PSYCHOLOGICAL SAFETY
INSTITUTE

Resetting culture in financial services

From managed risk to critical asset

An executive briefing from The Psychological Safety Institute on new non-financial misconduct regulation now affecting non-bank firms, and the limits of a risk-led view of workplace culture.

“When leaders stop asking ‘how do we avoid the next incident?’ and start asking ‘how do we create a better working environment?’, that’s the beginning of true and transformative change.”

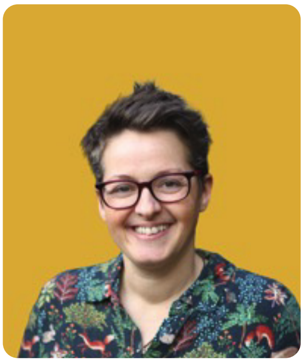
GINA BATTYE, FOUNDER AND CEO,
PSYCHOLOGICAL SAFETY INSTITUTE

Introduction

The new FCA rules on non-financial misconduct mark a shift for many firms – from workplace culture as an HR concern to a broader regulatory risk. Leaders need an honest view of where the industry stands today, and a roadmap for turning culture into a genuine business advantage. This report assesses the current landscape and sets out a practical approach for strengthening culture, centered on psychological safety.

We'll look at:

- **What's changed since 2008, and what hasn't**
- **What the new FCA rules mean for individuals and employers**
- **Why compliance must be the baseline, not the ambition**
- **How to think more systemically about culture change**
- **Global culture standards as the missing piece in the puzzle**



About the author

Gina Battye is the founder of the Psychological Safety Institute, author of The Authentic Organisation, and acclaimed international speaker on workplace culture. Gina works with companies on their culture change journeys, helping them realise the collective potential of their people. She's also leading global psychological safety standards with The Culture Code – making culture measurable, manageable, and reportable for all.

Contents

1. A generation-long journey
Taking stock of the state of culture in financial services over the last two decades. 5

2. Non-financial misconduct enters the rulebook
A quick refresh on the new FCA regulation and what it means for non-bank firms now in addition to banks. 7

3. Going beyond compliance
Why addressing misconduct is an inadequate ambition for results-driven businesses. 9

4. The Psychological Safety Ecosystem
A new model for understanding culture and driving lasting change. 11

5. The case for workplace culture standards
A primer on The Culture Code – a landmark global initiative from PSI. 15

6. What next?
Some questions to reflect on. 16

1 A generation-long journey

2008 was a watershed moment for financial services, with the global crash putting extreme pressure on the sector. And in the 2010s, redress for misselling cost British banks and building societies billions. Together, these crises sparked major regulatory reform, and the industry recognised that unhealthy incentives and risk-taking needed addressing. A broad push to fix culture in financial services followed.

Banks rewired bonus and incentive schemes. Some firms reoriented performance management, putting behaviours before outputs. Leadership became less top-down in some businesses. Lloyds Banking Group and the reinvented Natwest Group now treat culture as a board-level, strategy-aligned concern – a driver of commercial growth. Should we assume, then, that the sector is well-prepared for renewed scrutiny?

Without doubt, there's been substantial investment in culture, and real progress. But there have also been fresh causes for concern. Between 2021 and 2023, allegations of non-financial misconduct increased by 72%[1]. Whether this reflects more incidents, stronger reporting mechanisms, greater employee willingness to report, or a mixture of these factors is unclear. But the fact that one in four Gen Z employees left the sector in the year up to October 2025[2] is instructive.

Old norms, hierarchies, and habits have proved difficult to entirely displace. New values, policies, and training can be rolled out quickly, but that's not always enough to shift the deeper operating environment. In chapter four, we'll explain why.

Addressing toxic interpersonal behaviour is rightly front of mind for the sector today. But, as research from the Bank of England[3] shows, culture matters for many other reasons, affecting everything from how complaints are handled to the scale of internal fraud. This shouldn't be a surprise; culture is the day-to-day atmosphere. It shapes how people show up, interact, and make decisions, powerfully impacting business results.

A generation-long journey

Culture is also a key factor in successful adoption of new technology. As firms invest heavily in AI, many are neglecting the human context on which such transformation depends; people only get on board if they trust leadership and understand how change affects their roles. Culture shapes customer perceptions too, and there's visible room for improvement here: The FCA's Financial Lives 2024 survey[4] found that only 39% of adults had confidence in the UK financial services industry, while only 36% believed most financial firms were honest and transparent in the way they treated them.

In 2026, most leaders understand that culture matters. Fewer have the right tools to design and manage it with confidence. Organisations focus on "speak up" initiatives but don't have ways to create psychological safety at scale. They offer mental health support before getting to grips with the emotional and interpersonal dimensions of life at work. They develop their leaders without nurturing the relationships that power performance. In chapter four, we'll introduce a more practical and systematic approach. First, though, a quick refresh on what the FCA's new non-financial misconduct rules mean.

Sources
1. Financial Conduct Authority, 'Culture and non-financial misconduct survey – findings', 2024
2. KPMG, 'One in four Gen Z employees left financial services in the last year', 2025
3. Suss, J., Bholat, D., Gillespie, A., Reader, T., Bank of England, 'Organisational culture and bank risk', 2021
4. Financial Conduct Authority, 'Financial Lives 2024', 2025

2 Non-financial misconduct enters the rulebook

The FCA brought in non-financial misconduct (NFM) rules for banks in 2013. From 1st September 2026, those rules have been tightened and extended to cover non-bank firms too. Serious bullying, harassment, or violence towards a colleague at work can now count as a breach of the FCA's rules, not just a disciplinary matter.

This isn't a rule to police every office spat. But it does mean firms need real channels for reporting and whistleblowing, managers who don't look away, and investigations that hold up to scrutiny.

For individuals, the consequences range from a warning to dismissal, and in the worst cases, a regulatory report or a ban. For senior managers and certified staff, it can also weigh on whether they're judged fit and proper to do their job at all.

If a firm handles a case badly – ignores a complaint or botches an investigation, for example – that's now a supervisory matter in its own right. The FCA can step in directly, and escalation from there can lead to fines and other penalties.

A 2018 case[1] shows what can happen when the FCA gets involved. Barclays' CEO Jes Staley attempted to identify the author of anonymous letters raising concerns about the personal conduct of a senior executive. The FCA and PRA personally fined Staley £642,430, concluding that he had failed to exercise due skill, care and diligence in responding to a whistleblowing concern. This was the first enforcement case brought under the Senior Managers Regime. It shows that the regulator can act not only on the original alleged conduct, but on how senior leaders respond when concerns are raised. Barclays was also fined $15 million by the New York Department of Financial Services, which identified shortcomings in the bank's governance, controls and corporate culture around whistleblowing; it found that the episode could lead employees to doubt whether it was safe to escalate concerns.

As this episode illustrates, the consequences of mis-handling NFM can be severe. But can boards today see the problem clearly enough to manage it? In 2024, 38% of firms told the FCA[2] their board received no management information on non-financial misconduct at all, and 33% said they have "no formal governance structure or committee that decides the outcomes and disciplinary actions for those involved in non-financial misconduct cases." The emphasis is too often on tackling individual incidents, rather than understanding patterns and changing the conditions that create them. In chapter four, we present a new lens for understanding and redesigning those conditions.

Where toxic behaviour exists, addressing it should be a priority. But, as we'll argue in the next chapter, whilst minimising regulatory risk and eradicating negative energy in the workplace are important goals, there's so much more to creating a healthy culture.

New responsibilities in a nutshell

- Treat serious bullying, harassment and violence as conduct issues, not just HR issues.
- Review conduct, disciplinary, whistleblowing and escalation policies now.
- Update fit-and-proper checks and regulatory reference processes.
- Make sure managers know what counts, what to escalate, and how to document decisions.
- Align HR, compliance and legal so investigations are consistent and well-recorded.

Sources

1. BBC, 'Barclays fined $15 million for whistleblowing breach', 2018
2. Financial Conduct Authority, 'Culture and non-financial misconduct survey – findings', 2024

3

Going beyond compliance

Classifying, investigating and reporting misconduct will always be necessary, but the bigger opportunity for financial services firms is to focus on the conditions that make good judgement, challenge, and discipline more likely. In a healthy culture, harmful behaviour is genuinely rare and excellence is actively encouraged, enabled, and rewarded at every level. The impact on business performance can be profound.

Some organisations never get past risk-led, remedial thinking. But those that design and manage culture more intentionally see extensive operational benefits. Their people communicate more clearly, collaborate more reliably, and solve problems more creatively. Their workplaces are characterised by thoughtfulness, respect, and proactivity. People have a clear sense of priorities and expectations. They take accountability and make decisions with confidence. Colleagues don't waste energy dealing with avoidable friction. Problems are dealt with early, before they consume time, attention, and trust.

Culture is powerful because it encompasses everything that happens at work. But that's also why leaders can find it tricky to get a grip on; it feels too big and nebulous to tackle as a holistic whole, so even the organisations that appreciate its importance default to addressing the most visible and damaging issues rather than redesigning the underlying operating system.

That system comprises people, relationships, and power dynamics. It exists within markets, supply chains, and communities. When faced with this complexity, leaders need a practical methodology for driving and embedding change, with a clear guiding principle at its heart. That's where our model – The Psychological Safety Ecosystem – excels.

Culture as performance-amplifier

Research links healthy, well-embedded cultures with:
- Stronger employee attraction and retention.
- Higher employee satisfaction and stronger long-term firm performance.
- More effective cross-functional integration and new-product development.
- Lower cost of capital where firms demonstrate a robust risk culture.

"The only thing of real importance that leaders do is to create and manage culture. If you do not manage culture, it manages you, and you may not even be aware of the extent to which this is happening."

EDGAR SCHEIN,
ORGANISATIONAL BEHAVIOUR PIONEER

4 The Psychological Safety Ecosystem

How do you change workplace culture? The first step is to recognise that culture is not one thing. It's a living multi-layered ecosystem; from how individuals show up and people connect, to how teams work, functions align and organisational systems operate. We call this the Psychological Safety Ecosystem.

You may know psychological safety as the idea that people should feel able to raise concerns. That matters, but it's only one expression of something far broader. We take a more transformative view – for PSI, a psychologically safe workplace is one where high-quality thinking, communication, and contribution happen as standard.
When psychological safety is high, people don't feel under threat, they feel comfortable showing up as themselves, and feel confident they can add real value. For any new policy, incentive, or process, leaders can ask: does this help our people feel more safe, comfortable, and confident? In this way, psychological safety becomes a powerful organising principle for change. When you look at an incident in isolation, it can be easy to blame the individual at the centre. But how people show up is constantly shaped by the conditions around them. Managers who avoid difficult conversations, teams working to conflicting priorities, bonus schemes that reward short-term wins over good judgement, and meeting habits that leave the same voices dominating while others stay quiet all affect how individuals behave.

To understand, diagnose and improve these conditions, leaders need to see the full system rather than treat each issue as a separate event. The Psychological Safety Ecosystem provides that view. Our model treats culture not as something monolithic, but as something all employees actively co-create through every interaction, every conversation, every decision. It's a more nuanced and layered way of seeing culture, honed in the wild working with real businesses and real people.

> "We're talking about high psychological safety across the full operating environment. This is something leaders can measure, design for, and nurture."

GINA BATTYE, FOUNDER AND CEO,
PSYCHOLOGICAL SAFETY INSTITUTE

At the centre is the **individual** – psychological safety here means people are self-aware, consider their impact on others, and take responsibility for how they show up.

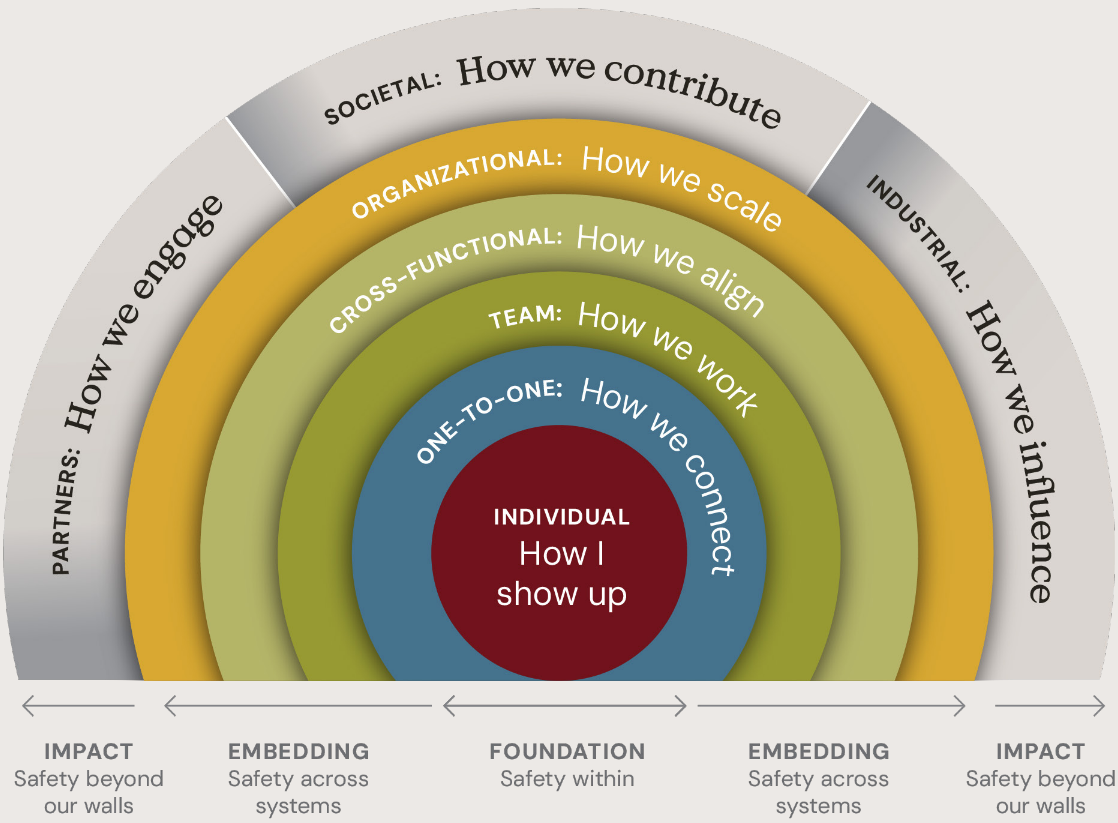
The **one-to-one** context is all about interpersonal communication – here, psychological safety enables clear, honest conversations and stronger relationships.

The **team** context concerns how groups work together – in healthy cultures, we see established team rituals, clarity on who owns which decisions, meetings where no-one's marginalised, and regular space to review progress together.

The **cross-functional** context is where different departments interact – when healthy, teams invite each other into key conversations and combine perspectives for stronger solutions.

The **organisational** context looks at how leadership is set up, how performance is managed, and how information flows across the business – in psychologically safe cultures, leaders are supported and held accountable, positive behaviours are rewarded, and policies and processes make it easier to do great work. This is also where technology rollouts succeed or fail. As firms invest heavily in AI, employees need clarity about how roles will change, confidence they can learn and adapt, and enough trust in leadership to engage with change rather than resist it.

The **impact** context is about thinking bigger than your own walls – how you engage with partners, how you influence your industry, and how you contribute to society.



Psychological safety matters because it shapes how culture is experienced and created across every layer of that Ecosystem. It influences whether people feel safe, comfortable and confident enough to be themselves, contribute fully and work effectively with others. Examining psychological safety across these different contexts gives leaders a shared language for discussing culture, clear benchmarks for defining what healthy looks like, and a way to measure the conditions shaping everyday behaviour and performance.

We talk about the 'ecosystem' not only because this captures how multi-layered culture is, but because nature shows us how system-level change actually happens. In a business, small shifts in the individual and one-to-one contexts, or in leadership behaviour, can have outsized impact, like a 'butterfly effect'. When more people start taking the time to really listen to their colleagues, for example, that can rapidly become the norm.

Importantly, leaders don't need to transform every context at once – when we work with organisations to reset their cultures, we prioritise whichever context is doing the most commercial damage first. Once you've identified the pressure points and made progress in those areas, you can widen the focus to the organisation's long-term health. The aim? Making culture a critical asset rather than a recurring risk, multiplying the value of your people. To get there, leaders need a shared language, clear benchmarks, and a way to measure what matters – that's what we'll discuss in chapter five.

> “Punitive measures... do not create behaviour change... [Being prepared for the increasing regulatory focus on NFM] is about creating psychologically safe cultures. Is everything you are doing heading in that direction?”

EMILY WRIGHT, FORMER GLOBAL HEAD OF SURVEILLANCE FOR STANDARD CHARTERED[1]

Sources

1. The Banker, 'Why banks are getting non-financial misconduct wrong', 2026

5

The case for workplace culture standards

The FCA's new rules force firms to pay closer attention to culture, but they don't describe what a healthy, high-performing culture looks like in practice. Indeed, leaders in sectors from logistics to life sciences lack this basic consensus understanding of what "good culture" actually means. There's no shared language for talking about culture that gets HR, legal, and ops on the same page. There's no way for businesses to benchmark themselves against others in their industry. And there's no accepted framework for measuring progress on culture over time.

With our Culture Code initiative, The Psychological Safety Institute is filling that gap. We believe culture should be managed with as much care and rigour as compliance or cashflow, so we're creating clear, concrete, global psychological safety standards organisations can measure and benchmark themselves against.

The standards cover five critical areas:

1. Self-awareness and personal responsibility at the individual level
2. One-to-one communication and constructive dialogue
3. Team-level behaviours and routines that fuel collaboration
4. Ongoing learning and adaptation
5. Practices that drive innovation

The fundamentals of a psychologically safe workplace are universal, but each industry has its nuances. And right now, financial institutions are struggling to apply regulators' expectations on non-financial misconduct consistently. That's why we're inviting individuals in financial services to take The Culture Code Survey and help define benchmarks for the sector, based on common pressure points and current strengths.

Have your voice heard:

Take The Culture Code Survey

We're keen to hear from senior leaders and the wider workforce in financial services. Get involved at **thepsi.global/survey**

100% CONFIDENTIAL
Your responses will never be shared publicly and insights will be based on aggregated data.

QUICK AND EASY
The survey takes around 5 minutes to complete and all questions are multiple choice.

6 What next?

Culture cannot be understood through values statements, policies or incident data alone. Leaders need to examine how it is experienced across the Psychological Safety Ecosystem. The following questions provide a starting point for identifying where psychological safety is strong, where pressure points exist, and where change may be needed.

1. Do people make sound decisions under pressure and take responsibility for their impact on others?
2. Is communication clear, constructive and open enough to support strong working relationships?
3. Do teams have clarity about priorities, responsibilities and who owns which decisions?
4. Does everyone have a meaningful opportunity to contribute fully in meetings and through their work?
5. Do teams pause, reflect and adapt when something is not working?
6. Can people combine different perspectives, build on ideas and move promising thinking into execution?
7. Where are silos, friction, delay or confusion making it harder for people to work effectively across boundaries?
8. Where are the biggest gaps between the culture the organisation describes and how work happens in practice?
9. What do leadership behaviour, organisational routines and systems consistently encourage?
10. What is rewarded most strongly: compliance, short-term output or the behaviours that create sustainable advantage?

Go deeper with a full diagnostic

Meaningful change starts with an accurate picture of your culture today. Our comprehensive culture diagnostic identifies existing strengths, reveals pressure points, and uncovers the underlying realities shaping how people work and perform together. This provides the foundation for leaders to prioritise action, design targeted change and nurture psychological safety over time. For more information, email **info@thepsi.global**

About The Psychological Safety Institute

The Psychological Safety Institute (PSI) creates all the right conditions for a healthy workplace culture. Because better relationships are the building blocks of better business. Led by British change-maker, author and speaker Gina Battye, we work with large organisations worldwide to cultivate vibrant workplaces that put people first. We're leaders in our field, bringing effective new approaches into industry and delivering change at scale.

Website: www.thepsi.global
Email: info@thepsi.global

PSYCHOLOGICAL SAFETY
INSTITUTE