

# Responding To Risk

## Enterprise Risk Management Seminar

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Wednesday 13 September 2017

Actuaries Institute • Sydney





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# Conduct Risk – Experiences in the Financial Advice Industry

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## What is it?

Conduct risk is the risk of a companies' activities having a detrimental impact on customers or negatively impacting market stability

Unlike credit risk, liquidity, market or operational risk, conduct risk is hard to measure and quantify

## Why is it important?

- **Reputational Risk** - the number 1 risk to organisations
- **Regulatory Risk**
- **Impact on long term value**



# What is the regulator doing?

- ASIC has emphasised its growing focus on Culture and associated Conduct Risk
- ASIC is incorporating it into its role
- View is that bad culture leads to bad conduct which leads to poor outcomes for consumers
- Focus on gatekeepers



# What is the regulator doing?

## ASIC is Planning to:

- Incorporate culture into risk based surveillance reviews
- Use these findings to better understand how culture is driving conduct
- Communicate to industry and firms where it has a view that there is a problem with culture

## Penalties for poor culture / conduct risk

- Wide powers over holders of Australian Financial Services Licensees - general obligation to provide financial services “efficiently, honestly and fairly”
- Future - expand existing powers to ban individuals from financial services to include banning from holding certain position?



# What are the warning signs?

Most organisations have a set of values and behaviours which they communicate and say that they will enforce

- do what is right for customers
- act with integrity

## Misalignment

- Actions speak louder than words
- Words mean nothing when actions contradict
- What gets rewarded will be repeated



# Conduct Risk Iceberg

## THE WAY WE SEE THINGS

- Values and mission statements
- The Code of Conduct
- Policy, procedures and systems
- Glossy brochures

## WHAT HAPPENS IN PRACTICE

- Informal practices
- “Group norms”
- Unwritten rules
- Shared assumptions
- Repeating what appears to be rewarded

## THE DEEPER ISSUES

- Unrealistic business targets
- “Revenue before reputation” is the reality
- Reactive rather than proactive communication
- Knee-jerk approach to problems – “band aid fixes”
- Bullying
- Lack of accountability
- Lack of challenge - going with the “bureaucratic flow”
- Poor escalation
- Lack of visible consequences (both good and bad)
- Complacency

# Who and what?



## Who

- CEO
- Management
- 3 lines of defence

## What

Focus on 5 areas

1. Alignment of bus strategy with conduct risk strategy / appetite
2. Focus on governance and supervisory
3. Performance and remuneration
4. Material conduct risk takers
5. Disciplinary frameworks



# How?



## How

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• <b>Client centricity</b></li></ul> | <ul style="list-style-type: none"><li>• <b>Preferring the interests of the client in the long term</b></li></ul>                     |
| <ul style="list-style-type: none"><li>• <b>Communication</b></li></ul>     | <ul style="list-style-type: none"><li>• <b>Clear, consistent communication</b></li></ul>   |
| <ul style="list-style-type: none"><li>• <b>Challenge</b></li></ul>         | <ul style="list-style-type: none"><li>• <b>Walk the walk - Codes of conduct need to be monitored and enforced</b></li></ul>          |
| <ul style="list-style-type: none"><li>• <b>Consistency</b></li></ul>       | <ul style="list-style-type: none"><li>• <b>Always and regardless of who</b></li></ul>  |
| <ul style="list-style-type: none"><li>• <b>Avoid complacency</b></li></ul> | <ul style="list-style-type: none"><li>• <b>Encouraging staff to raise concerns - "If you see something, say something"</b></li></ul> |