



**Managing conduct risk: Addressing  
drivers, restoring trust**

Kevin Nixon

Deloitte's Financial Services Seminar 2017

# Part one

## The drivers of misconduct

[I]t 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.

Cathie Amour  
Australian Securities and Investments Commission

# Drivers of poor conduct



## **Customer needs and suitability not guiding product lifecycle practices**

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Product design, marketing, sales and advice, as well as post-sale practices, are driven by concerns about “what will sell the most” rather than what the customer needs and what is most suitable for these needs (“is this right for them?”).



## **Failing to have a balanced scorecard for HR decisions**

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



## **Individuals and leadership not responsible or held to account**

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Failure to penalize individuals involved, as well as managers in charge, for ethically or legally questionable behaviors.

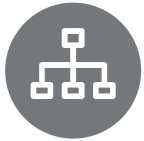


## **Failing to identify and manage conflicts of interest**

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When an individual has competing objectives a conflict of interest may arise and there may be an incentive to act opportunistically.

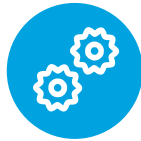
# Drivers of poor conduct



## **Complex, disconnected or “growth at all cost” businesses models**

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Silos develop where different cultures, behaviors and operational practices incubate. A sole focus on growth typically contain inherent conduct vulnerabilities.



## **Manual and complicated processes and procedures**

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Increase the chance of error and give people the incentive and opportunity to ignore controls.



## **Weak systems for monitoring and surveillance**

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Misconduct can go undetected, risks may not be appropriately managed and some individuals may be more likely to engage in poor behaviors because they estimate their chance of being discovered as low.



## **Disparate subcultures or a problematic prevailing culture**

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Failure to have a uniformity of culture established at the top of the house, underpinned by a single guiding business purpose, or a prevailing culture that does not balance short-term financial success with other important business and ethical imperatives.

# Part two

## Responses for restoring trust

It is no exaggeration to say that an **unprecedented amount of resources** – both monetary and human – have been ploughed into trying **to put things right.**

Tracey McDermott  
Financial Conduct Authority

# Responses for restoring trust



## **Making customer needs and suitability central**

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Product governance and consumer protection obligations require products fit for purpose and acting in the customer's best interest. New training, mystery shopping, customer surveys/analytics are some responses.



## **Building balanced scorecards for HR decisions**

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Increased emphasis on an individual's ethical, compliance and regulatory history during the hiring process and refreshing recruitment, induction, training and development frameworks.



## **Ensuring individuals and leadership are responsible and accountable**

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Senior managers regime in UK, Yates memo in US, Managers in Charge in Hong Kong and proposed public disclosure of details/names of those who have breached obligations in Australia.

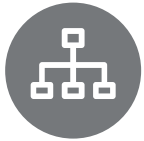


## **Proactive identification and management of conflicts**

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Enterprise-wide reviews, enhancing information barriers, physically segregating teams and ensuring supervisory oversight.

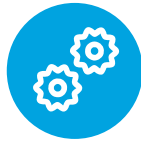
# Responses for restoring trust



## **Creating a cohesive organization with a conduct-aligned business model**

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Governance, conduct and risk management frameworks have enterprise-wide penetration and direct lines to the executive. Business models reviews to make more customer centric. A holistic and forward looking regulatory approach.



## **Automating and streamlining processes and procedures**

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Process simplification, rationalisation, and optimisation so fewer, but better, rules. Change to the way processes and procedures are set. Leveraging technology to automate manual routine tasks.



## **Strengthening and modernising monitoring and surveillance**

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Enhanced requirements under legislations (e.g. MiFID, Dodd-Frank). Increase headcount or investing in sophisticated technology.



## **Defining and embedding a clear unified culture**

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Communications plans, socially-desirable purpose statements, embedding culture into risk management frameworks, regular Board discussion topic, training. Regulators are undertaking detailed reviews of firm culture.

# Part three

## A new approach through innovation

But we have to keep asking ourselves can it be **done better**? Where can **technology** help us make better, **more efficient** and **effective** choices?

Christopher Woolard  
Financial Conduct Authority



# A new approach through innovation



## Ongoing assessment of customer needs and suitability

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Visual network analytics to find data relationships relevant to customer needs (e.g., data integration, dynamic relationship mapping).

Customer value, customer segmentation, and customer satisfaction analytics.



## Building balanced scorecards for HR decisions

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Cognitive computing to analyse context, content and relationships within big data sets and to reveal critical trends and findings about an individual or across cohorts (e.g., from professional registers, performance reviews, customer feedback, complaints).



## Streamline and strengthen systems of accountability

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DLT to simplify record keeping, enhance transparency, robust time stamping and protection against manual change.

Automated enforcement of escalation procedures.



## Proactive identification and management of conflicts

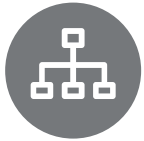
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Master access control to set parameters and provide alerts.

Big data analytics and algorithms to map personal or business connections.

Cognitive technologies and predictive analytics to accelerate conflict scenario simulation and analysis.

# A new approach through innovation

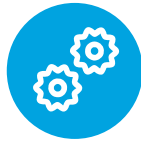


## **Integrate systems and teams**

API for interoperability and system communication.

DLT for a “single source of truth”.

Mixed reality applications to improve communication and collaboration between remote teams and break down functional silos.



## **Automate and streamline processes and procedures**

RPA to automate routine processes.

DLT to strengthen against manual workarounds, reduce errors deriving from duplication and eliminate manual efforts required to perform data reconciliation.



## **Automate and modernise monitoring and surveillance**

Machine learning algorithms to search and aggregate across multiple mediums.

NLP to automate communications monitoring.

Big data analytics and machine learning to predict future behaviours based on large-scale analysis of prior incidents.



## **Continual testing of cultural values**

Big data analytics to scan patterns of behaviour across technologies and systems to surface potential vulnerabilities and model behavioural risk.

Real-time pulsing of staff, external partners and value chain participants.

# Speaker profile



## **Kevin Nixon**

**Lead Partner, Centre for Regulatory Strategy, Deloitte Global & APAC**

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Kevin is a well-known and respected voice globally on regulation of the financial system. As Global and Asia Pacific Lead of Deloitte's Centre for Regulatory Strategy, Kevin's focus is on assisting senior executives in the financial services industry navigate regulatory trends and their strategic implications. Key current areas of focus include resilience, governance and culture, technology and ongoing implementation.

Kevin returned to Australia from Washington D.C., where he was Managing Director of Regulatory Affairs at the Institute of International Finance (IIF). While at the IIF Kevin's focus was the global post-crisis financial sector regulatory reform agenda, improving risk governance and developing industry standards. In this role he regularly engaged individually at the most senior levels of both financial institutions and regulatory bodies, including chairing high-level closed-door meetings between the official and private sector, discussing regulation, supervision, conduct, and governance across banking, insurance, asset-management and other non-bank institutions.

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