

# 01

FINANCIAL INSTITUTIONS

■ **CONDUCT RISK MANAGEMENT**





What proactive steps have you taken to identify the conduct risks inherent within your business?

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How do you encourage individuals across all parts of your business to understand and feel responsible for managing conduct risk in their business?

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What support do you have in place that enables your employees to drive conduct risk improvements?

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How do your senior governance fora – including the Board – gain oversight of conduct risk? How effectively is conduct discussed and debated?

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Do you know whether there are any activities, or ways in which your business operates, that could undermine your conduct risk management approach?



**We had a bad banking situation. Some of our bankers had shown themselves either incompetent or dishonest in their handling of the people's funds. They had used the money entrusted to them in speculations and unwise loans**

–  
FRANKLIN D ROOSEVELT  
March 12, 1933



**■ HOW WOULD YOU ANSWER THESE?**



**In the aftermath [of the crisis] some of these bankers started to believe it was due to their genius, they should take the rewards and they took the eye off the ball, which was the customer**

–  
**PETER COSTELLO**  
Former Australian treasurer  
in The Australian, May 2018



**Despite remediation efforts, regulatory focus, fines, dismissals and arrests, conduct issues continue to manifest. Unsurprisingly, trust in the industry remains fragile:**

**USD \$375 billion** paid in conduct fines **over the past 5 years** (Fixed Income, Currencies, and Commodities Markets Standards Board, 2017 annual report)

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Oct 2016, Singapore's Monetary Authority withdrew **Falcon Private Bank's** license for various infringements including improper conduct of senior management

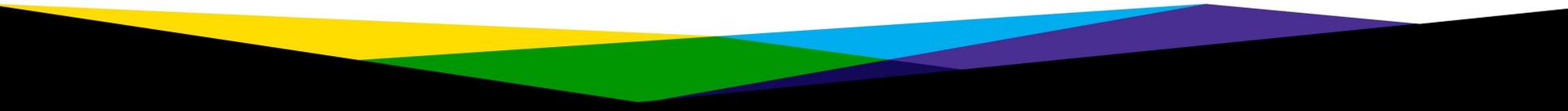
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June 2018 - Australian Competition & Consumer Commission charged **ANZ, Citigroup, Deutsche Bank** for cartel-like behaviour over a capital raising in 2015

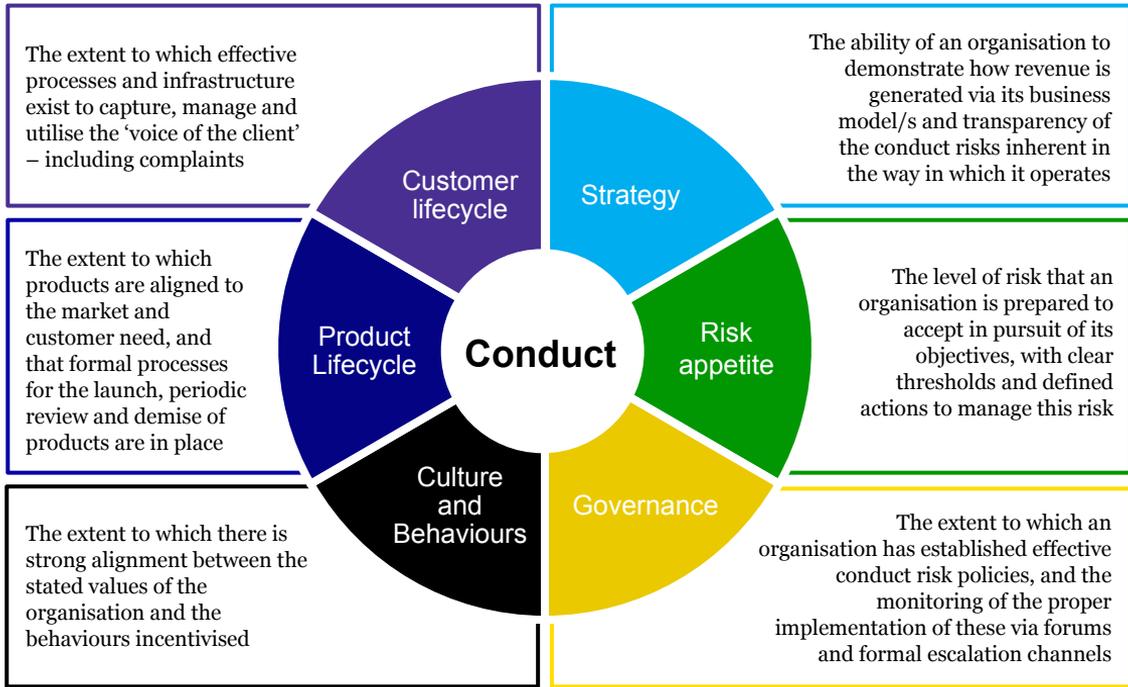
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In the UK, **Lloyds Bank** has so far paid out £18.8bn for PPI claims. **Barclays** has paid more than £9bn and RBS nearly £5bn (The Guardian, 2 July 2018)

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FCA fines **YTD 2018 = £4.7 million** across a range of infringements including conflicts of interest, unfair treatment of customers, lack of fitness / propriety

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July 2018, two former traders (**Deutsche, Barclays**) are jailed for plotting to rig the Euribor global interest rate

## **IMPACT OF CONDUCT FAILURE**



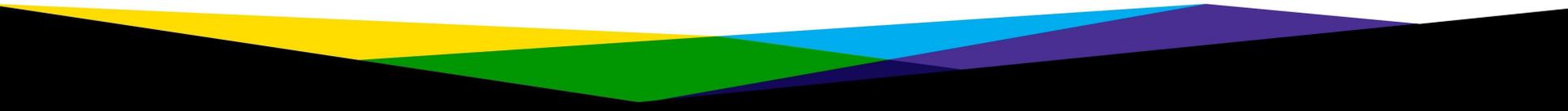


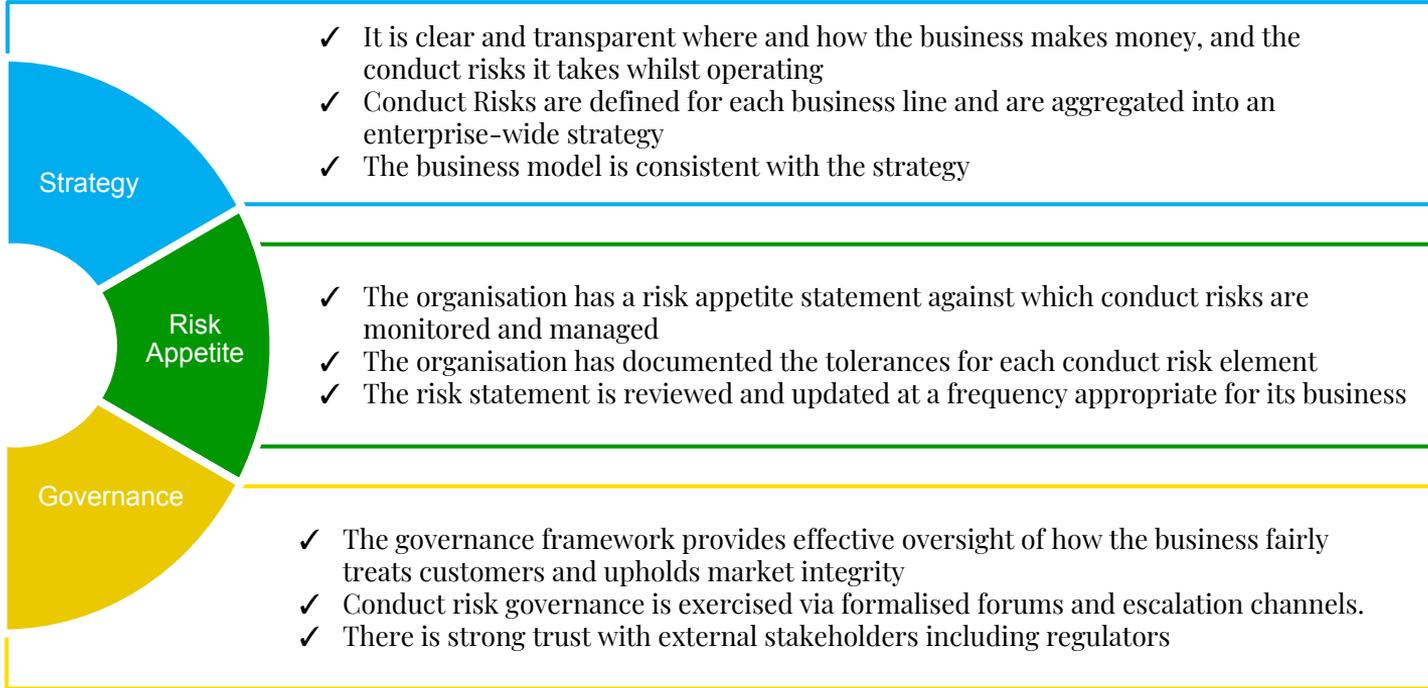
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**Conduct risk is any action of a financial institution or individual that leads to customer detriment, or has an adverse effect on market stability or effective competition**

–  
 FINANCIAL CONDUCT  
 AUTHORITY

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# ■ UNDERSTANDING CONDUCT RISK



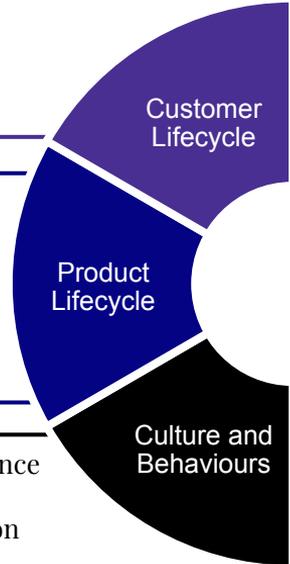


**■ IS YOUR CONDUCT JOURNEY ON TRACK?**

- ✓ Feedback and complaints are captured, managed and closed, in-line with regulatory (eg. PSD2, MiFID II) and jurisdictional requirements
- ✓ Personnel are provided the training, infrastructure and support to capture and effectively deal with all types of customer feedback (i.e. compliments, suggestions, complaints)
- ✓ Sales and servicing is efficient, transparent, customer focused and meets expectations

- ✓ Products are designed to meet customer needs and are supported by a business case. Product reviews ensure the business case aims are being met
- ✓ Product complexity is appropriate for the target market
- ✓ Product-specific processes and procedures are effectively implemented, governed and managed (ie. Conflicts of Interest, optimal execution, pricing transparency)

- ✓ There is strong alignment between incentives and behaviours – underpinned by performance management processes
- ✓ Personnel act with integrity, understanding the impact of their decisions and behaviours on customer outcomes
- ✓ Leadership has the capabilities required to effectively supervise the business and set the right tone



**■ IS YOUR CONDUCT JOURNEY ON TRACK?**

Here is an **indicative** breakdown of the activity that's undertaken. The actions are in modular form allowing your management team to select the services with which they'd like to initiate first, aligned to spend and ambition.

**STRATEGIC CONDUCT RISK DIAGNOSTIC + RISK APPETITE**

- A conduct risk diagnostic at senior/board level to ascertain current state maturity across the 6 elements – strategy & business model, risk appetite, culture & behaviours, product lifecycle, governance and customer lifecycle

**CULTURE & BEHAVIOURS**

- Aurora's proven people strategy approach specifically focused on conduct risk mitigation with a focus on leadership capabilities, formal incentives vs values & performance management

**GOVERNANCE & OVERSIGHT**

- Review of governance structure across business lines - awareness & oversight of conduct risk including critical components (ie. credible challenge, escalations, quantitative & qualitative measures)
- Engagement with external stakeholders – including regulators

**CUSTOMER LIFECYCLE**

- Day 1: Deep dive into lifecycle from product development, launch and servicing including a review of customer feedback mechanisms and complaints management.
- Day 2: Review of how effectively customer insights drive change

**PRODUCT GOVERNANCE REVIEW**

- Modular services and pricing applicable to your business / products offered (0.5 days per product onsite / 0.5 offsite)
- Product processes assessed (e.g. product review processes & templates, best execution, pricing policies, handshake with customer feedback processes)

01

DAY ONSITE

01

DAY REMOTE

02

DAY ONSITE

01

DAY REMOTE

02

DAY ONSITE

01

DAYS REMOTE

01

DAY ONSITE

01

DAYS REMOTE

06

DAYS ONSITE

04

DAYS REMOTE

Duration and effort will depend on sophistication and complexity of the company and the products it offers

 **THE DETAIL**





**“Sadly, I’ve witnessed first hand how conduct issues impact customers, firms and individuals. My aim is to use that experience positively, by supporting clients on their own conduct journeys”**

**EMMA PARRY**  
Senior Adviser

## **We have a proven track record in helping Financial Institutions understand and mitigate conduct risk**

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It normally takes seven days of interviews, analysis and offsite data reviews, spread over four weeks, involving a current state assessment at senior/board level.

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Our approach involves workshops, interviews with your team and execs, and a review of your risk metrics and governance framework, followed by a full playback of findings and recommendations to you and your management team.

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We then document the findings in an actionable roadmap.

## ILLUSTRATIVE DELIVERABLES

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Your refreshed and revised conduct risk framework + risk appetite statement, articulated to drive all aspects of the business

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The culture and values of your business explored and documented specifically centred on conduct risk

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Review of your customer lifecycle and feedback mechanisms – including complaints management

–  
Product governance, review processes & templates to support your product lifecycle/s

Governance & oversight specific to conduct risk management documented across all levels of your organisation.

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Conduct framework defined including metrics, escalations

–  
All tangible next steps and actions mapped into a clear and concise roadmap ready for next steps

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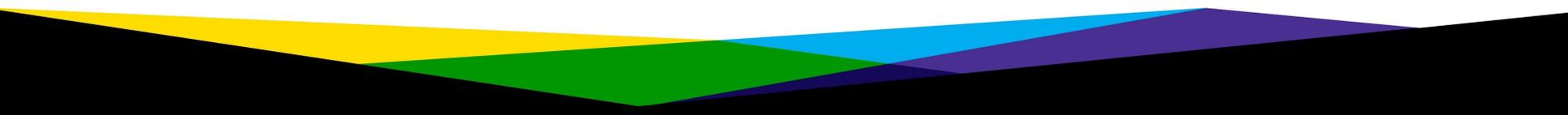
**10**

DAY REVIEW

**04**

WEEK PERIOD

# **HOW WE HELP**



## YOUR BUSINESS GOALS, OUR BUSINESS KNOWLEDGE

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We're a London-based boutique consultancy with global reach.

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With decades of real life business and technology expertise, we're by your side to help shape and deliver your biggest business ideas.

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Former Financial Services leaders rather than consultants, with decades of experience across all customer segments and spanning functions including COO, strategy, technology, change delivery, sales and risk

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We help businesses shape and deliver their strategic vision and objectives by taking an holistic approach across – mission, objectives, values, culture and operational leadership.

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**"Leveraging our experience as senior industry banking veterans, we help share knowledge from large and complex businesses to help transform how growth businesses work."**

SEAN VICKERS  
Managing Partner

## WHY WORK WITH AURORA?

A decorative graphic at the bottom of the page consisting of several overlapping, semi-transparent geometric shapes in yellow, green, blue, and purple, creating a modern, abstract design.