

Bad behaviour has destroyed over USD 850 billion in banking industry profits since the Global Financial Crisis

Quinlan & Associates sees the need for a renewed focus on risk culture

Hong Kong, 27 September 2017 – Quinlan & Associates, an independent strategy consulting firm specialising in the financial services industry, has released a thought leadership paper looking at the need for an effective risk culture in the banking industry.

The report, titled Value at Risk, analyses the cost of bad behaviour to the global banking industry in the near-decade since the GFC.

'We estimate that bad behaviour has wiped off in excess of USD 850 billion in profits for the top 50 global banks since the GFC in the form of write-downs, trading losses, fines, and additional compliance costs. If we also consider indirect impacts such as goodwill impairments, and increased funding costs [...], this number is likely to exceed USD 1 trillion,' said Benjamin Quinlan, CEO & Managing Partner and lead author of the report. 'Banks have more than doubled their compliance spend since 2009 and there currently does not seem to be a let up in costs,' added Yvette Kwan, co-author of the report.

In response to heightened levels of regulatory scrutiny, most banks have focused on bolstering their 'Three Lines of Defence' risk management framework, paying close attention to lines two and three (i.e. risk and compliance, and internal audit). However, 'while weak control systems were a contributing factor to several infamous banking scandals, the vast majority of issues stemmed from what could only be described as bad behaviour from within the business, the first line of defence,' said Mr. Quinlan.

In the report, Quinlan & Associates takes a look at a number of drivers behind an underlying weakness in risk culture at many banks, such as tone from the top, incentives, governance, and communication. In particular, it looks at how the misalignment between these drivers created a lack of personal accountability with respect to risks taken by employees. 'Although banks have undertaken a raft of measures in recent years to better manage their risks, the majority of these efforts have focused on the second and third lines of defence. In reality, many of the risk measures implemented by banks to-date are remedial and rules-based, and seek to drive behavioural change through a fear of being caught, rather than engendering a more fundamental evolution in risk culture where employees do the right thing simply because it is the right thing to do,' continued Mr Quinlan.

The report concludes by giving recommendations for addressing this cultural problem. At the core of the report's argument is the view that 'the most effective risk management framework will be one in which problems are addressed at the source; the first line of defence,' added Mr. Quinlan.

About Quinlan & Associates

Quinlan & Associates is an independent strategy consulting firm specialising in the financial services industry. The Company is the first firm to offer end-to-end strategy consulting services. From strategy formulation to execution, to ongoing reporting and communications, Quinlan & Associates translates cutting-edge advice into commercially executable solutions. With a team of top-tier financial services and strategy consulting professionals, and a global network of alliance partners, Quinlan & Associates provides its clients with the most up-to-date industry insights from around the world, positioning the Company as a leader in this field.

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