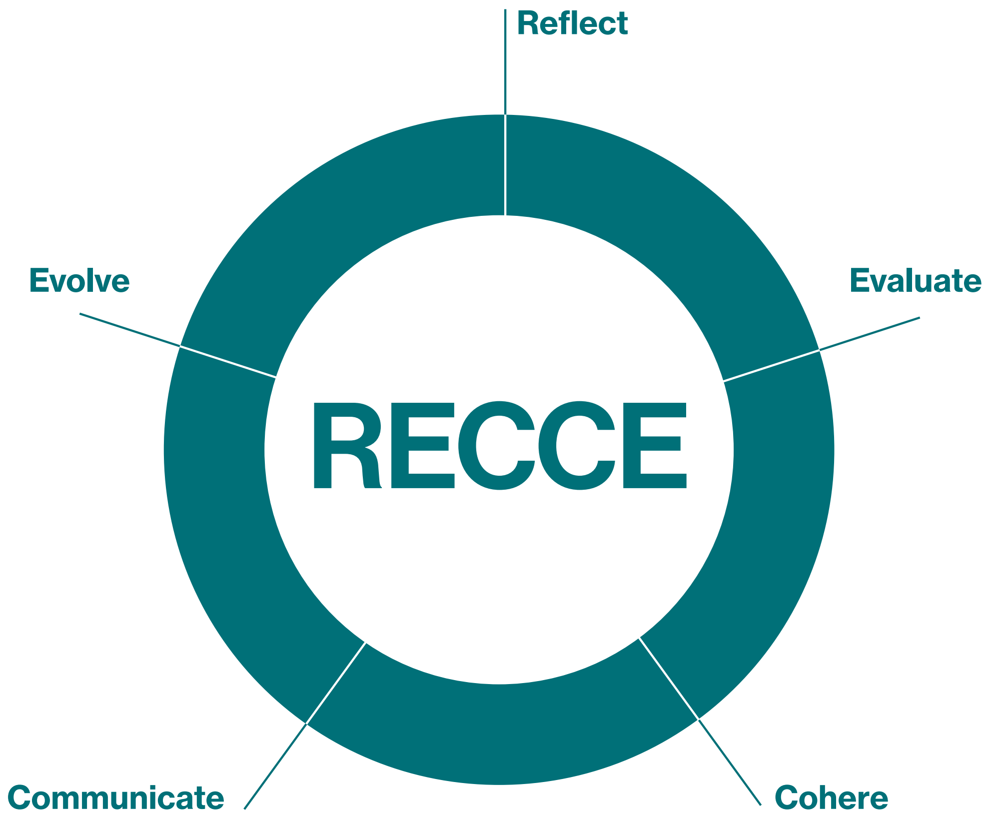
- **firms' efforts to prevent or mitigate conduct risk were essentially the same as before the onset of the pandemic**, and that maintaining these efforts during the pandemic resulted from the personal accountability of senior managers under the Senior Managers & Certification Regime, and

- **practitioners were also as likely to incur conduct risk as they were before the pandemic, and this was because of remote working.**

Addressing the findings

Firms need a comprehensive approach to assessing the ramifications of the survey and the regulatory pressures which are the context for it. We can help with all aspects of that approach, which we have distilled to a five-stage process we refer to as:

‘RECCE’ (reflect; evaluate; cohere; communicate; evolve)



Reflect

The first step is to reflect on whether the perceptions revealed in the survey echo risks of which a firm is aware among its own personnel.

Of course, the fact a firm is not aware of such risks does not mean they are absent. Firms need to consider if their evidence as to the views of employees and others is sufficiently focused, up-to-date and concrete as to conduct and culture. We can help firms gain and sustain effective insights into the ways they are perceived.

Evaluate

Any risks identified should be evaluated on a focused basis, using an objective approach to generate credible data, even to the point of potentially uncomfortable truths – not just high-level reassurances of employee satisfaction, the methodologies and outcomes of which are often treated with suspicion by participants and regulators.

Cohere

Cohere means that the logical conclusions from the data are given all necessary practical effect. System and controls, or policies and procedures may need updating and reinforcing.

Communicate

Depending on the lessons learned from the evaluation, any firm seeking to make change needs to communicate its findings, the changes it intends to make, and how and why it intends to make them. That communication can be in different forms, tailored to different audiences, but there cannot be a gap between what a firm says about misconduct and what it does: how a firm conducts itself in actuality communicates far more than any proclamation of carefully crafted values.

Evolve

The evolve phase within RECCE is to emphasise that the management of culture is not a one-off exercise, but an ongoing dynamic that needs to respond to a changing business, social and regulatory environment.

Proceeding securely

RECCE enables firms to hold a mirror up to themselves and thereby enhance the systems and controls which should embody their governance, conduct and culture. The risk is inevitable that some findings or perceptions could be adverse, with the potential to lead to significant challenge. Of course, in seeking to address challenging matters, a firm does not want to generate material that could be used against it in disputes or other proceedings.

In particular, the following will be vital:

- the proper use of legal privilege via in-house and external lawyers, and
- understanding when and how notification or reporting obligations (such as for regulatory, investor or insurance purposes) are triggered, and what the additional legal consequences of such notifications could be.

We are well placed to work with firms or their trade bodies to make the processes involved in RECCE fully effective, such as:

- anonymous surveys of employees and other stakeholders;
- reports on the effectiveness of, and advice on changes to, systems and controls including governance and risk management policies, procedures and structures, such as board and other governance functions;
- investigations, notifications, reports and disciplinary proceedings; and
- change management programmes.

Appendix 1

Summary of findings

Propositions put to respondents in the survey, and key points from responses

Firms will always look to pursue the maximum legally-permissible disciplinary sanctions (“maximum discipline”) against any manager who is abusive, bullying or harassing (“non-financial misconduct”)

- 82% agreed with this in relation to their current / most recent firm, compared to two thirds (68%) in relation to other firms, which is in line with the survey findings from 2020. **The main reason that nearly a third of respondents perceived that other firms would not pursue appropriate HR discipline was that such firms valued managers’ commercial effectiveness more than the risk and effects of their misconduct.**
- **Respondents generally felt that their own firms had higher standards than other firms. This may or may not indicate misplaced confidence in firms’ own efforts and success; it certainly indicates that practitioners have a lower opinion of the London Market more broadly than of their own firms. This suggests that mistrust of others’ conduct is a notable feature of London Market culture taken as a whole.**

If developing, distributing or underwriting a product has clearly resulted in (i) a positive benefit for a firm’s financial performance but also (ii) a risk of the firm breaching regulatory rules about such activity (“conduct risk”), the firm will weigh up the benefits and risk before deciding whether / how to reward or discipline the managers responsible”

- Similar results for all practitioners, with 50% agreeing for current / most recent firm and 58% for other firms, and this is in line with 2020. **For those who disagree, fewer than half said “firms will not accept incurring conduct risk, so disciplinary action, and no reward, will ensue.” This suggests that practitioners regard firms as accepting conduct risk as one worth taking to achieve commercial advantage.**

“Firms seek to prevent both non-financial misconduct and conduct risk because they believe it will improve financial performance and, regardless of that, they could incur legal / regulatory liabilities”

- 76% fully agree regarding their firm, compared to 54% for other firms. **Where respondents disagreed, this was almost entirely because they took the view that firms’ efforts to prevent conduct risk and non-financial misconduct was solely for financial reasons. This suggests that practitioners do not see firms as giving a priority to ethical values for their own sake. If so, this could make for**

a more challenging approach in firms' ability and willingness to align with broader regulatory ESG initiatives.

"Firms want to prevent conduct risk and non-financial misconduct, but first need senior managers to address them effectively"

- 90% agree in full when answering about their firm, and 62% thought the same of other firms. This is in line with 2020, but there has been some shift in views on what firms should do. It seems that respondents have become more nervous about firms approaching issues on an insular or isolated basis. Only a third (31%) said to take steps without regarding the rest of the market (down from 86% in 2020). **Does this suggest faith in the market's ability to find solutions, or a fear of being disadvantaged from misalignment with competitors, peers and suppliers?**

- **Almost (96%) felt that the efforts made by their firm to prevent or deter non-financial misconduct had increased in the last 12 months**, and this was down to training / education efforts by regulators (48%) or the fact Covid-19 has increased remote working (44%). **Perceptions of efforts made to prevent or mitigate conduct risk were more mixed**; 42% said firms' efforts had stayed the same and this was largely due to senior managers' response to having greater personal accountability (90% agreed); 32% said efforts had decreased and this was due to Covid-19 increasing remote working (75%).

- For other firms 90% felt efforts made to prevent or deter non-financial misconduct had increased in the last 12 months and 64% said this was down to Covid-19 increasing remote working, whilst 31% said it was because of training / education efforts by regulators. Again, perceptions of efforts to prevent or mitigate conduct risk were mixed with a general balance perceiving no change.

- **For their firm, 94% of practitioners said that the likelihood that individual practitioners may commit non-financial misconduct had increased and 60% considered this to be because of Covid-19 remote working. Similar proportions (84% and 69%) arose in relation to other firms.** Again, perceptions as to the likelihood of incurring conduct risk were mixed.

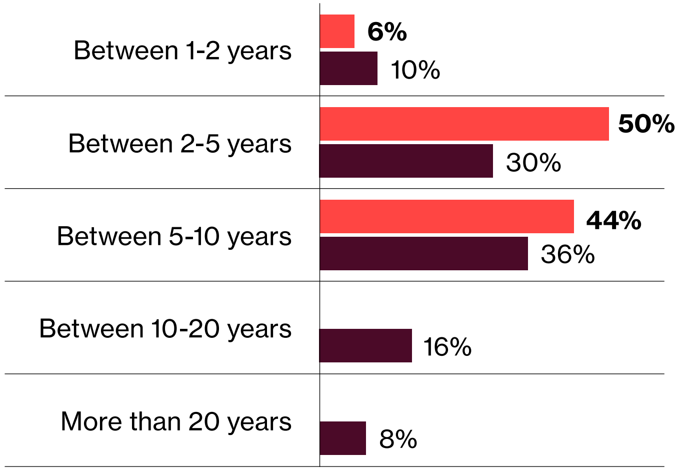
Appendix 2

Summary of methodology

Methodology	Audience profile	Number of respondents	Fieldwork	Country
• Online Survey	• Importance of working culture in the London Market. • Practitioners who have worked in any London Market firm or have previously worked in a London firm but with no more than a gap of two years. • Practitioners are asked questions in relation to their current or most recent firm and any other London firm they have dealt with.	• N = 50 (January 2021) • N = 50 (March 2020)	• W1 – March 2020 • W2 – January 2021	• Great Britain N = 50

Key 2021 2020

Length of time involved with London Market



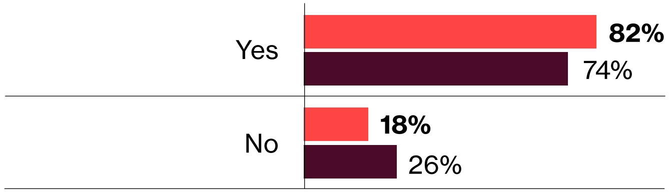
Average:

2021 – 5 years
2020 – 8 Years

Total respondents:

2021 – 50 Respondents
2020 – 50 Respondents

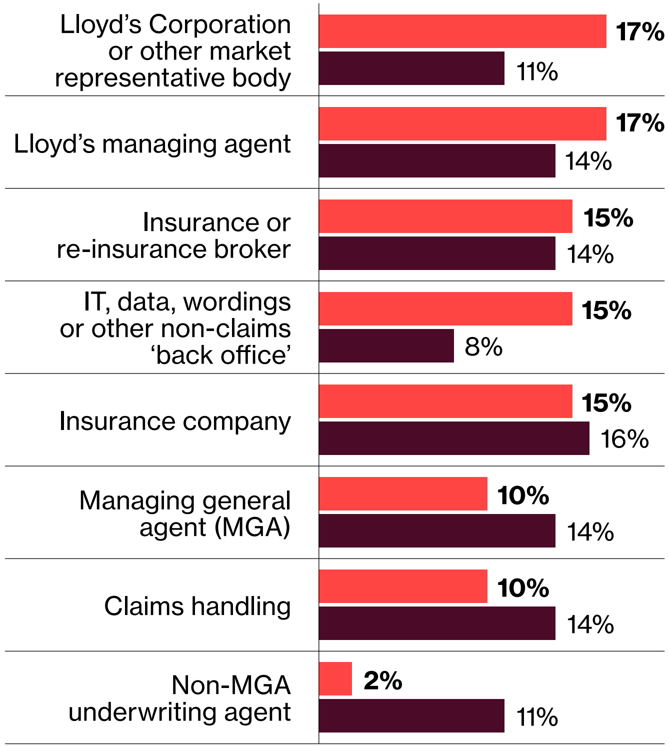
Currently involved with London



Total respondents:

2021 – 50 Respondents
2020 – 50 Respondents

Type of firm

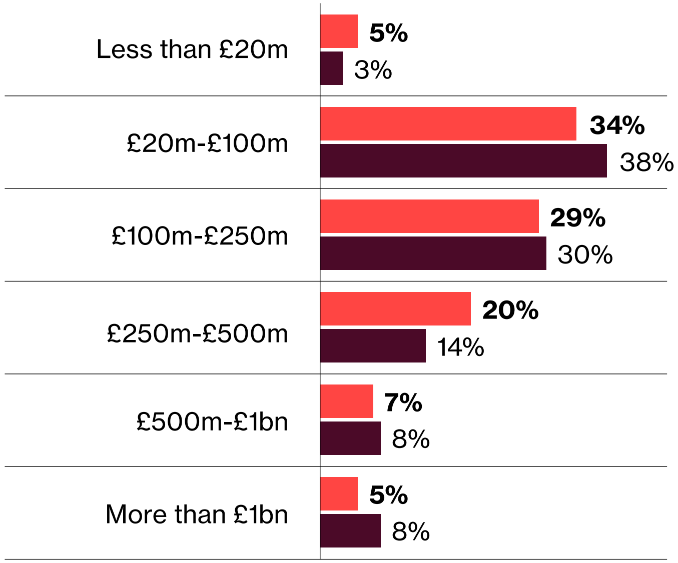


Respondents currently involved with London Market:

2021 – 41 Respondents
2020 – 37 Respondents

Key 2021 2020

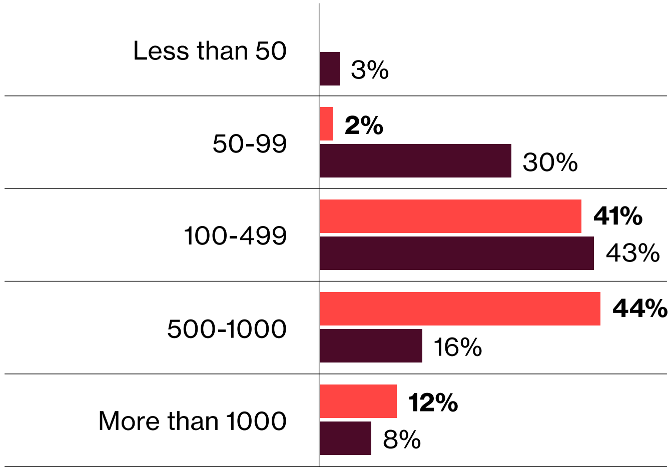
Turnover of firm



Average:

2021 – £250m
2020 – £288m

Number of personnel in firm

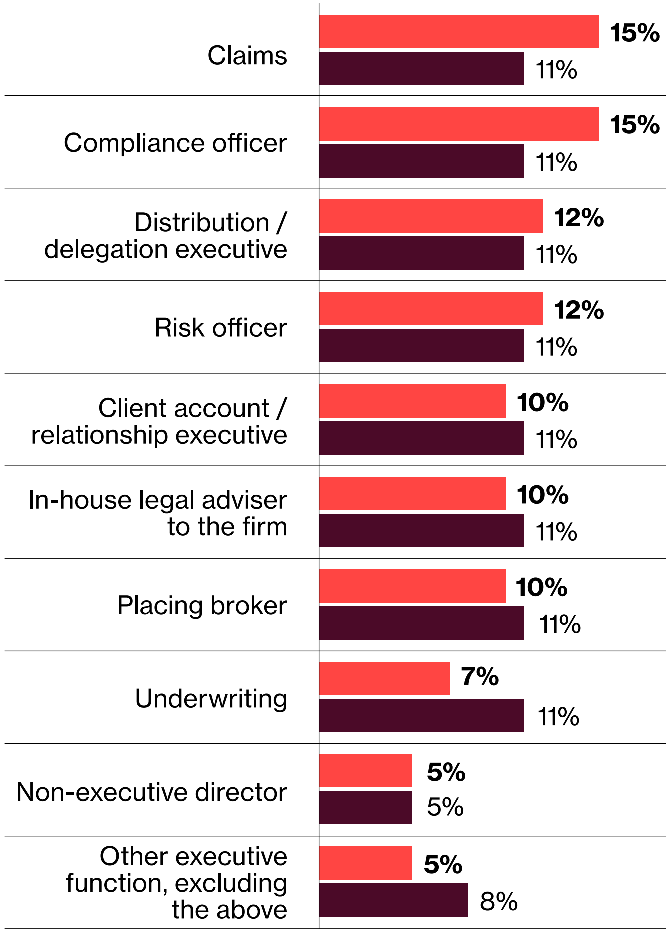


Average:

2021 – 577
2020 – 356

Key 2021 2020

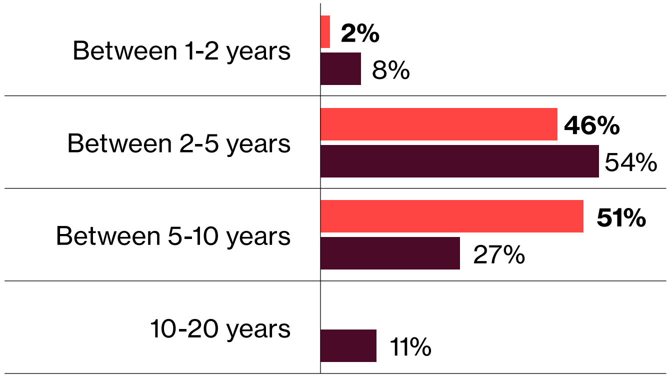
Current role at firm



Respondents currently involved with London Market:

2021 – 41 Respondents 2020 – 37 Respondents

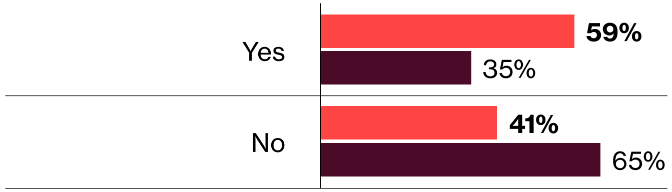
Number of years in role



Average:

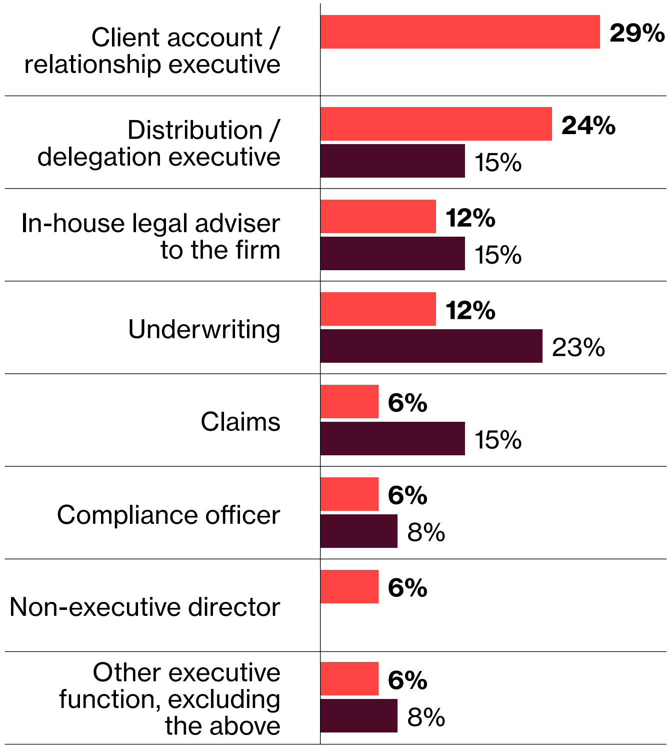
2021 – 6 years
2020 – 6 Years

More than one role at firm



Key 2021 2020

Role prior to current role

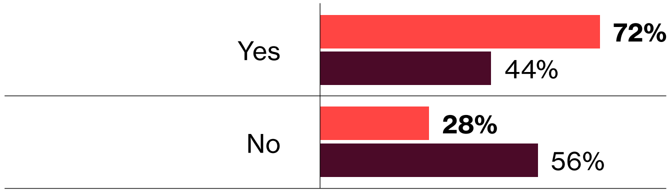


Respondents who have had more than one role at the firm:

2021 – 17 Respondents
2020 – 13 Respondents

Key 2021 2020

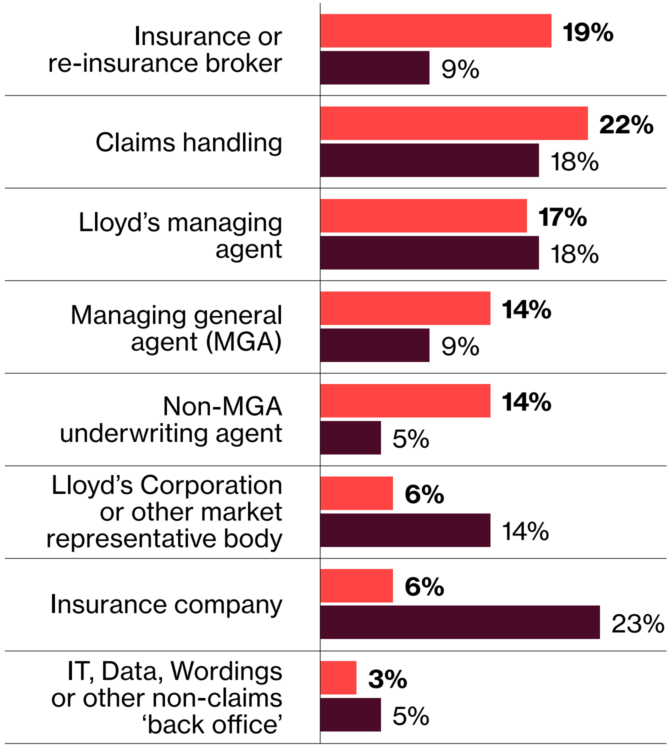
Worked at more than one London Market firm



Total respondents:

2021 – 50 Respondents
2020 – 50 Respondents

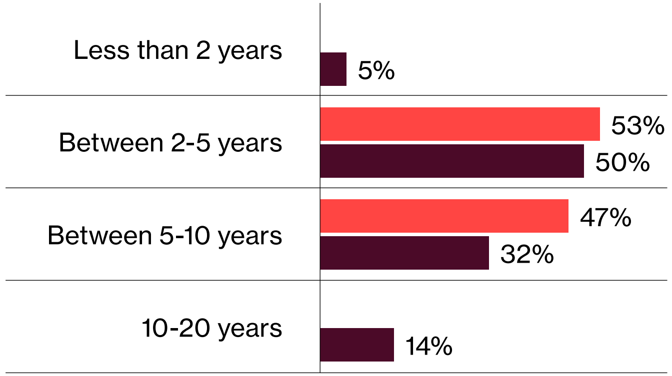
Previous type of London Market firm



Respondents previously working at a different firm:

2021 – 36 Respondents
2020 – 22 Respondents

Number of years spent at previous firm

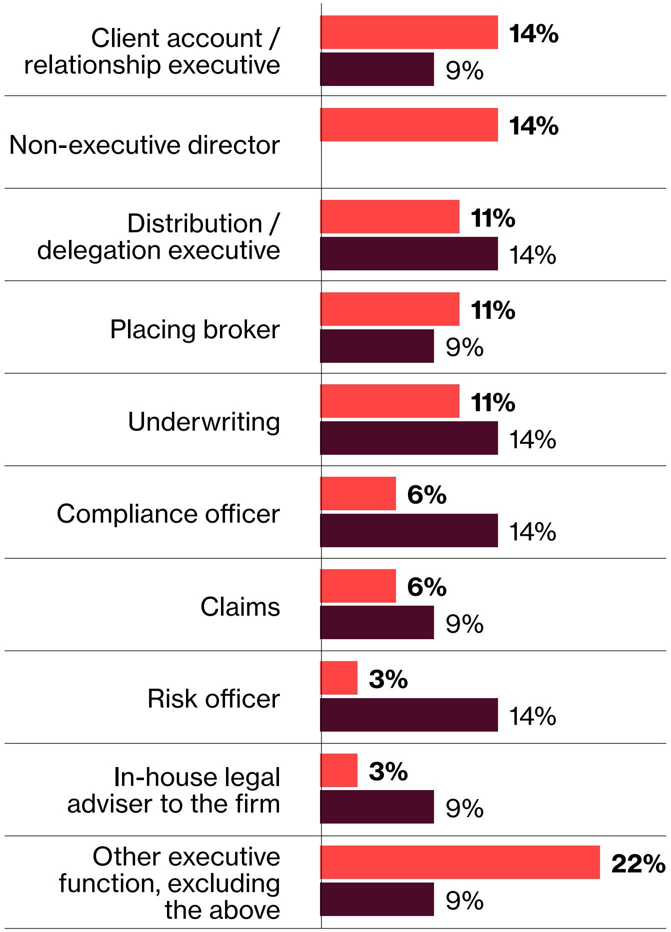


Average:

2021 – 5 years
2020 – 6 Years

Key 2021 2020

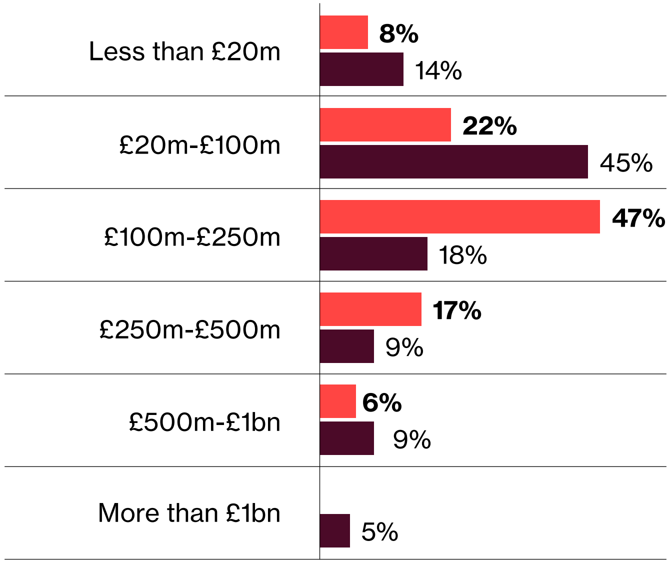
Job title at previous firm



Respondents previously working at a different firm:

2021 – 36 Respondents 2020 – 22 Respondents

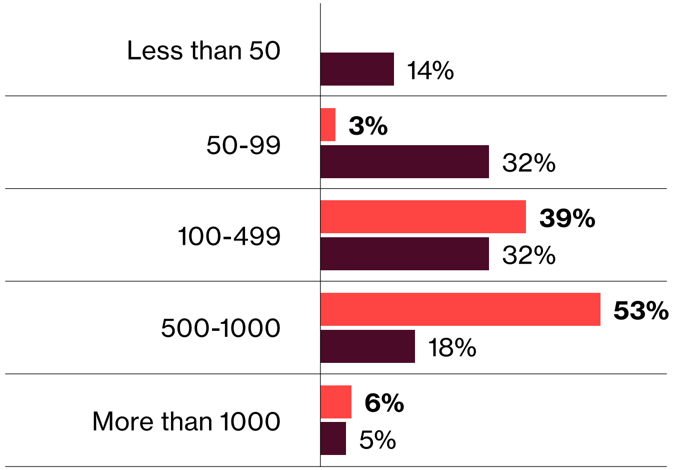
Turnover of previous firm



Average:

2021 – £200m
2020 – £221m

Number of personnel in previous firm



Average:

2021 – 576
2020 – 308

Our team

Enhancing conduct, culture and capital in a changing environment

ESG sustainability and responsibility: financial services and insurance markets

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