

Maturity Institute (MI)

2017 Banking Governance and Culture Report

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- A professional institute (since 2012) for leadership and management with a goal of maximising societal value, founded on [10 Pillars](#) (our values & principles)
- A whole system, multi-disciplinary approach (including economics, finance, investment, human capital, accounting, auditing, corporate governance, risk)
- Evidence-based, using the [OM30](#) instrument to measure corporations and their Total Stakeholder Value as a better guide to company value
- Complementary human governance risk assessment addressing governance, cultural and behavioural risk
- All organizations comparable on OMINDEX which mirrors S&P scale and provides additional, predictive perspectives
- MI works in collaboration with others to improve how capitalism works (e.g. Harvard Law School Pensions & Capital Stewardship Program, Human Capital Management Coalition, '10 years after', Transparency Taskforce).
- First report: AT&T – integrating financial and human capital reporting
- First Banking Governance & Culture Report (2017) sponsored by Hermes Investment Management

“Three issues that are critical to improving culture within the financial services industry:

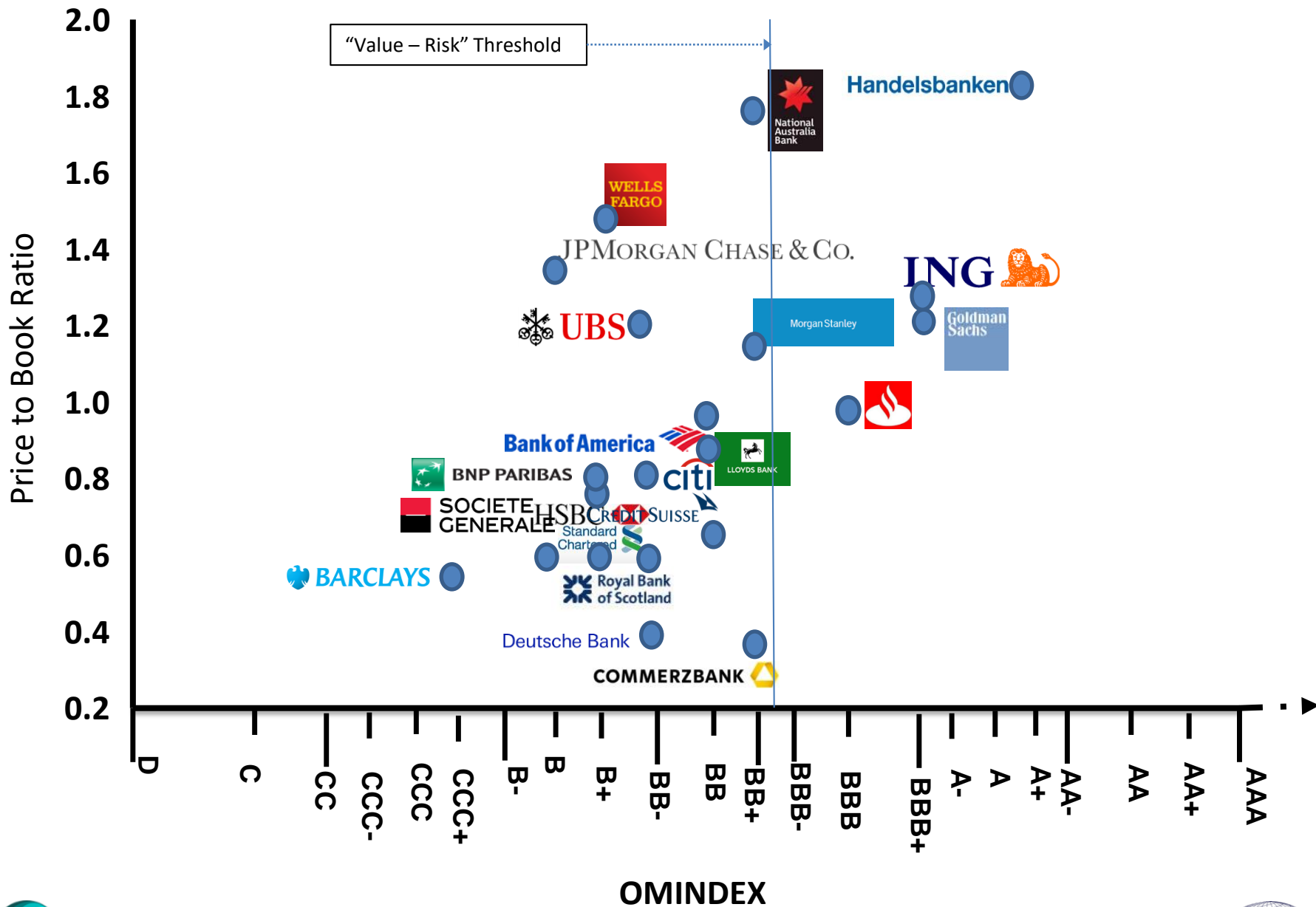
- 1. Defining and clarifying purpose, because clear goals are necessary if one is to assess performance;*
- 2. Measurement of how firms and the industry are performing; and*
- 3. Whether incentives encourage behaviors consistent with the goals one wishes to achieve.”*

**William C. Dudley President & CEO, Federal Reserve Bank of New York,
London March, 2017**

OM30: Rating and Analyzing Governance and Culture

| 1 | ©OMS LLP - OM30+ | | Market cap | Revenue | P/E | Gross profit | Employees | TICKER | OMR | Profit margin | Operating Margin | Return on Assets | Return on Equity |
|--|---|--|---------------|--------------|-----------------|-----------------|-----------------------|--|-----|---------------|------------------|------------------|----------------------|
| 2 | | | | | | | - | | | 0.00% | 0.00% | 0.00% | 0.00% |
| 3 | | | P/B | TSV | Risk | Credit Rating | Cost/Income | | | 0.00% | 0.00% | 0.00% | 0.00% |
| 4 | | | | | | | | | | 0.00% | 0.00% | 0.00% | 0.00% |
| 5 | General notes for Analysts: | | | | | | | | | | | | |
| This questionnaire is designed to be used only by professionally trained Maturity Analysts approved by the Maturity Institute. It is based on the original OM30 (version 2.30) but has been simplified for the purposes of more efficient rating. While it would ideally be used as a basis for a face-to-face interview with the organization it is a template for completing an OMR from externally available information. | | | | | | | | | | | | | |
| 6 | | | | | | | | | | | | | |
| 7 | Scoring from 0 to 10: 0 is non-existent, 1-3 is 'unacceptable', 8-10 is 'exceptional', 4 to 7 are varying degrees of 'acceptable' | | | | | | | | | | | | |
| 8 | All questions require specific references and evidence in support of the score given. | | | | | | | | | | | | |
| 9 | | | | | | | | | | | | | |
| 10 | Company: | | | OMR: | | | | Analyst name: | | | | | |
| 11 | OM30+ Scoring & Rating scheme | | | | | | | | | | | | |
| 12 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | | | | | Co. Wiki link |
| 12 | | | | | | | | | | | | | Co. AR link |
| 13 | Q | Element | Out of | Score | % of max | Weight % | % of OMR total | Analyst Guidance | | | | | |
| 14 | 1 | Authenticity The size of the gap between the organization's statements and external communications relative to the reality found in the evidence. | 10.0 | 0.0 | 0.0 | 3.50% | 0.00 | Score 0 - 10 (inverse scale, 10 meaning no gap). Compare the espoused statements of values and principles with the reality of news stories and the use of combined evidence | | | | | |
| 15 | 2a | Corporate Purpose Does the company have a clearly stated purpose? | 1.0 | 0.0 | 0.0 | 2.00% | 0.00 | Binary: Score 1 for clear reference to corporate purpose, otherwise 0 | | | | | |
| 16 | 2b | Societal purpose Does the purpose of societal value have clear primacy in this organization? | 1.0 | 0.0 | 0.0 | 1.00% | 0.00 | Binary: Score 1 for clear reference to primacy of 'society' or societal value as defined by MI (best product/service at best cost) otherwise 0. What would all the people who work in and with this organization say? | | | | | |
| 17 | 2c | Embedded societal purpose If yes to 2b. does societal purpose cohere with operating plans? | 10.0 | 0.0 | 0.0 | 2.00% | 0.00 | Score 0 - 10. Judge the extent to which all organizational operations are pursuing this purpose on a day-to-day basis. | | | | | |
| 18 | 3 | Market & Intrinsic value What is the primary (not sole) determinant of the company's ability to sustain its present value today? | 10.0 | 0.0 | 0.0 | 2.50% | 0.00 | Score 0 - 10. Look for durability of legitimate competitive advantage and score accordingly out of 10 e.g. monopoly and market dominance score lower. Proprietary technology, reputation & brand, innovation, customer service, efficiency, high quality? Durability high scores come from management quality/capability and organizational flexibility, adaptability and agility. | | | | | |
| 19 | 4 | Coherence between market & human values To what extent does the organization see its future as being sustainable only if it reconciles its market value to societal values? | 10.0 | 0.0 | 0.0 | 2.50% | 0.00 | Score 0 - 10. Balance question 2 with how market value comes at the cost of human values e.g. Microsoft's abuse of its monopoly would score 3 or less. Also check coherence between market valuation and human values of organization e.g. Goldman Sachs eventually realised they had to modify behaviour and public perception of their values against the 'vampire squid' image. | | | | | |
| 20 | 5 | Governance Does anyone on the board hold specific responsibility for human governance? | 1.0 | 0.0 | 0.0 | 2.00% | 0.00 | Binary: Yes=1, No=0 'Human governance' is defined as clear and explicit recognition and acknowledgement that continuously improving value creation is dependent on | | | | | |
| 21 | 6 | Trust To what extent are the leadership and management team trusted by customers, employees, and other key stakeholders? | 10.0 | 0.0 | 0.0 | 4.00% | 0.00 | Score 1-10 based on your judgement about the level of concern expressed within the organization about the importance of 'trustability' and gather any external evidence | | | | | |
| 22 | | Values Can you identify 3 core values that are lived by the organization? | 6.0 | 0.0 | 0.0 | 2.00% | 0.00 | A 'value' is something that the organization regards as having a high worth (e.g. integrity, organizational responsibility). Score 1 for each value but only an extra 1 for each if there is clear evidence that the values are lived. | | | | | |

Banking Governance and Culture Project 2017



“Banking is undergoing disruption as never before. Together with the pace of change in the world around us, this creates uncertainty regarding the way forward...we have the ability to adapt and succeed in this new environment so we can continue to meet the needs and expectations of customers and society and play an important role in building a sustainable and prosperous future for all.”

Ralph Hamers, CEO ING, ING 2016 Annual Report

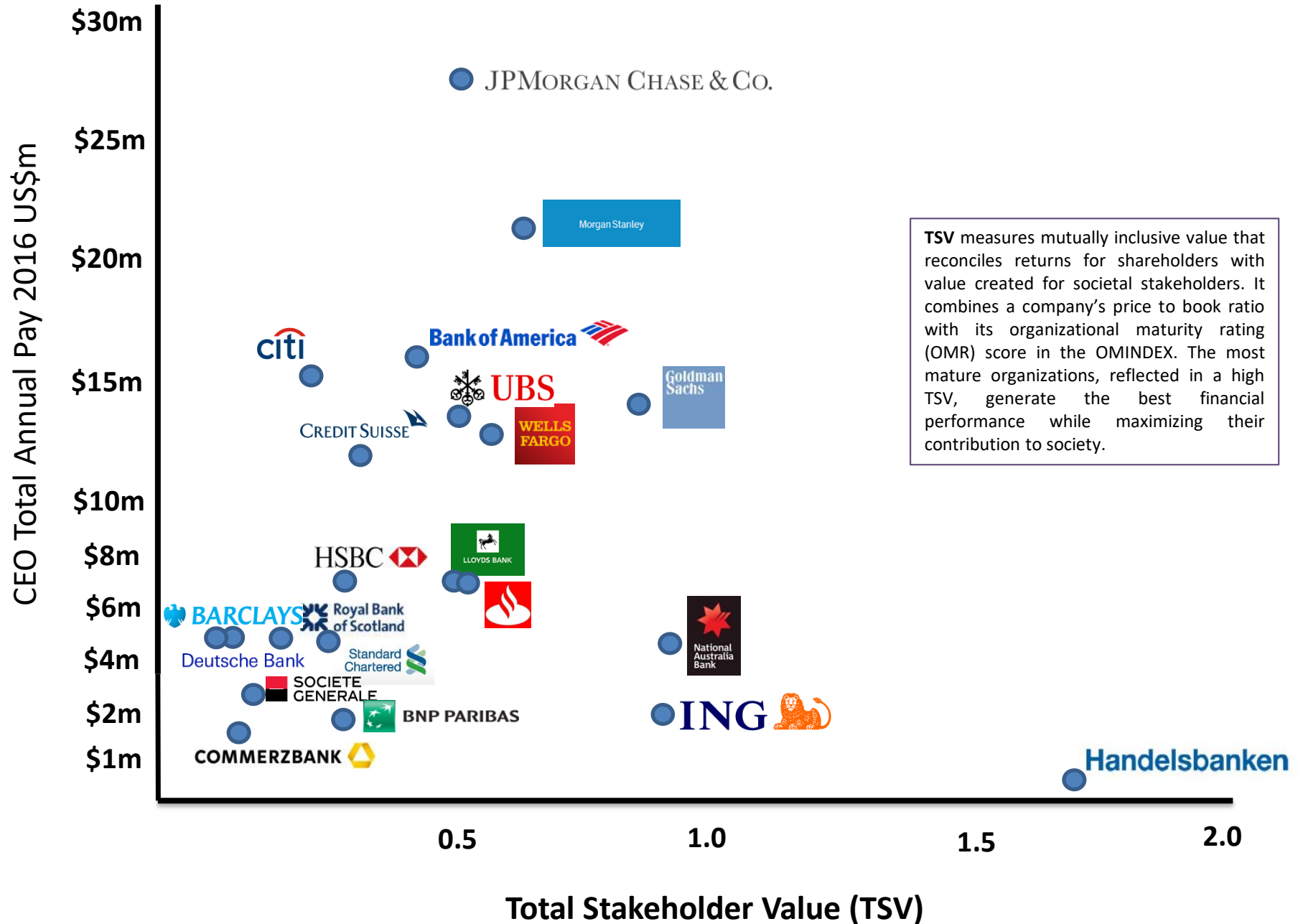
Corporate Purpose

Nine banks articulated a purpose, that could be considered to contain a reasonable amount of societal responsibility, which informed strategic decision making. While this is encouraging it is neither as clear nor as convincing as it should be if the banks are to realize that having a societal purpose is the best option for underpinning long-term shareholder value.

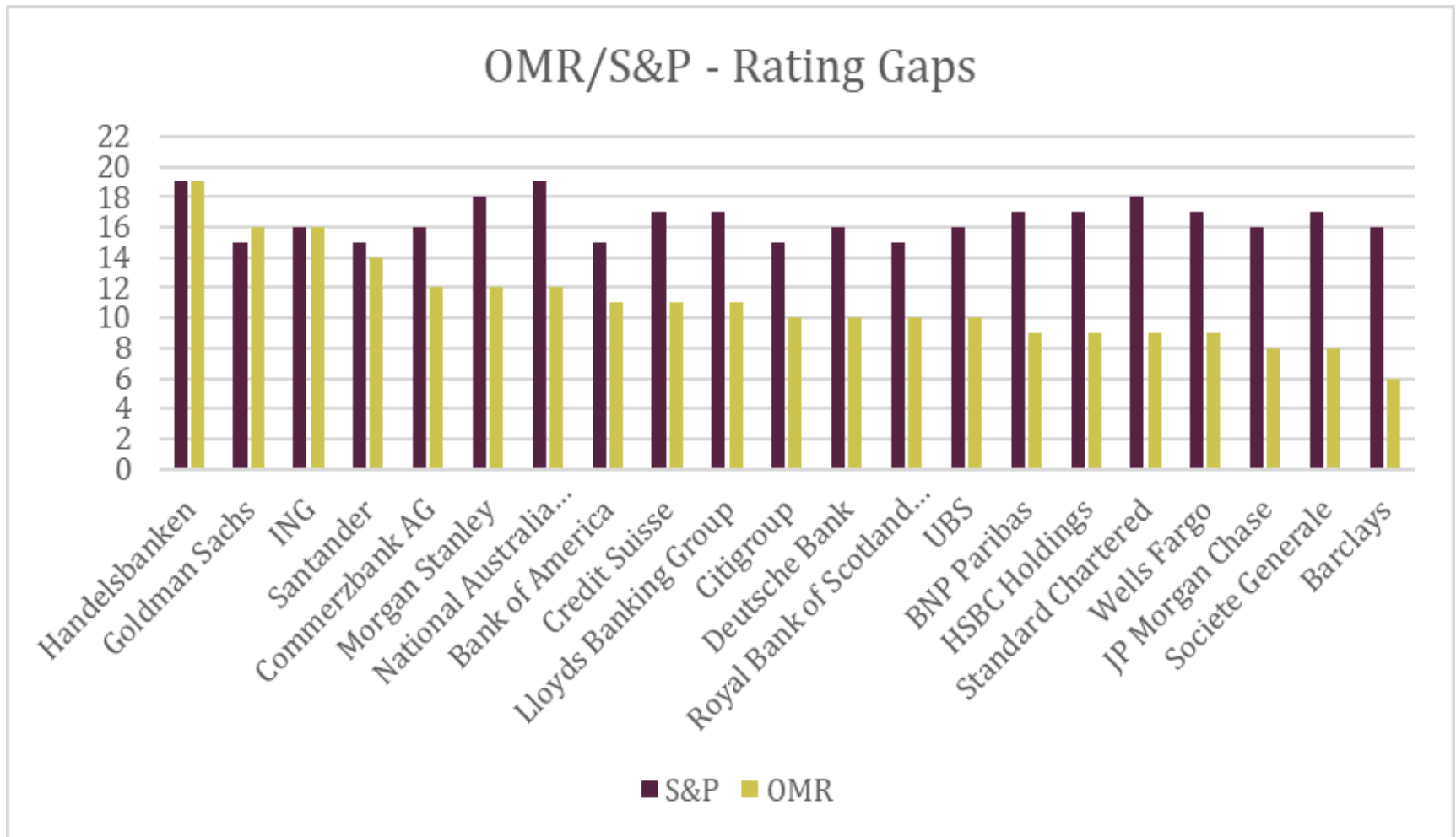
Only three banks present evidence of the minimum level required to demonstrate that their societal purpose was sufficiently embedded across their operations: Handelsbanken, ING and Banco Santander.



CEO Pay and Total Stakeholder Value (TSV)



Assessing and Predicting Risk: how OM30 fills the gap in conventional analysis



Key lessons and messages:

1. With some exceptions, banks have not improved governance and culture
2. The value loss and risk being carried by our banks is significant
3. While board focus on culture is increasing and some new structures are in place, capability is extremely low in measurement and monitoring
4. Our call for action
 - Formal recognition of OM30 diagnostic
 - Adoption of **Total Stakeholder Value** as an underlying goal
5. Our Banking report is available; a new project for Financial Services is being developed with 10 Years After, TTF and others