

**May 2025 update:**  
**This letter is historical.**  
**See our [supervisory correspondence page](#)**  
**for more information and current views.**

6 January 2020

Dear CEO

### **Non-financial misconduct in wholesale general insurance firms**

Following recent, publicised incidents of non-financial misconduct in the wholesale general insurance sector, I am writing to set out our clear expectation that you should be proactive in tackling such issues. We expect you to identify what drives this behaviour and, where appropriate, modify those drivers to shape proper conduct.

### **Non-financial misconduct and an unhealthy culture is a key root cause of harm**

Poor culture in financial services can lead directly to harm to consumers, market participants, employees and markets. It was a key root cause of recent major conduct failings within the industry. How a firm handles non-financial misconduct throughout the organisation, including discrimination, harassment, victimisation and bullying, is indicative of a firm's culture. We view both lack of diversity and inclusion, and non-financial misconduct as obstacles to creating an environment in which it is safe to speak up, the best talent is retained, the best business choices are made, and the best risk decisions are taken.

Although work has been undertaken in the market to tackle the issue of non-financial misconduct, it continues to be prevalent and will be a key focus for our supervision of firms and of senior managers.

### **Our expectations**

We expect firms, and senior managers to embed healthy cultures by identifying and modifying the key drivers of their culture.

Our principles and rules aim to help shape a firm's culture. But a fundamental change in culture requires those who work in financial services to embrace the substance of what we are trying to achieve. As set out in our [Approach to Supervision](#), we focus on 4 key drivers of culture which we believe can lead to healthy cultures and reduce the potential for harm. These drivers are:

- leadership;
- purpose;
- approach to rewarding and managing people; and
- governance, systems and controls.

## **Leadership**

Non-financial misconduct can only be effectively addressed if there is appropriate leadership. The Senior Managers and Certification Regime (SM&CR) and the Conduct rules were introduced for insurers on 10 December 2018, and for insurance intermediaries (and other solo regulated firms) on 9 December 2019. The SM&CR provides an opportunity and catalyst to transform the culture in financial services. The regime emphasises the importance of senior managers taking responsibility for what happens in their areas. As part of our approval of senior managers, an assessment of fitness and propriety will be completed. This looks at factors including competence and capability, honesty, integrity and reputation, and we will consider any known relevant issues of non-financial misconduct. In particular, a senior manager's failure to take reasonable steps to address non-financial misconduct could lead us to determine that they are not fit and proper. We expect firms and the Boards of firms to take this into account when considering the suitability and performance of (potential) senior managers and other senior leaders.

## **Purpose, people management, governance and systems and controls**

Clarity of purpose is fundamental to culture. Purpose can be a powerful driver of healthy outcomes for employees, customers and firms – but only if it is carefully thought through, resonates with employees, customers and other stakeholders and is authentically embodied in the key drivers of culture. A firm that has a clear purpose is more likely to have clarity of direction and drive the right conduct. We strongly encourage firms to reflect on any inconsistencies between espoused (or implicit) purpose and strategy and business practice, people management and formal governance, systems and controls. Among other things, we expect firms to have strong whistleblowing processes and appropriate incentive structures.

## **Delivering culture change**

We know that culture change is challenging and that there is a desire to understand and use the most effective tools and approaches. Through our work on culture and governance, the FCA aims to identify and share knowledge that supports transformation of culture and encourage firms to act to make changes towards healthy, sustainable cultures. To access this information visit [www.fca.org.uk/culture](http://www.fca.org.uk/culture), where you will also find information on [psychological safety](#), [leadership and management capabilities](#), and [recognition and incentives](#). We also share articles and insights via our [Transforming Culture LinkedIn page](#).

We hold regular events exploring topics that are key to driving successful culture transformation within the industry. In 2020, we will continue with this series of events, with a webinar focused on firms' assessment of culture, and a conference in March 2020 to share the insights from our work so far, and discuss the way forward. We will convene a CultureSprint specifically for the insurance sector in Q2 2020 looking at psychological safety within firms, and steps firms in the sector can take to create speak up, listen up cultures.

We cannot do this alone. Driving change towards healthier cultures depends on the involvement of firms and their leaders. So, we are encouraged by the widespread commitment to culture change being shown across the market, including the initiative being taken by the Society of Lloyd's and several leading firms. We encourage you to sign-up and get involved with our events where appropriate. To be kept up to date on all future events, e-mail [transformingculture@fca.org.uk](mailto:transformingculture@fca.org.uk) and ask to be added to our mailing list.

**Next steps**

We expect all firms to review this letter and share it with your senior executive committee and Board (or equivalent). If you identify gaps or shortcomings between our expectations and your current arrangements, we expect you to act promptly to address them.

We will continue to work closely with the Prudential Regulation Authority to assess instances where inappropriate culture and behaviour within firms may impact compliance with regulatory expectations, standards and our statutory objectives. We will carry out further supervisory work to assess the extent to which firms are meeting our expectations. Through our supervision of the industry, we will work to improve standards of behaviour in financial services firms and hold firms and senior managers to account for their cultures.

Yours sincerely

**Jonathan Davidson**  
**Executive Director of Supervision, Retail and Authorisations**