

# Conduct and culture

John Thirlwell

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# Agenda

- A short history lesson
- What is conduct risk?
- Which end of the telescope?
- Conduct risk and culture

# Definitions of conduct risk

- ‘The risk that detriment is caused to our **customers, clients, counterparties and their employees** because of inappropriate judgement in the execution of our business activities.’
- ‘The risk of **customer** detriment due to **inappropriate culture**’
- ‘The risk of unfair outcomes to the **end consumer** and subsequent damage to the **reputation** of the firm and to the **achievement of its strategic objectives**.’

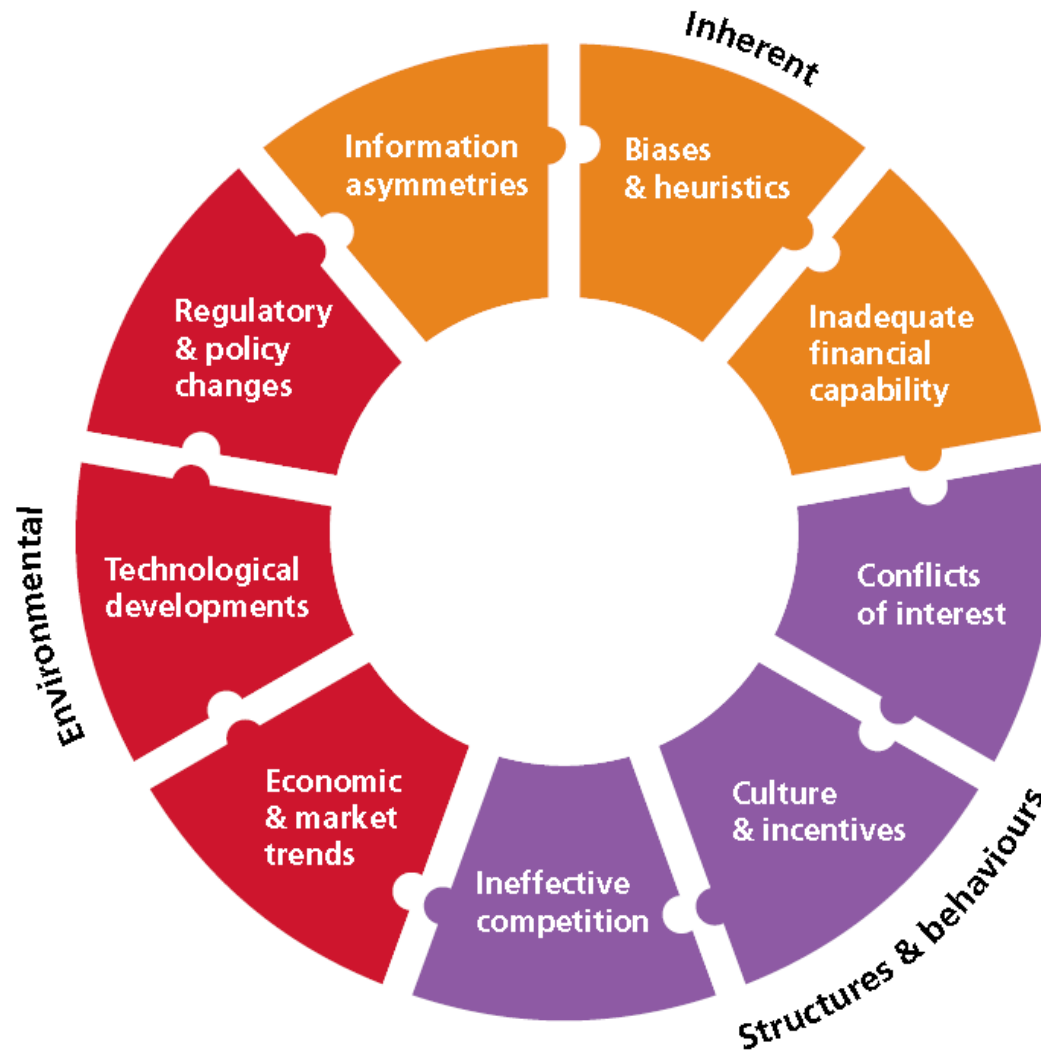
[Thomson Reuters, Conduct Risk survey report 2013/14]

# Conduct risk – FCA

‘the risk that firm **behaviours** will result in poor outcomes for customers’

# Key drivers of conduct risk

[FCA Risk Outlook 2014]



# FSA/FCA view of conduct risk

- Business model
- Culture, governance and controls
- Risk assessment and controls
- Product development and approval
- Sales – and sales incentives
- Post-sales handling – delivering on promises

# FCA view of conduct

- Customer targeting
- Product design
- Sales process
- Servicing
- Claims handling
- Complaints

# Key components of conduct risk



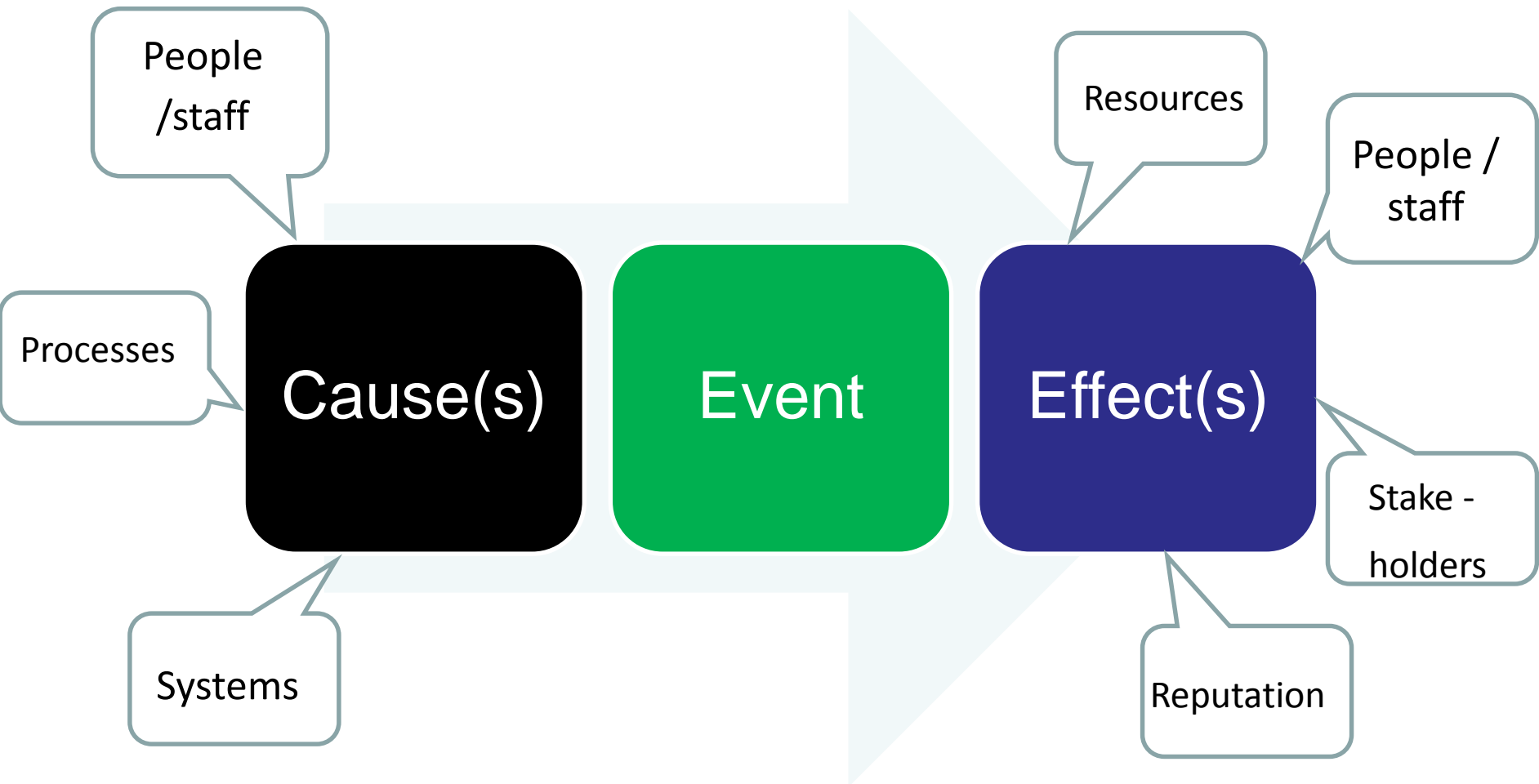
A word cloud illustrating the key components of conduct risk. The words are arranged in a roughly rectangular shape, with varying sizes and colors (orange and grey) to indicate their relative importance. The most prominent words are 'Culture, ethics, integrity', 'Corporate governance, tone from the top', and 'Conflicts of interest'. Other significant words include 'Reputation', 'Bribery & corruption', 'Whistle-blowing', 'Fraud', 'Vendor management', 'Competition', 'Good customer outcomes', 'Sales practices', 'Information security', 'Market abuse', 'Remuneration', 'External economic factors', 'Product governance', 'Continued product suitability', and 'Incentives'.

External economic factors  
Remuneration  
Information security Sales practices  
Market abuse Good customer outcomes  
**Culture, ethics, integrity** Whistle-blowing  
Fraud Vendor management Competition  
**Corporate governance, tone from the top**  
Incentives Reputation Bribery & corruption  
Conflicts of interest  
Product governance  
Continued product suitability



# Top challenges for boards in 2015





# What do we mean by 'culture'?

'The **culture** of a group arises from the **repeated behaviour** of its members. The **behaviour** of the group and its constituent individuals is shaped by their underlying **attitudes**. Both **behaviour** and **attitudes** are influenced by the prevailing **culture** of the group.' (IRM, 2012)

# How to embed the right culture

- Committed leadership
- Strategy and objectives
- Values and behaviours
- Clear roles and responsibilities

# Who's responsible?

%	Owens conduct risk policy	Accountable for implementing
Board	27	19
Board sub-committee	9	7
Compliance	24	36
Risk	11	14
Everyone	14	
Specific team		7
Line management	5	
Other	10	17

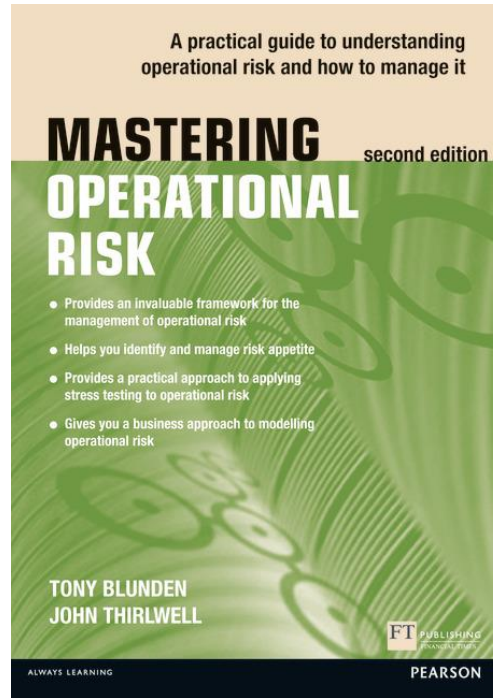
# How to embed the right culture

- Committed leadership
- Strategy and objectives
- Values and behaviours
- Clear roles and responsibilities
- Open channels of communication
- Selection, induction and training
- Reward

# TCF – Culture framework

- Leadership
- Strategy
- Decision making
- Controls
- Recruitment, training and competence
- Reward

[[www.fca.org.uk/static/fca/documents/fsa-tcf-culture.pdf](http://www.fca.org.uk/static/fca/documents/fsa-tcf-culture.pdf)]



Tel: 0781 382 9362

Email: [info@johnthirlwell.co.uk](mailto:info@johnthirlwell.co.uk)

[www.johnthirlwell.co.uk](http://www.johnthirlwell.co.uk)