

# RISK, REPUTATION & RESILIENCY

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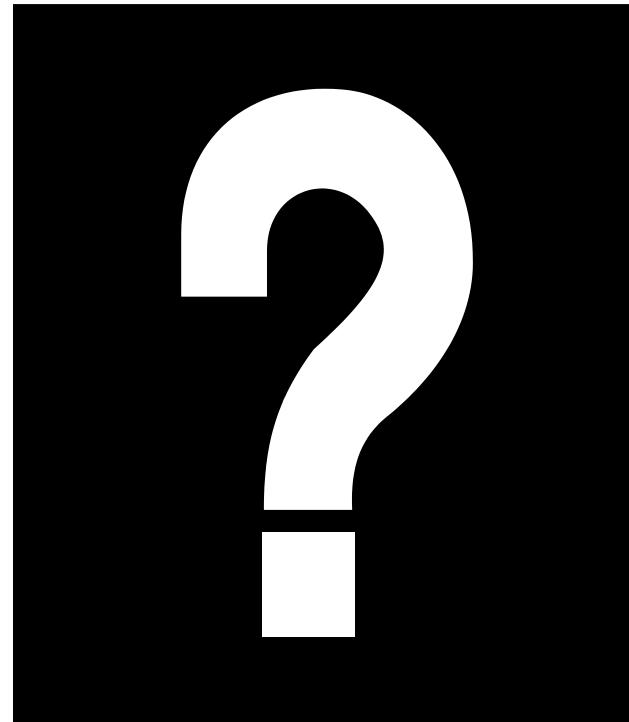
# Agenda

- **Introductions**
- **Risk**
  - ✓ Board oversight & engagement
  - ✓ Risk-aware culture
- **Reputation**
  - ✓ Components
  - ✓ Trust factor
- **Resiliency**
  - ✓ Long-term view
  - ✓ Depends on management of risk & reputation
- **Financial crime compliance**
- **Summary**

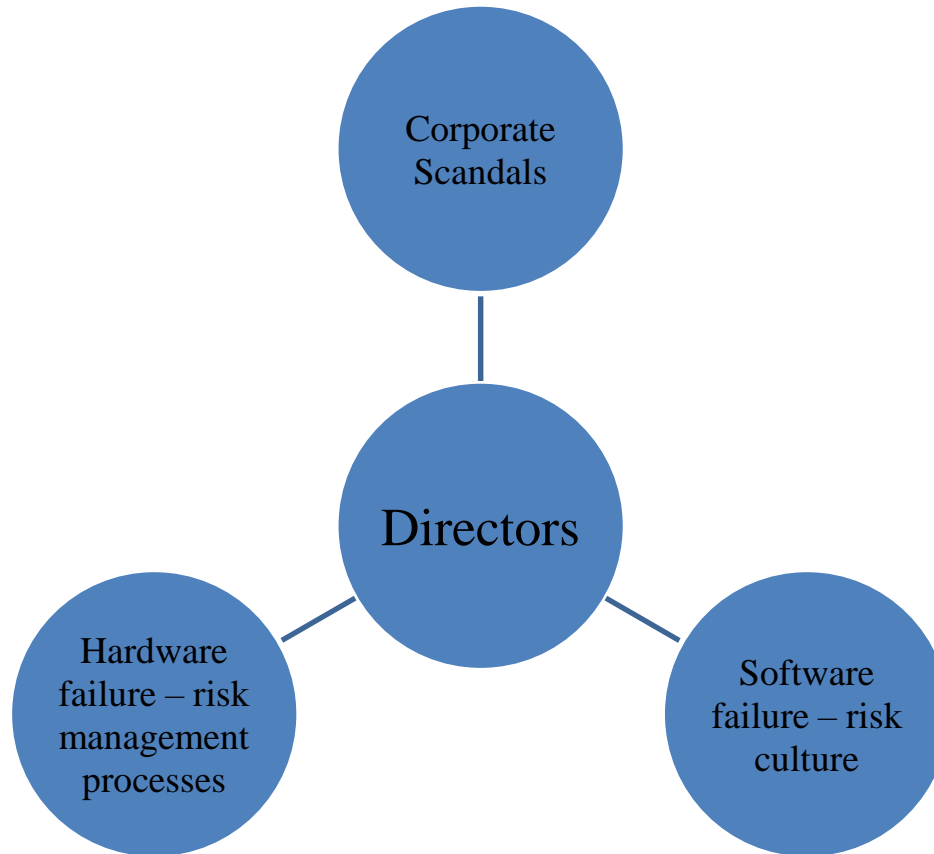


# Recent Scandals

- **Kids Company** – failure, caused by inability to manage principal risks
- **VW** – reputational damage caused by deception and breakdown of trust
- **Thomas Cook** – reputational damage caused by sub-optimal Board response to tragedy
- **Financial crime risk**  
(Petrobras, Fifa, Tom Hayes)



# Failure & Scandal Overview



# Risk Management – Board Oversight & Engagement

- Governance dimension
  - ✓ assess principal risks (re solvency, liquidity and business model)
  - ✓ ensure risk management processes are adequate
- New offence in the UK of reckless banking
- Senior management regime – accountability to include certain non-executive directors
- Critical importance of a risk-aware culture



# Conduct Risk

- FCA focus on outcomes and treating customers fairly
- **Four key components:**
  - ✓ Incompetence – address via training
  - ✓ Complacency, lack of engagement and simple negligence
  - ✓ Counter productive workplace behaviours (including fraud and corruption)
  - ✓ Culture and behaviour – do actions match values?



# Risk Hot-Spot: Risk-Aware Culture

- **Culture** is defined as:
  - ✓ the combined set of individual & corporate values, attitudes, competencies & behaviour that determine a company's commitment & style
  - ✓ Tone set from the top is crucial - aim is to create a positive culture where behaviour is openly assessed, challenged, developed & rewarded
- **Risk culture** - the tone setting and ethical environment in place at all levels
  - ✓ “So today we are moving back to the future in a sense – with the regulatory system placing far more emphasis on good judgement and less on narrow compliance with a set of rules. Hopefully to a culture where the ‘ethic of care’ – doing what is right takes precedence over the ‘ethic of obedience’ – doing what is allowed”. (Martin Wheatley FCA October 2013)

# Risk-Aware Culture: Bi-Polar Review

- Proactive
- Accountable
- Informed judgement
- Sceptical
- Transparency
- Add value
- Optimise
- Enabler
- Bottom-up
- Balanced, well thought out risk taking
- Reactive
- “Blame”
- Checklist mentality
- Naive
- Silos
- Bureaucratic process
- Minimise
- Roadblock
- Top down
- “CYA”

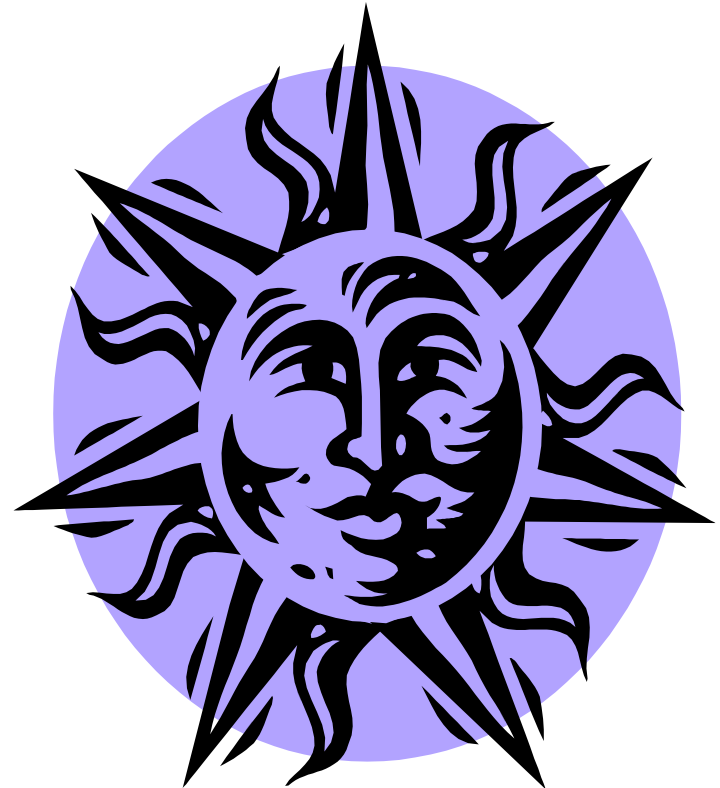
# Key Points on Conduct Risk

- Human factors (e.g. negligence or malign intent) are higher risk than process failures
- **Need a compliance framework:**
  - ✓ **Oversight**
  - ✓ **Internal controls and behaviour management** (codes, training, incentives, hotlines, discipline)
  - ✓ **Risk and reporting** (including audit & accounting)
  - ✓ **Managing third parties** (due diligence, M&A work)
- Need management oversight in SMEs



# What is Reputation?

- **Four key components:**
  - ✓ Leadership (success & innovation)
  - ✓ Fairness (giving customer a good deal and treating stakeholders fairly)
  - ✓ Corporate responsibility
  - ✓ Trust
- **Other factors:**
  - ✓ Consistency
  - ✓ Brand (meaningful, different, salient)
  - ✓ Past record & future promise



# The Edward Snowden Case

- Worked in IT at the CIA
- Resigned in 2009 – employed by Dell as a contractor at the NSA
- Transferred to Hawaii in 2012 – works at the NSA's regional cryptology centre
- March 2013 takes a new job with Booz Allen Hamilton – systems administrator at the NSA
- May 2013 disappears – re-surfaces in Hong Kong, then in exile in Russia
- Stole thousands of top secret documents from the NSA and made them public via media disclosures
- Method – download onto thumbnail drives
- **Implications:**
  - ✓ Security threats
  - ✓ Ethical risks



# Integrity and Trust

- **Integrity – it matters!**
  - ✓ Character & principles, especially respect for the law & honesty
  - ✓ Consistent, fair and dependable, not deceptive
  - ✓ Take responsibility for actions
  - ✓ Integrity makes a leader believable and worthy of our trust
- **Trust – the business x-factor**
  - ✓ Definition: “a judgment of confident reliance in either a person or an organisation” (Institute of Business Ethics)
  - ✓ Trust model – we judge the other party’s trustworthiness along three dimensions:
    - ☐ Their ability (technical competence);
    - ☐ Their benevolence (motives and interests); and
    - ☐ Their integrity (honesty and fair treatment)

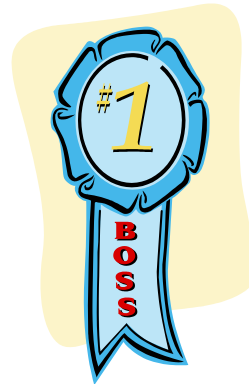
# Ethical Leadership – Three Components

- The ethical person – live with integrity, lead by example
- The ethical manager – making ethical judgements consistently, in good times and bad
- The ethical toolbox – the policies, controls and awareness to give assurance of good business ethics in your business



# The Ethical Manager - Tone at the Top

- Honesty can best be reinforced when a proper example is set
- Treat everyone equally
- Don't set unachievable goals
- Communicate a zero tolerance of unethical behaviour
- Be consistent in judgements and decisions



# Corporate Responsibility: The 21<sup>st</sup> Century “Ethical Toolbox”

- Ethics codes & charters
- Policies, procedures & internal controls
- Whistle-blowing hotlines
- Training & development programmes in business ethics
- Monitoring process



# Global Financial Crisis 2008

- **Central issue** – impact of poor credit decisions on bank capital and liquidity
- **Regulators' response**
  - ✓ greatly increase capital and liquidity requirements - Basel III
  - ✓ tighten regulations around financial crime – greater need for due diligence
- **Financial Crime Compliance** is a significant challenge for firms today



# Financial Crime Compliance

- **Six categories:** money laundering; bribery & corruption; terrorist financing; sanctions evasion; tax evasion; fraud
- **The new attitude of the authorities:**
  - ✓ Enormous fines (BNP Paribas - \$9bn)
  - ✓ Criminal convictions – personal and corporate (Tom Hayes – 14 years for manipulating Libor)
  - ✓ Deferred Prosecution Agreements
  - ✓ Extra-territorial impact (FCPA, Bribery Act, FATCA)
  - ✓ Reputational damage

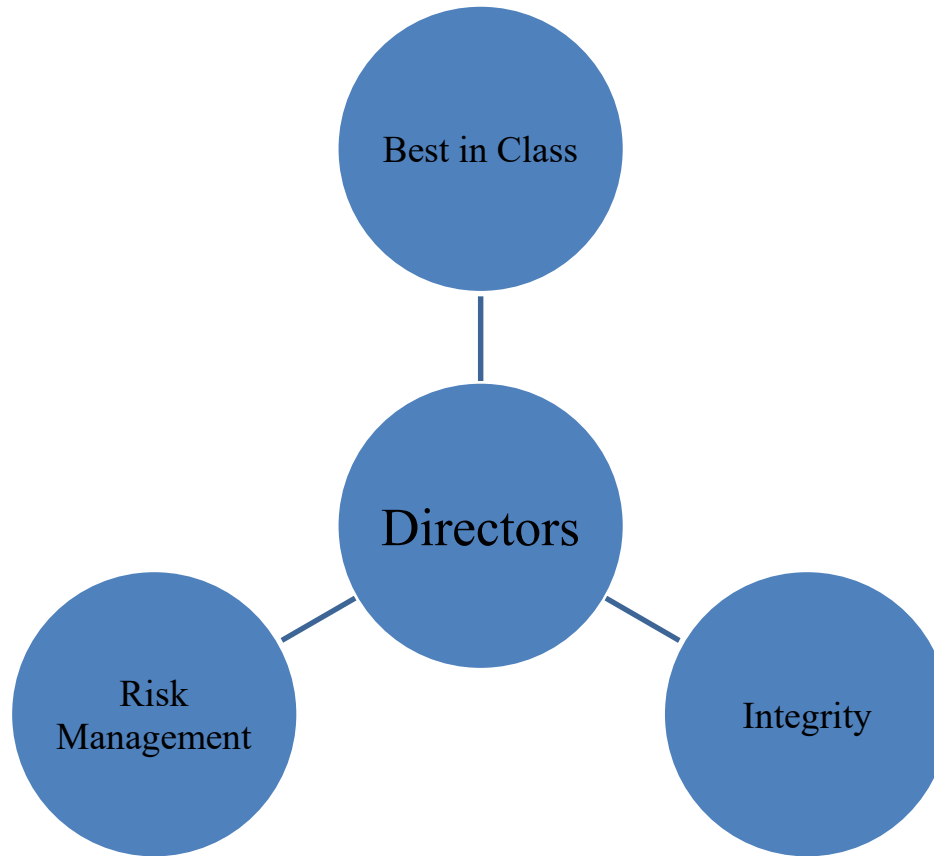


# Financial Crime Risk – Modern Themes

- Governance – a risk-based approach with senior management accountability
- Controls that are proportionate and appropriate to individual circumstances
- Control essentials:
  - ✓ Policies & documentation
  - ✓ Risk assessment
  - ✓ Due diligence
  - ✓ Training
- Critical dimension of ethics, culture and individual accountability



# Best in Class Overview



# Thank You!

- It has been a pleasure meeting you
- Thank you for your participation
- Good luck in the future

