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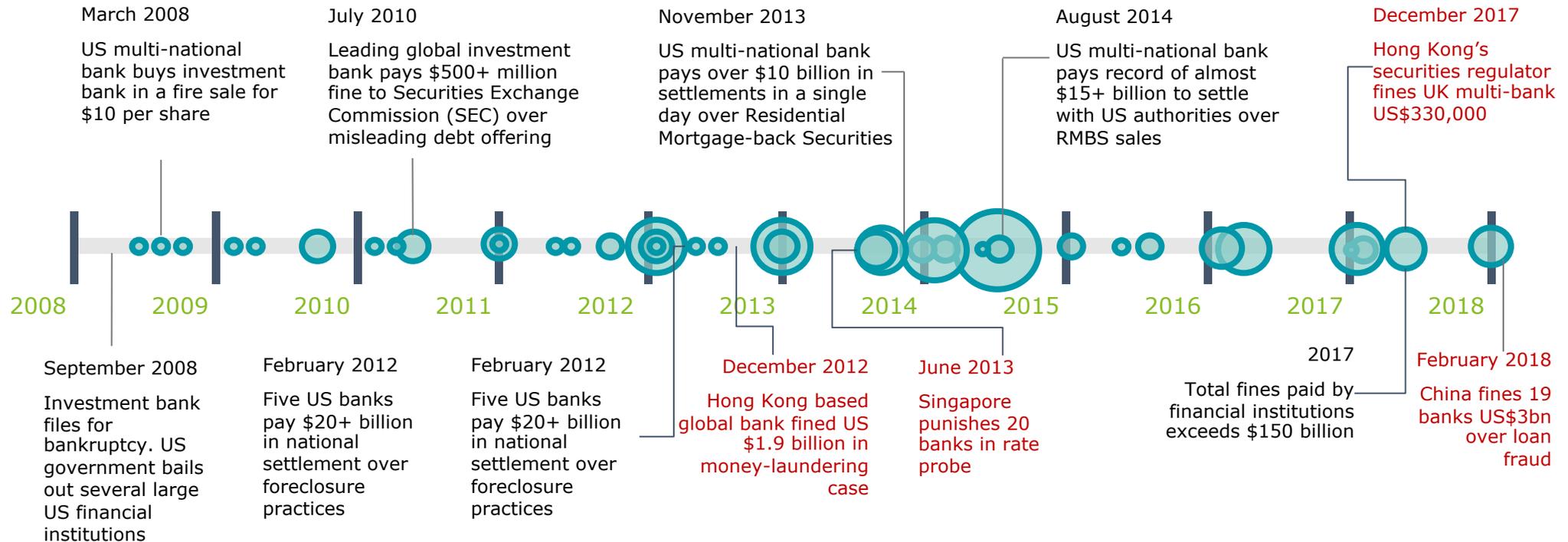


Culture, Conduct and Ethics

Regulators globally are imposing large fines for misconduct

Misconduct is not new, but multi-million dollar regulatory and criminal fines reveal weaknesses in risk management.

Timeline of major bank fines from 2008 financial crisis (Asian regulatory action shown in **red**)



As of 2018, Banks globally have paid over **US\$321 billion (S\$453 billion)** in fines since 2008

What does misconduct look like?

Misconduct can take many different forms.



The effect of misconduct

It can take a long time to build up investors' **trust and confidence**. The same trust and confidence can be **lost very quickly** when there is **misconduct**, and can take even longer to restore.

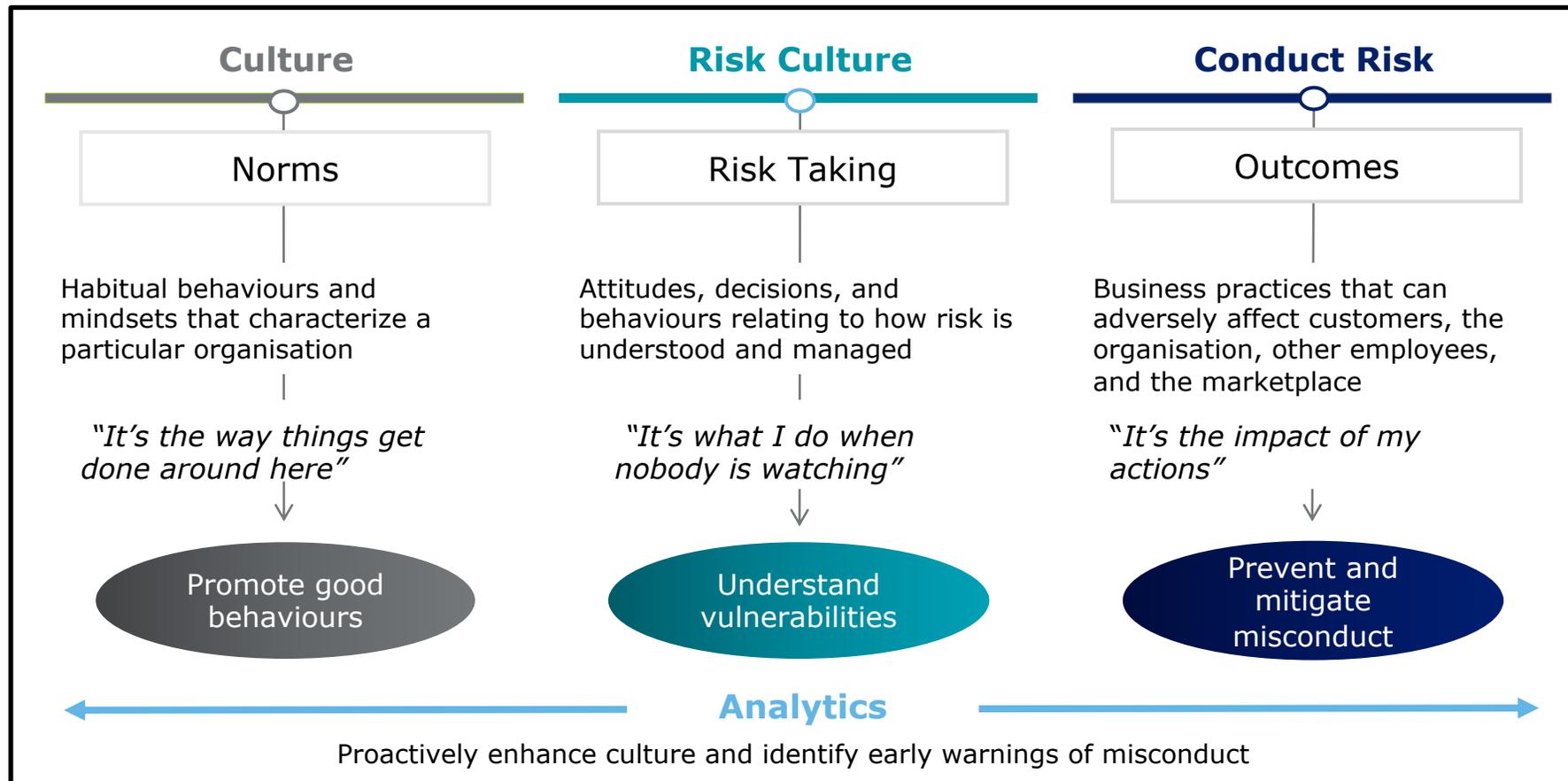
- Australian Securities and Investments Commission

....adversely affecting an organisation's reputation, its customers and ultimately its profitability and growth.

What is Conduct Risk? Defining culture, risk culture and Conduct Risk

Organisations need to balance meeting business targets and promoting a culture of ethics, compliance, and risk management. While focused on growth, business practices need to protect clients/investors, promote market integrity, and comply with applicable rules.

Defining Culture, Risk Culture and Conduct Risk



Drivers of misconduct



Individuals and leadership not responsible for poor conduct. Appropriate action is not taken in response.



Conflicts of interest not identified / managed. Employee self-interest prevails.



Recruitment, remuneration, promotion and professional development decisions that value short-term revenue generation over other aspects of performance.



Disparate subculture / prevailing problematic culture. Failure to have a uniformity of culture established, underpinned by a single guiding business purpose.



Complex and disconnected, "growth at all costs" business model. Silos develop where different cultures, behaviours and operational practices incubate.



Product development and sales focus is on revenue growth alone and not on meeting customers needs and what is most suitable for the customer.



Manual and complicated processes and procedures. Increase the chance of error and give people the incentive and opportunity to ignore controls.



Weak systems for monitoring and surveillance. Lack of proactive insight to help flag misconduct.



People



Process



Technology

What is conduct?



“Good conduct is when an organisation’s behaviours and practices deliver suitable and fair outcomes for its customers”

Misconduct relates to the unethical behaviour of employees that ultimately benefits themselves and unfairly affects their customers.

The benefits of good conduct



Asking these questions is the first step into identifying the actions an organisation is taking to identify / treat conduct risk

Are our existing processes adequate and consistent to provide guidance on BAU? Are they clearly communicated and understood?

Are there better ways to incorporate our clients' needs and suitability into our products?

Do we place adequate and appropriate focus on remuneration and compensation model?

Do we know where conflicts may occur? Do we have adequate controls to prevent, detect, or correct them?

Does our culture encourage people to speak up?

Do our first lines own the risk? Are our second lines strong enough to "check and challenge"?

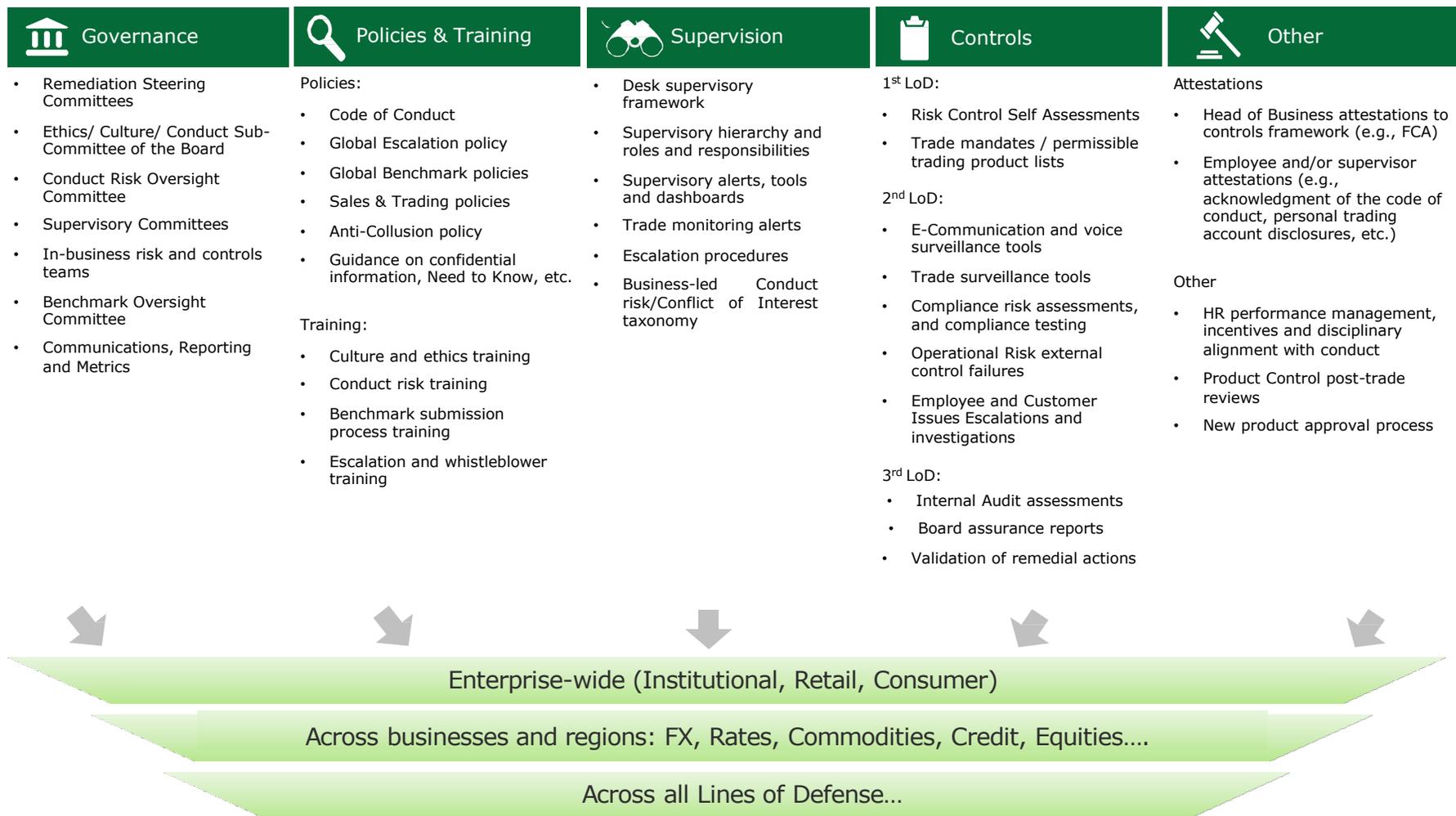
Is our business model cohesive and does it enable us to have a singular common objective?

Does our technology enable us to perform effective monitoring and surveillance?

Have we made use of our data and technology to support and enable us in detecting or preventing conduct risk?

Techniques To Manage Conduct Risk Span Across The Organization

Organizations remediating FX settlement and other related consent orders have focused on establishing a conduct risk control environment across the three lines of defense





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