

Importance of Conduct

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Importance of Conduct

Retail Banking landscape is changing, requiring banks to take stock and act

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BNP Paribas sentenced in \$8.9 billion accord over sanctions violations

*Reuters, May'15

Deutsche Bank to Pay \$258 Million in Fines for Violating U.S. Sanctions

The Wall Street Journal, Nov'15

HSBC pays record \$1.9bn fine to settle US money-laundering accusations

*The Guardian, Dec'12

Scales of Justice

A possible penalty of \$8 billion to \$9 billion inflicted on BNP Paribas would be a record for a sanctions violation case. But the French bank would pay a relatively low amount when compared to the volume of alleged illicit transactions.

	Penalty for \$1 of alleged violations	Volume of transactions	Penalties	Year settled
RBS	\$3.13	\$32 million	\$100 million	2013
Standard Chartered	\$1.00	\$667 million*	\$667 million	2012
Credit Suisse	45 cents	\$1.2 billion	\$536 million	2009
BNP†	27-30 cents	\$30 billion	\$8-9 billion	2014
ABN Amro‡	15 cents	\$3.2 billion	\$500 million	2010

*According to the New York State Department of Financial Services, 'the conduct at issue involved transactions of at least \$250 billion.' The U.S. Department of Justice concluded alleged violations involved transactions worth at least \$667 million. †Terms of tentative settlement according to people familiar with the matter. A deal isn't certain, the people cautioned. ‡Now RBS

Source: Whisenand & Turner; WSJ calculations (penalty per transaction; BNP figures)

The Wall Street Journal, Jun'14

Panama Papers

How to hide a billion dollars

Mossack Fonseca / Inside the firm that helps the super-rich hide their money

As Panama Papers shine light on offshore world, Luke Harding takes a closer look at company exploiting tropical tax havens

*The Guardian, Apr'16

"Hiring Risk"

THE WALL STREET JOURNAL

Regulators Probe Goldman's Internship for Brother of Libyan Ex Official

Citibank fined \$700M; owes money to customers

"Illegal and deceptive credit card practices"

*NBC, Jul'15

Conduct Framework

What conduct means to us as a bank?

Conduct Vision Statement

“Maintain the integrity of the Bank’s brand promise and the standards in our Code of Conduct, by continually proving we are “Here for good” through the way we conduct business. Good Conduct is the creation of an appropriate business strategy aligned to our stated risk tolerances and the execution of business in accordance with both. Our success in living up to these standards is measured by our ability to achieve fair outcomes for clients, investors, our reputation and the markets in which we operate.”

Outcome Pillars

	Fair Outcomes for Clients				Effective Markets	Financial Crime Compliance	Stakeholders
External	Client Needs	Product Pricing	Product Transparency	Fair & Effective Markets	Positions	Sanctions Compliance	Sustainability
	Product Design & Performance	Client Feedback	Client Suitability			Anti-money Laundering	Regulatory Adherence
						Anti-bribery & Corruption	Investors
People	Leadership		Culture	Team & Individual		Skills & Competence	
	Management Actions	Tone From the Top	Purpose & Values	Recognition & Reward/ Incentives	Capacity & Resourcing	Effective Supervision	Capability
			Speaking Up	Performance Management	Well-Being	Individual Responsibility & Accountability	Judgement & Decision Making
			Diversity & Inclusion	Recruitment & Selection		Appropriate Delegation	Lessons Learnt
Internal	Strategy	Governance	Infrastructure	Know the Rules			
	Strategy Design & Execution	Effective Governance	Platform Resilience & Security	Market Conduct	Prudential Standards Market	Conflicts Management	
			System Performance & User Experience	Data Confidentiality			

Key initiatives

In-flight programs

External Outcomes	People	Internal Outcomes
<p>Client Feedback, Needs & Suitability <i>Listen, learn and improve</i></p>	<ul style="list-style-type: none"> ▪ Launching a real-time automated survey via SMS to enhance service recovery ▪ Ensuring client feedback feeds into product design and management ▪ Robust Complaints Handling procedure, investigation of root causes and themes ▪ Frequent review of client suitability categorization 	
<p>Product Design & Pricing <i>Retention over income</i></p>	<ul style="list-style-type: none"> ▪ Systematically reviewing whether margins are 'fair' from a client perspective ▪ Documenting of interactions for all vulnerable clients to demonstrate burden of proof ▪ Ensuring proper disclosure by probing the extent to which customers understand the products ▪ Developing processes that ensure record of suitability and decision making is kept 	
<p>Sanction Compliance <i>Zero tolerance</i></p>	<ul style="list-style-type: none"> ▪ Uplifting Customer Due Diligence (CDD) Policies and Procedures to higher standards to mitigate risks of nationals from Sanctioned countries ▪ Remediation of existing clients with Sanction linkage by either uplifting client to new standards, or exiting the relationship 	
<p>Anti-money Laundering <i>Zero tolerance</i></p>	<ul style="list-style-type: none"> ▪ New Customer due diligence policies for HNW and PEP for both new and existing clients. ▪ Uplifting procedures for Periodic Review and Triggered Review for existing clients. ▪ Business Restrictions imposed where Periodic review is overdue (beyond threshold) ▪ Anti-Money Laundering e-certification programme ▪ Implementing Target Operating Model (TOM), and setting up Specialised Activities team (SAT) to conduct specialized CDD activities for higher risk clients 	
<p>Anti-bribery & Corruption <i>Improve awareness</i></p>	 <ul style="list-style-type: none"> ▪ Introduction of due diligence and risk-rating of suppliers- business/function responsible for on-boarding the Supplier to undertake adverse media screening ▪ Mandatory e-Learning on the topic for new joiners and annual refresher ▪ Targeted messages on a quarterly or semi-annual basis for high risk populations 	

Key initiatives

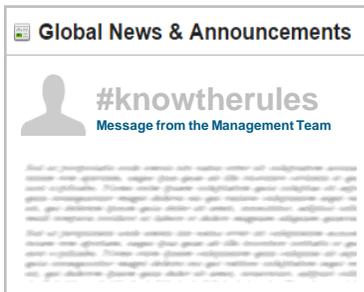
In-flight programs

External Outcomes

People

Internal Outcomes

Tone from the top
Regular communication



- **Monthly messages** from the Management:
 - **Outside Business Interests:** *What We Don't Know Can Hurt Us*
 - **Sharing Information Securely:** *Stop that data leak!*
 - **Gifts and Entertainment:** *The serious side- legitimate or bribe?*
 - **Travel and Expenditure:** *Consequences of fraudulent claims*
 - **Mandatory e-learning:** *Do not delegate to juniors*
- Being leader in our behaviour is **essential, not optional**
- **Take ownership** of Code of Conduct

Employee feedback
Insights from staff



- Launched in **April'16**
- Collective commitment to conduct
- **97%** say they follow the code
- **88%** feel they act in the best interest of clients
- Mandatory for managers to share results
- **Next Step:** Code of Conduct recommitment in **October 2016**

Individual Responsibility & Accountability
Periodical e-learning



Themes covered:

- Treating Clients Fairly
- Speaking Up
- Combating Financial Crime
- Rejecting Bribery
- Managing conflict of interest
- Treating Colleagues Fairly
- Do not engage in insider dealing
- Act responsibly within authority
- Co-operate with regulators
- Respect communities

Key initiatives

In-flight programs

External Outcomes

People

Internal Outcomes

Effective Governance

Planned escalation process

- **Regular Conduct meetings initiated** at senior management level
- **Framework and governance structure established** to proactively identify and control conduct related risks across the Group.
- Robust monitoring and metrics dashboard set up to report across all conduct pillars and indicate potentially heightened conduct risk across the bank

Conflict Management

Managing 3rd parties

- **Reduction in the use of 3rd party collectors** for retail debts
- **Classifying 3rd parties to** target monitoring and reviewing efforts/capabilities
- **Identifying potential conduct issues** and ensuring controls in place by conducting detailed review of material 3rd party distribution relationships

Data Confidentiality

Protecting sensitive information

- **Email groups set up** for staff to seek help in case they receive unsolicited attachments
- **Communications** on not using un-trusted WiFi networks, not uploading Group information to third party websites, using a shredder to dispose of non-public Group documents and so on
- **Group Information Security** page set up on the Group intranet for staff to send queries
- **New access controls** for staff serving their notice including limits on access to external e-mail, printers, USB memory devices and external web sites.

Treating Client Fairly & Conduct

Global risk based approach, in line with the 6 outcomes defined by the FCA

6 Fairness Outcomes



Culture & Training

Clients can be confident that they are dealing with firms where fair treatment of clients is central to the corporate culture.



Product Design

Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and targeted accordingly.



Clear Communications

Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.



Suitable Advice

Where clients receive advice, the advice is suitable and takes account of their circumstances.



Post Sales Service & Product Performance

Clients are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.



Complaints & Post Sale Barriers

Clients do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

6 outcomes tracked through 29 control Performance Indicators

Country level actions plan tracked through a defined operating rhythm

Significant improvement seen during last 2 years

Driving the right behaviour

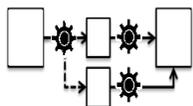
What conduct means to us as a bank?

Key enablers



Purpose, Vision & Values

- Clear articulation of the conduct vision aligned to Group values and Brand promise
- The conduct agenda is visible across the bank



Policies, Procedures & Processes

- Designed to support our Conduct Outcomes and encourage highest standards of regulatory compliance and integrity
- Risk management framework ensures conduct controls are appropriate
- Reviews carried out periodically and when there is a material environmental change



Leadership & Management Actions

- Leaders and managers - ensure that their people conduct operations within legal and regulatory requirements. Communicate conduct messages clearly and regularly



Speaking Up

- The bank ensures a secure, confidential way to escalate misconduct
- Shared Investigative Services is responsible for investigation of cases
- HR and Line managers to ensure staff are not victimised for speaking up



Right Recruitment & People Capability

- Conduct expectations and past behaviors are key factors when hiring
- Individuals have the tools and capability they need to fulfill their conduct responsibilities
- Individuals know the personal consequences for failing to comply



Performance Management & Recognition

- Clear conduct objectives are included in the performance plans
- Adherence to Group Values, Conduct Risk and Control feedback reflected in year end ratings
- Individual's conduct is reflected in their remuneration



Thank you