Regulators around the globe are cracking down on conduct, and therefore, organisations are looking to better enforce their code of conduct to ensure an ethical culture exists that can be measured and managed, with reputations being treated equal to profits, growth and consumer interests.

In the UK it is monitored as Conduct Risk by the Financial Conduct Authority, in the US as Corruption by the Dept of Justice, and in many other jurisdictions regulators are demanding compliance officers to demonstrate their healthy compliance & ethics program.

But it’s not just a problem related to banking and financial services – organisations across multiple industries are under pressure to ensure their workforce understands relevant regulations such as health and safety, consumer privacy, conflict of interest, complaints handling and more, in a way that can prove to the regulator to be effective – and if not, risk reputational damage and large fines.

INTRODUCTION

Post-2008 financial meltdown, the regulators across the G20 countries were driven with a mission to find a better way to prevent individual behaviour that eroded integrity and resulted in a systemic financial disaster. Weak corporate governance was determined as a main culprit, with tone at the top, culture and behaviour being contributory factors, which has forced regulators to put the onus on organisations to prove they’ve considered conduct and ethics at a strategic level, and have put the governance and processes in place to mitigate the risk.

£150 BILLION

Research conducted by the London School of Economics¹, showed between 10 of the world’s largest banks, including Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland, have paid out about £150 billion (bn) in “conduct costs” since 2008.

$50 BILLION

Total penalties imposed on firms selling mortgage backed securities in the US² has reached $50bn, with a single $16bn record settlement hitting the Bank of America in 2014.

²www.e-bm.com/blog/?paged=25
COMMON CHALLENGES FOR GRC PROFESSIONALS

- Financial Consumer Protection is a broad mandate & without doubt also impacts industries outside traditional banking and financial services
- Similar to regulatory frameworks such as Basel and Solvency, a one-size fits all cookie cutter framework does not exist
- How do you capture board level considerations and make sure the trickledown effect reaches product design & other governance activities
- How do you assess your organisation’s “risk culture”
- How do you account for consumer impact and feedback to ensure positive outcomes

ACL’S APPROACH TO SOLVING CONDUCT RISK, ETHICS & RISK CULTURE COMPLIANCE MANAGEMENT

Board Level Governance
Demonstrate that the board considers the impact of their organisation’s products on consumers, as much as they do revenues, growth & risk. (Figure 1)

Top-down Risk-based Approach
There is no prefab framework – so pencil out the areas that make your organisation vulnerable to conduct risk such as product design, marketing tactics, sales commissions and other monetary remuneration, compliance reviews, and consumer feedback. Map your key control framework to ensure all of your risks are well mitigated. (Figure 2), (Figure 3)

Issue & Incident Management
Execute your activities for conduct mitigation, and capture control or policy gaps – assign ownership to them, track them, report on them to the board and make sure they get resolved. ACL’s platform does a great job automating this and allows you to collaborate with business owners easily.

Activities Define Culture
Culture isn’t separate from what is communicated in strategy and objectives, it’s deliberately created through process to shape, monitor and reinforce desired behaviours. Culture is simply your organisation’s shared beliefs. (Figure 3), (Figure 4)

Data & Risk Analytics
Data isn’t an optional skill or competency. Data is absolutely necessary when seeking the truth in organisational behaviour. Monitor transactions and let data reveal the truth. Flag activities or data that look suspicious and have the appropriate person review, investigate or remediate it so no doubt exists. When an issue is discovered, register it and track it through to resolution.

Whistleblower Hotline
Most occupational wrongdoing is uncovered through tips, and if you don’t have a hotline, the organisation may be caught off guard with a splash cover story on tonight’s 6pm news.

Code of Conduct – Gratuity Pre-Approval Hotline
As part of a robust code of conduct program, giving or receiving gifts is common business practice within pre-defined limits by industry or an organisation. Be a step ahead of the regulators and register the authorised gratuities before they occur.

Consumer/Customer Feedback Survey & Complaints Hotline
How do you know if consumers are receiving the right products from you? Simple. Just ask them using ACL surveys – you design them and we do the rest by automating the workflow to respond. Are you finding out about unhappy customers very late in the game? Know your customer (KYC) better - get them to tell you earlier so you can easily modify your products, fees, or processes.
Figure 1: Organisation-wide risks identified

Figure 2: Projects assigned to manage risks identified

Figure 3: Example workflow to gain insight on the sales commission process to help manage conduct risk
ACL SOLUTION OVERVIEW:

Benefits of ACL’s Data-Driven Approach to Conduct Risk, Ethics & Risk Culture

- Analyse operational data for trending in sales and other KRI’s
- Analyse survey data and complaints for additional trending
- Reinforce a healthy risk culture by paying attention to details
- Centralise everything from board governance, to mitigation efforts, to customer feedback
- Provide interactive, actionable oversight to senior management & the board

Figure 4: Surveys can help assess workforce or affiliates or third parties on awareness of new product design or compliance requirements

<table>
<thead>
<tr>
<th>Conduct Risk</th>
<th>Compliance &amp; Ethics</th>
<th>Finance &amp; Accounting</th>
<th>Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance over Conduct Risk Program</td>
<td>Owner of Conduct Policy Management</td>
<td>Process Health Checks &amp; Monitoring</td>
<td>Owner of Conduct Risk Program</td>
</tr>
<tr>
<td>Assurance over Code of Conduct Compliance</td>
<td>Owner of Code of Conduct Compliance</td>
<td>Gratuity Pre-Approval Workflow</td>
<td>Owner of Conduct across broader ERM Framework</td>
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<tr>
<td>Assurance over Risk Culture</td>
<td>Owner Risk Culture Management</td>
<td>Finance Process, Policy &amp; Culture Reinforcement</td>
<td>Owner of ERM Culture</td>
</tr>
<tr>
<td>Assurance over Vendor &amp; Employee Fraud</td>
<td>Owner of Conduct Fraud</td>
<td>Process Monitoring to Prevent Conduct Fraud</td>
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