



# Conduct Risk and its management

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Monday, 22<sup>nd</sup> August, 2016

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# Introduction

- Conduct has recently become one of the most popular words in the operational risk lexicon.
- In the years following the 2008 crisis, with financial institutions having been fined billions of dollars over the manipulation of Libor interest rates and global foreign exchange markets, that's hardly surprising.
- Today, the talk is of what went wrong with conduct and how it can be fixed or how to manage 'conduct risk'
- In a recent survey conducted by *Risk.net*, conduct risk ranked as the second most pressing concern of chief risk officers, heads of operational risk and other op risk practitioners.

# What is conduct risk?

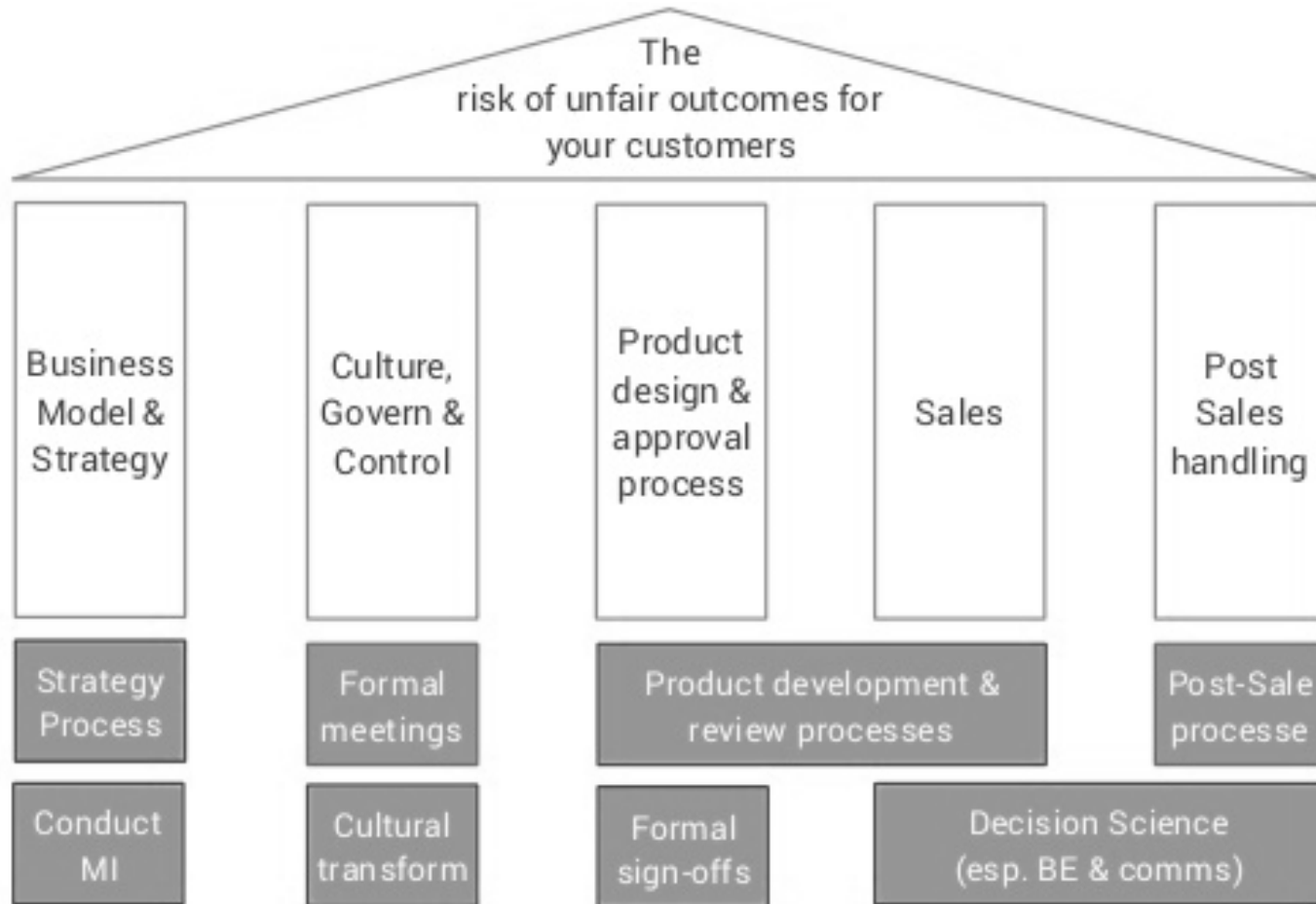
Conduct risk arises as a result of how firms and employees conduct themselves, particularly in relation to clients and competitors.

OR

‘Conduct Risk’ - “the risk the firm poses to its customers through its direct interaction with them”

**Conduct risk touches every part of an enterprise framework.**

# 5 pillars of conduct risk



# Cost of poor conduct risk management

- Poor management of conduct risk might result in problems such as
  - Fines and sanctions
  - Damage to reputation – individually & collectively
  - Restrictions on licenses
  - Revocation of licenses
  - Loss of trust & confidence among consumers
  - Management time, fire-fighting
  - Individual accountability
  - Other costs – legal, redress & remediation

# Examples and fines imposed by FCA (Financial Conduct Authority)

## — Chase De Vere (IFA) Ltd

*Chase de Vere*

Sold Keydata products to customers but didn't understand or research the products themselves to understand the potential risks to customers. This led to them **failing to disclose features** and it was found that their communications to customers didn't meet the clear, fair and not misleading criteria.

Pillar Impacted: Product Design | Sales

**Fine: £560,000**

# Examples and fines imposed by FCA (Financial Conduct Authority)

## — Swinton – Group



A culture of aggressive sales and focus on profit was considered evident which led to the miselling of monthly add on insurance policies. It was found that the company or senior directors did not put the customer at the heart of the business.

Pillar Impacted: Culture & Governance | Sales

Fine: £7.4M and 3 former directors £928K



# Examples and fines imposed by FCA (Financial Conduct Authority)

## — Stonebridge (Aegon)

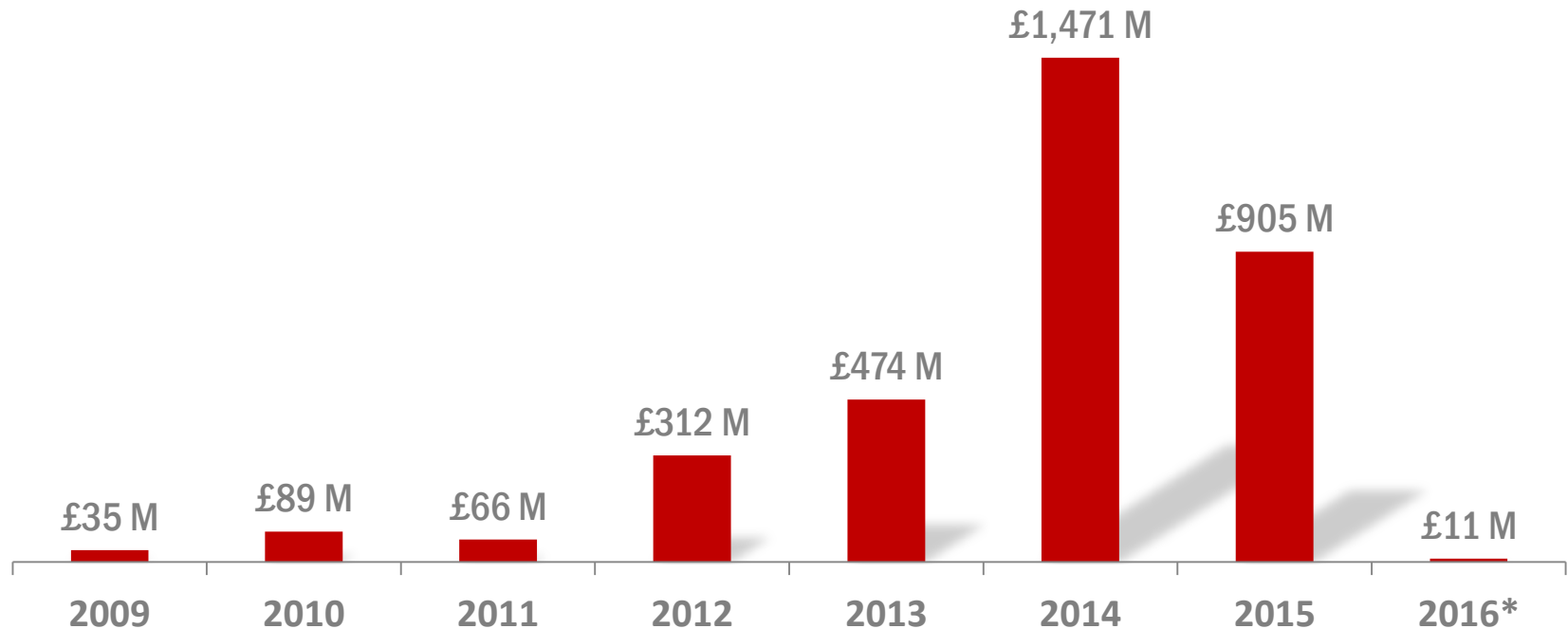


Stonebridge targeted low and middle income customers with low levels of qualifications but sold them expensive policies and also actively discouraged cancellations. Issues were found with outsourcing controls, governance and complaint handling

Pillar Impacted: Business Model & Strategy | Culture, Governance & Controls | Product Design (target market) | Sales | Post sales

Fine: £8.4M

# FCA fines since 2009



Source: <http://www.fca.org.uk/>

\* This chart contains information about fines published during the calendar year ending 2016. The total amount of fines so far is £10,502,742 (excluding Mr Shay Jacob Reches' additional penalty).

# Difference between business models

## Unaligned Model



## Aligned Model



- Understand the customer needs
- Meet the need in a way that is not taking undue advantage of the customer
- Objective of the bank should be meeting a need and not exploring a situation

# Adopting conduct risk management

- Assess conduct risk across the organization
- Raise ethical standards and conducts of business
- Establish a dedication to conduct risk that is signed off by the board
- Built in processes that are self sustaining control points through policies and procedures
- Measure and monitor key conduct risk metrics
- Educate and train staff about conduct expectations
- Manage and communicate about conduct risk

**Thank you**

# Sources

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