



Using data to mitigate conduct risk across the three-lines-of-defence

*Prepared for the Institute of Risk Management (IRM) Operational Risk Special Interest
Group (SIG)*



March 2017

Agenda

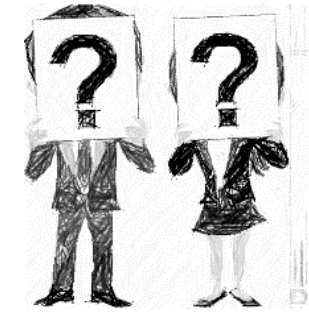
1st March 2017



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IRM Introduction (1 / 2)



Introducing the presentation team...

Paul Saunders

Partner

e: paulsaunders@gordondadds.com

t: +44 (0) 7583 695 166



Paul is an experienced, senior risk professional with proven strategic, regulatory and risk management skills. Paul has implemented global business control frameworks to meet regulatory requirements from both within the firm and as a consultant, and has also built numerous compliance and risk frameworks. He has also acted as a deputy Money Laundering Reporting Officer (MLRO) and been subject to the regulators approved persons regime. Paul chairs the Institute of Risk Management's Operational Risk Special Interest Group and is regularly invited to talk at risk management forums.

Jon Szehofner

Partner

e: jonszehofner@gordondadds.com

t: +44 (0) 7583 187 367



Jon is an experienced management with excellent program delivery and change management skills. Jon specialises in pre and post trade services for derivatives, global regulatory reform and risk management. He has designed and implemented global control frameworks across compliance, operations and technology. Jon also has proven facilitation skills and has delivered numerous training sessions and workshops on the subject of regulatory change. Jon is a member of the Professional Risk Managers' International Association and regularly participates in the Institute of Risk Management's Operational Risk Special Interest Group.

Jay Parekh

Managing Director

e: jayparekh@Dufrain.co.uk

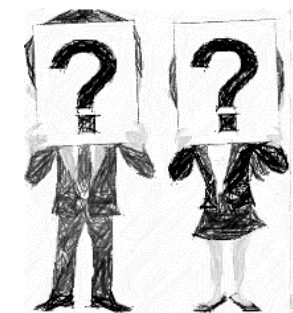
t: +44 (0) 7740 923 087



I am an experienced programme director with experience of running multi-million programmes that around regulatory reform and conduct risk. I have £250m redress and management programme that was a result of technology and compliance failings. My expertise is leading Business Transformation programmes where data and systems have been the catalyst for change. I come from a strong consulting background PwC, Deloitte, latter where I was a Director.



IRM Introduction (2 / 2)



Introducing the presentation team...

Libby Denchfield

Managing Director

e: libby.denchfield@sc.com

t: +44 (0) 207 885 773



Libby is currently responsible for Standard Chartered Banks' Group Conduct Programme, which aims to help maintain the integrity of the Bank's brand promise, the standards in our Code of Conduct and outcomes of the Group's Conduct Management Framework.

She has worked in various roles in the Group, including providing support to the Executive, Head of Governance, Client & Business Management for the Corporate & Institutional Banking (CIB) business for Europe, being responsible for all client due diligence and overseeing the first line operational risk and governance for CIB Europe, along with all aspects of business management. Prior to that she was Head of Financial Market Operations for SCB Europe.

Before joining SCB Libby was the Chief Operating Officer for the Global Restructuring Division at RBS, the Global Head of Business Management & Control for the Global Banking & Markets Division in Operations and set up the first near shore Operating Centre for RBS in the UK. Previously she was at Goldman Sachs International as a Vice President in Equity Derivatives, Deutsche Bank and BNP Paribas.

She won the European "Role Model for Success Award – Agent of Change" in her first year with the bank for her work on engagement in Europe, was co-head of Diversity & Inclusion (D&I) for SCB UK and Head of the Women's Network, representing the bank on many industry committees for D&I including Stonewall, British Bankers Association and Employees Forum for Disability



IRM Regulatory Focus



The FCA continues to be focused on challenging poor conduct...

The concept of **Conduct Risk** has risen to the top of firm's and regulators' agendas in recent years. In the UK, the FCA expects conduct risk management to be embedded into firm's risk management frameworks, supported by appropriate management information.

Experience has demonstrated that poor culture and poor conduct are closely related FCA

We want to see firms managed in a way that promotes appropriate culture and behaviours. We want firms' governance and culture to contribute to delivering good outcomes for customers and market integrity, and to promote effective competition in the interest of consumers. FCA

- **Poor cultures** in firms drive behaviours that result in poor outcomes for consumers and markets, and manifested in the form of a number of scandals in the industry; Libor Fixing, mis-selling, rogue trading and technical breaches of the consumer credit acts,
- PPI mis-selling refund and compensation reaching **£25,000,000,000** in July 2016;
- FCA fines reaching record breaking **nine-digits pound sterling fines (Libor fixing, Forex manipulation, mishandling of PPI complaints)**.
- In the UK, both the conduct (FCA) and prudential regulators (PRA) have introduced a range of policy changes that aim to improve how conduct risk is managed through increased individual accountability.
- The key aims of the **SM&CR** are to enhance individual accountability at the most senior levels in deposit takers and PRA-designated investment firms, and enhance their standards of conduct at all levels.



IRM Senior Managers Regime



Increased accountability and responsibility...

SM&CR has amplified focus on personal accountability and the right management information will help Senior Managers discharge their responsibilities and enable them to demonstrate that they have taken reasonable steps in doing so.

- SM&CR requires the identification of individuals who hold key (and risk taking) roles in the firm:
 - Each Senior Manager has a **Statement of Responsibility**
 - A **Responsibilities Map** shows firm-wide distribution of responsibility
 - Risk leaders and Senior Manager's are expected to **Set the tone from the top**
- SM&CR, along with other policies, apply to virtually all staff in the firm:
 - Staff must be aware of Conduct rules
 - The remuneration code sets the standards for pay and bonuses
 - Strengthened systems and controls for whistleblowing (zero blame culture)

OUTCOMES

- ✓ Firms develop a culture of accountability at all levels and senior individuals are fully accountable for defined business activities and material risks.
- ✓ Firms and senior managers can explain principles of good conduct towards customers and markets and incorporate them throughout their business

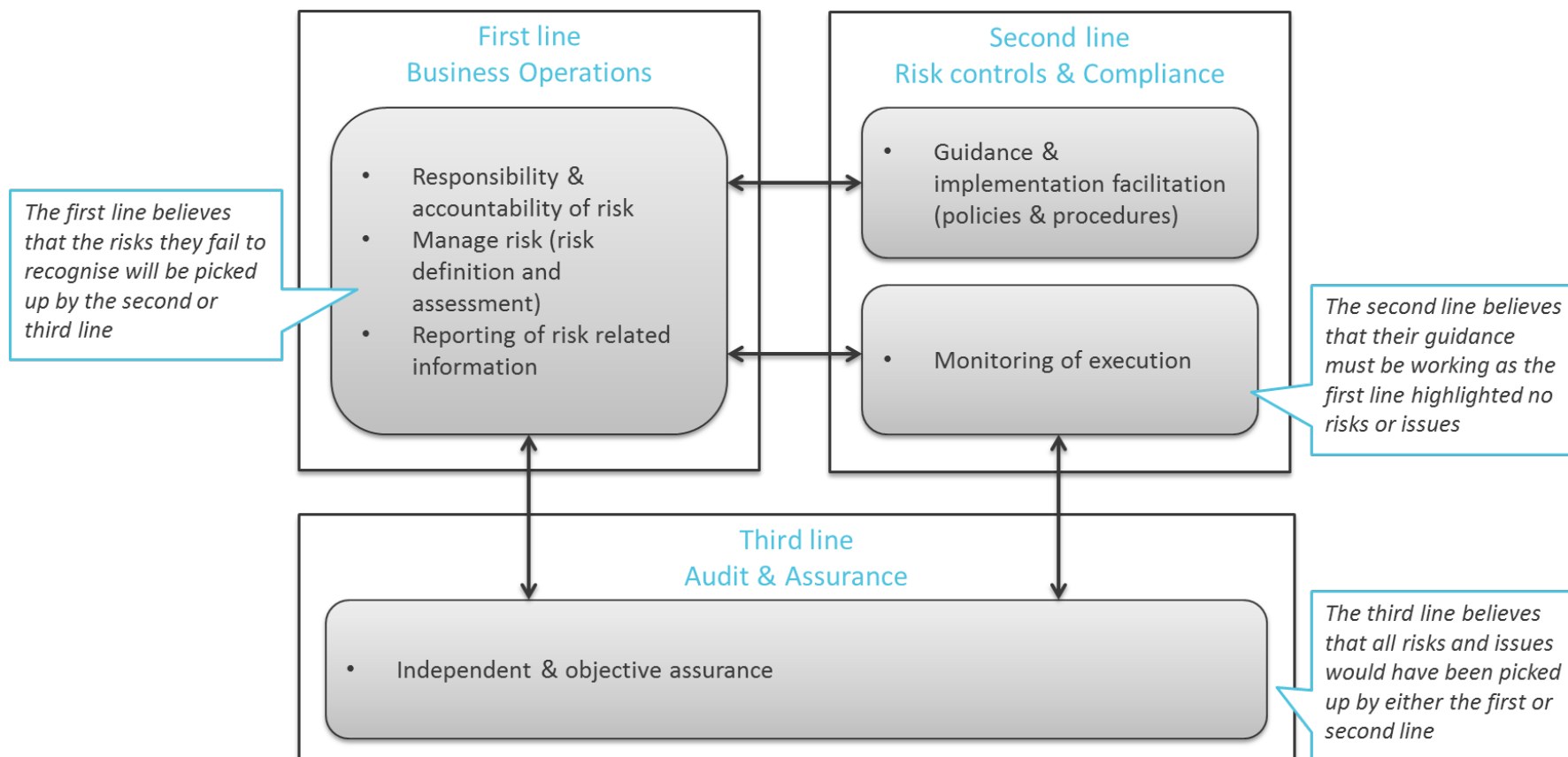


IRM The Three Lines of Defence



An overview of the three-lines-of-defence model and the limitations...

The three-lines-of-defence model is appropriate to mitigate conduct risk, but can fail when not fully embedded. Failures range from duplicative processes to lack of understanding of responsibilities across the firm.





IRM When Things Go Wrong



When poor conduct leads to poor outcomes for consumers...

Poor conduct by financial services firms has resulted in poor outcomes for consumers and impacted market integrity, manifesting in the form of a number of major scandals in the industry

MIS-SELLING

LACK OF TRAINING

ROBUST POLICIES

POOR DOCUMENTATION

NO CUSTOMER VALIDATION

METRICS DRIVING WRONG BEHAVIOURS

INADEQUATE SYSTEMS

MORTGAGE / LOAN REMEDIATION

SYSTEM OWNERSHIP

END-TO-END PROCESS MANAGEMENT

CORPORATE GOVERNANCE

BUSINESS REQUIREMENTS

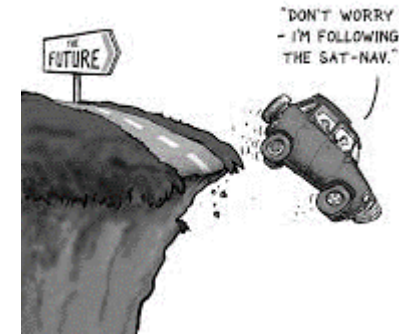
LEGAL & COMPLIANCE INPUT

ORGANISATION CAPABILITY

+£40 billion paid out to date

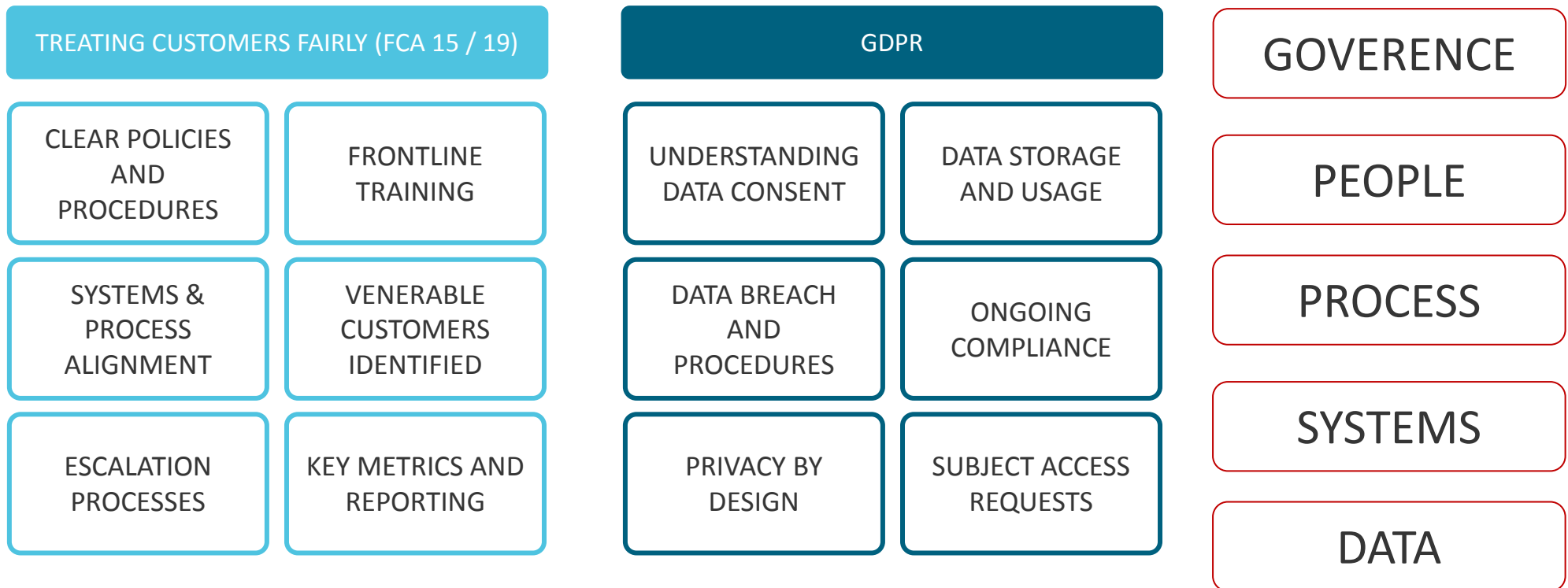
Regulatory fines, customer redress and damaged reputation

IRM Future Conduct Areas



What else is on the horizon...

Challenging poor conduct remains a top priority for the regulator and upcoming regulation will keep conduct firmly under the microscope



Risks to conduct tend to be long term and reoccurring

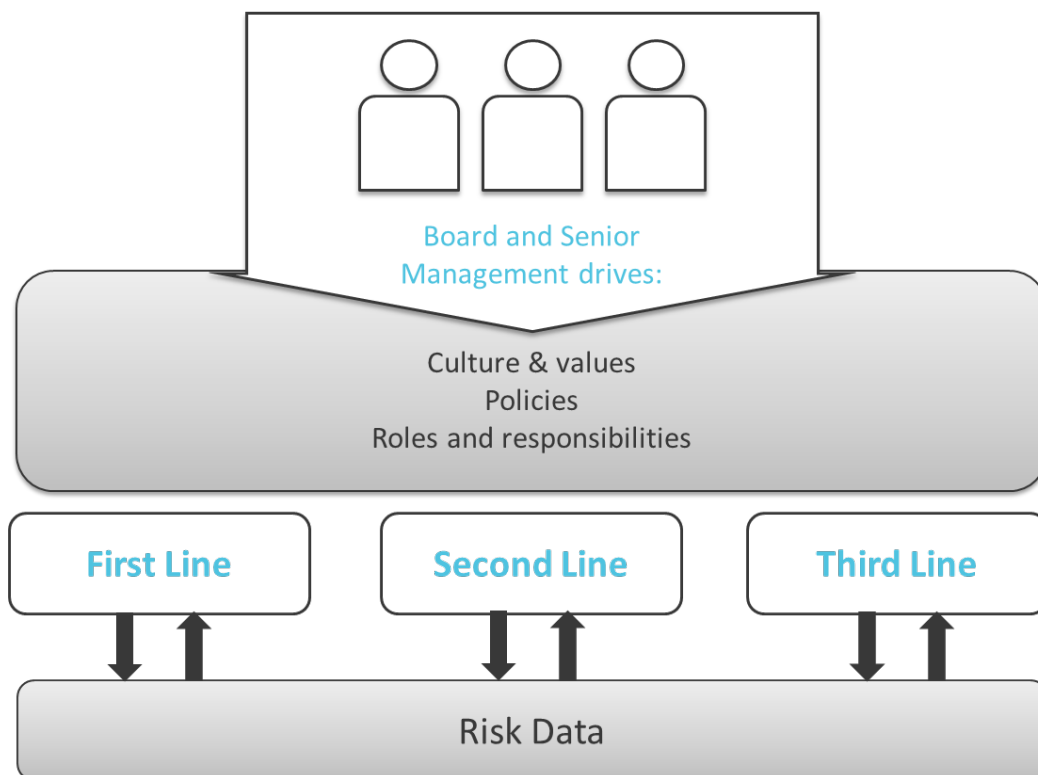


IRM Dynamic Risk Management



Leveraging risk data to enable the board to dynamically manage risk...

Better access and timely management of data can enable the board and senior management to drive **improvements in Culture and Values, Company Policy and Roles and Responsibilities. Enabling, enhanced** accountability and better coordination (embedding) across the lines.



- ✓ Outcomes-focused and forward looking management information
- ✓ Management information linked to risk appetite and business strategy
- ✓ Holistic used to support trend analysis
- ✓ Acted upon and documented
- ✓ Supports open communication, validation and challenge
- ✓ Comprehensive, traceable, accurate and timely
- ✓ Measured and reported on at an appropriate frequency



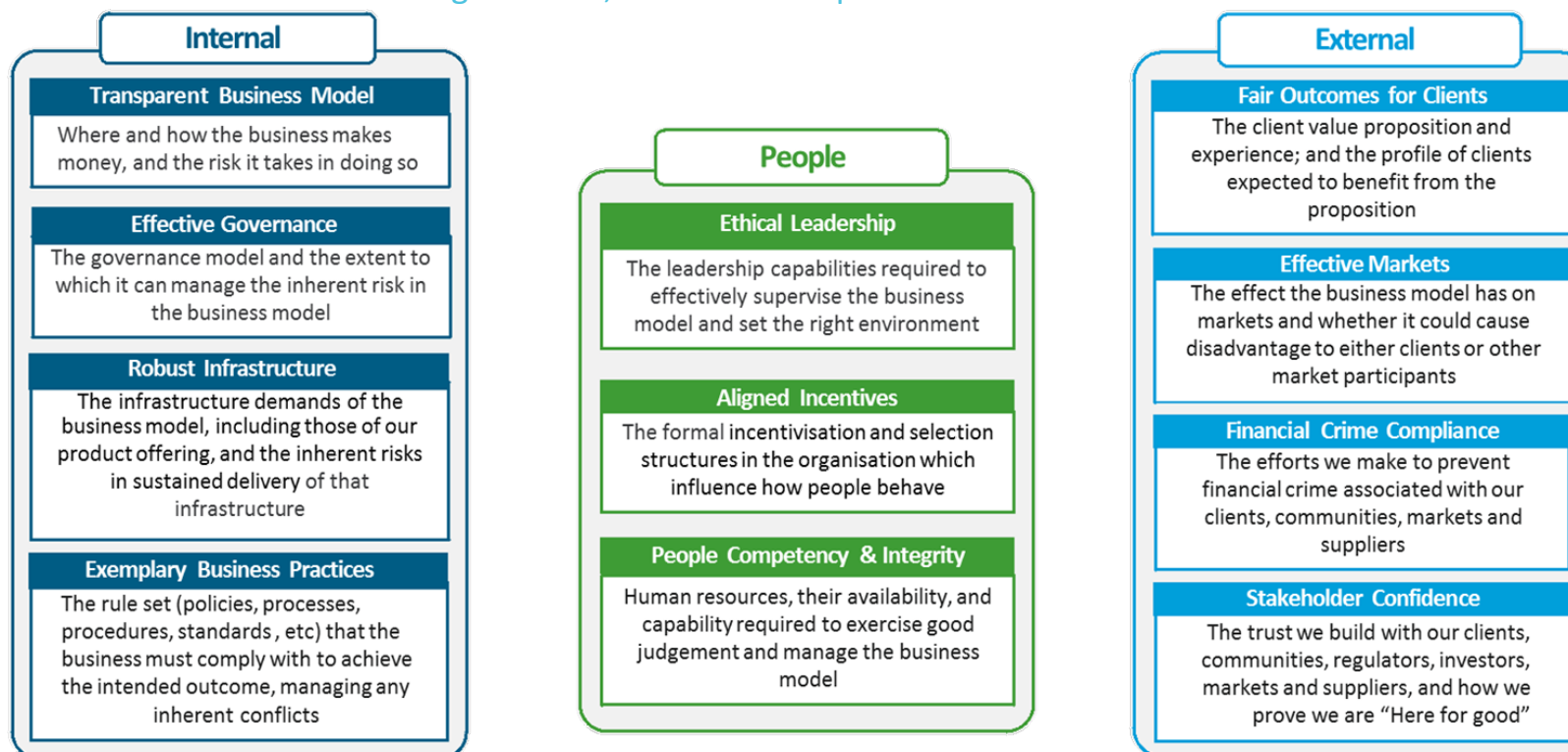
IRM Conduct Metrics



Group conduct management framework...

*Good **Conduct of Business** is underpinned by ensuring that we create the right **Internal** and **People** outcomes in order to achieve our **External** outcomes*

Firms can determine a set of key conduct risk indicators and underlying metrics, specific to their organisation, which can be quantified and measured.



IRM A Way Forward

What improvements should firms be looking to implement and leverage...



The case to upgrade the three-lines-of-defence model has never been stronger.

TECHNOLOGY ENABLERS & QUALITATIVE IMPROVEMENTS

- Better access and management of data available
- Risk data is harnessed and made available to decision makers
- Greater transparency and accountability of risk
- Better coordination between the three lines
- Increased effectiveness and transparency in sales process and post-sales servicing
- Facilitation of talent management strategy to get the right people in the right roles

MEASURES FOR SUCCESS

- ✓ Senior managers are demonstrably accountable and effective, and there is a culture of accountability at all levels.
- ✓ Firms respond to material risk events by applying robust, comprehensive remuneration measures based on actual loss and harm.
- ✓ Firms can demonstrate that they act appropriately on whistleblowing intelligence
- ✓ An increase in the proportion of crystallised risks that are self-identified and proactively addressed by the firms rather than by the regulator.



GD FINANCIAL MARKETS

GD Financial Markets LLP

6 Agar Street, London WC2N 4HN
dx: 40003 Covent Garden
t: +44 (0) 20 7493 6151 f: +44 (0) 20 7437 8216
e: info@gordondadds.com w: www.gordondadds.com

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