

“Management of Conduct Risk - **Building future-proof organisations and enhancing their sustainability**”



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by [Liam Vaughan](#) and [Gavin Finch](#)



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Obama's new cabinet members are expected to be announced in the next few days.



World's biggest banks face £264bn bill for poor conduct

Costs for 20 financial institutions for the five years to 2016 are higher than in the previous period, with RBS and Lloyds in top five



▲ The Royal Bank of Scotland has made provisions for a forthcoming penalty from the US Department of Justice. Photograph: Matt Dunham/AP

Fines, legal bills and the cost of compensating mistreated customers reached £264bn for 20 of the world's biggest banks over the five years to 2016,

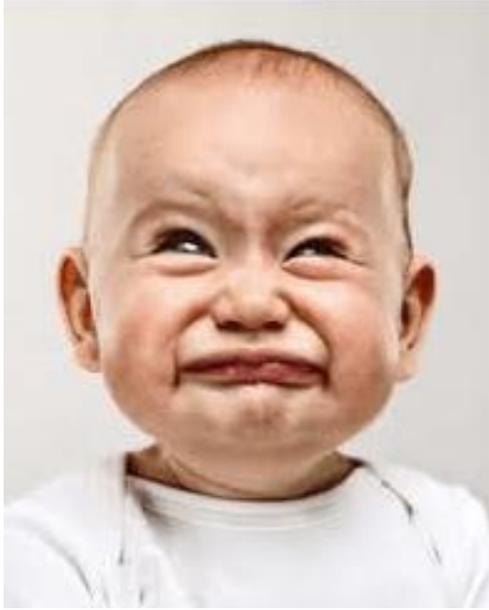
Conduct Risk = Fair Outcomes



Expectation

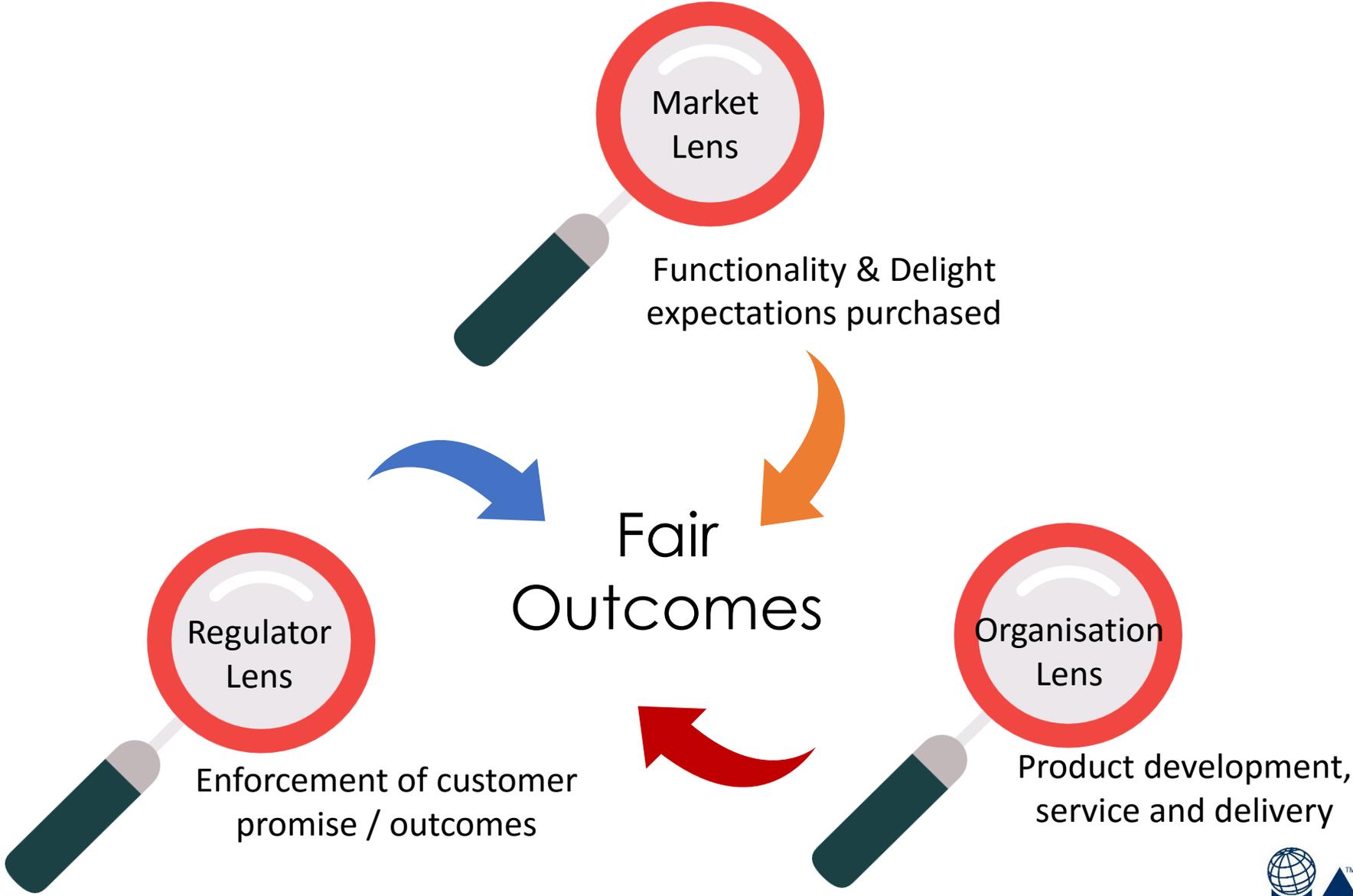


Acquisition Delight



Reality

Conduct Risk Lenses



Assessing conduct risk

Knowns-Knowns

- Risk - Known lapses such as product sustainability
- Action – Assess scale of exposure and compensation

Unknowns - Knowns

- Risks – Products or Services that are of concern but are not yet on the supervisory radar
- Action: Assess risk and judge whether to redesign

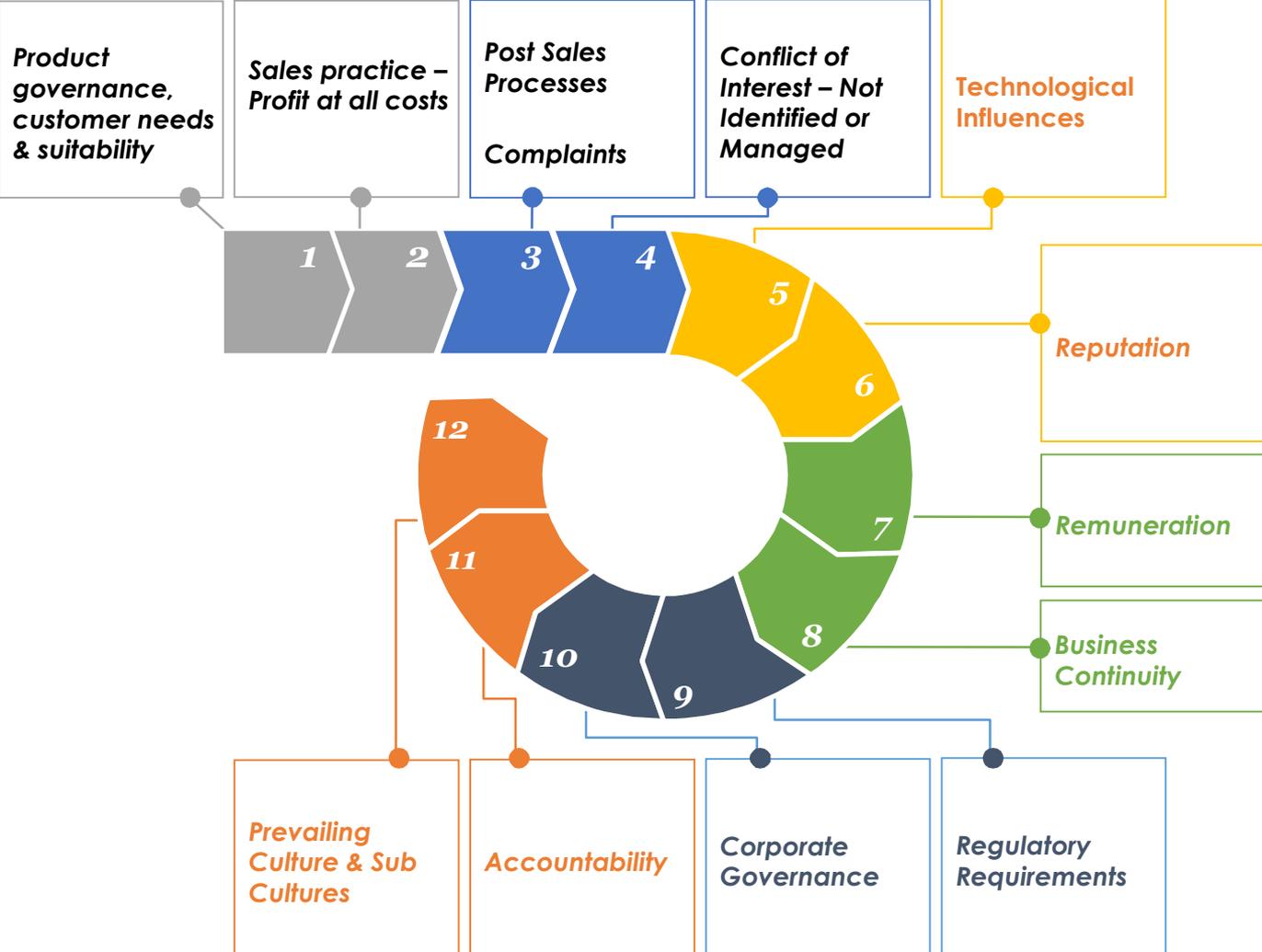
Knowns-Unknowns

- Risk – Risk from products and practices that are coming onto the regulatory radar
- Action – Assess risk and judge whether to redesign or withdraw

Unknowns - Unknowns

- Risks – Unidentified or future risks
- Action – Risk based assessment of the portfolio and scenario analysis, before adapting future product/service design and customer engagement strategies, and taking action in relation to issues that arise.

Drivers of Conduct Risk



Regulatory response to Conduct risk

To curb the drivers of conduct risk, various governments and global institutions have put in place measures in form of guidelines and laws

IN KENYA

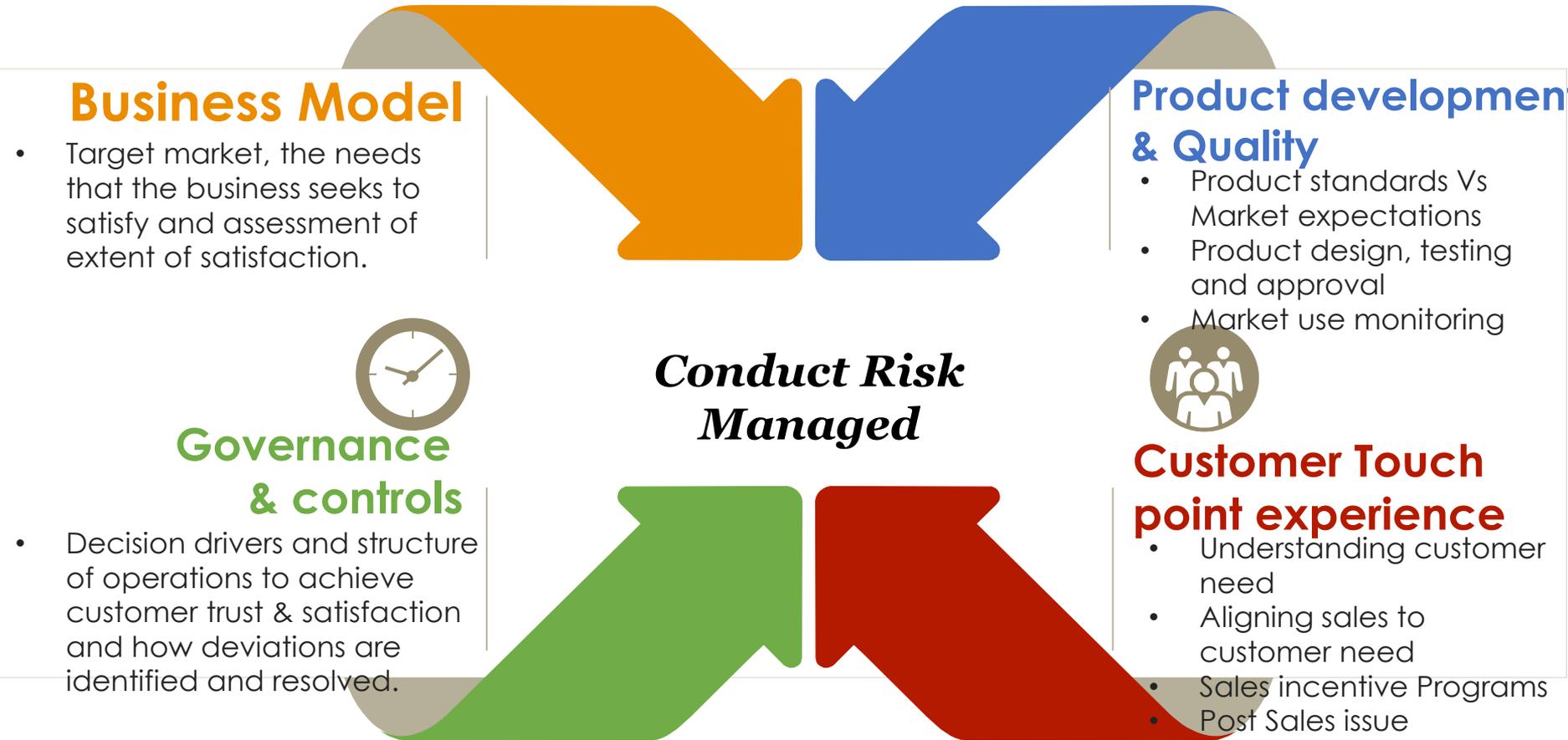
- ✓ Interest rate capping
- ✓ Proceeds of crime and anti money laundering act
- ✓ CBK Prudential guidelines
- ✓ IRA Guidelines on risk management and internal controls



- Global Data Privacy Regulations
- Financial Action Task Force 40
 - Sarbanes Oxley
 - etc.

Conduct risk is largely a result of 'organization mindset' and regulation can only address part of it but not eliminate.

Managing conduct risk at organization level



Business Model

- Target market, the needs that the business seeks to satisfy and assessment of extent of satisfaction.

Product development & Quality

- Product standards Vs Market expectations
- Product design, testing and approval
- Market use monitoring

Governance & controls

- Decision drivers and structure of operations to achieve customer trust & satisfaction and how deviations are identified and resolved.

Customer Touch point experience

- Understanding customer need
- Aligning sales to customer need
- Sales incentive Programs
- Post Sales issue identification

Conduct Risk Managed

Culture underpins organizations Conduct Risk awareness and management.

Embedding culture to address Conduct Risk



Head

Knowledge and understanding of the values and the roles and responsibilities of each stakeholder to support them.



Heart

Belief that good conduct is important and that “doing the right thing” will ultimately be recognised and rewarded.

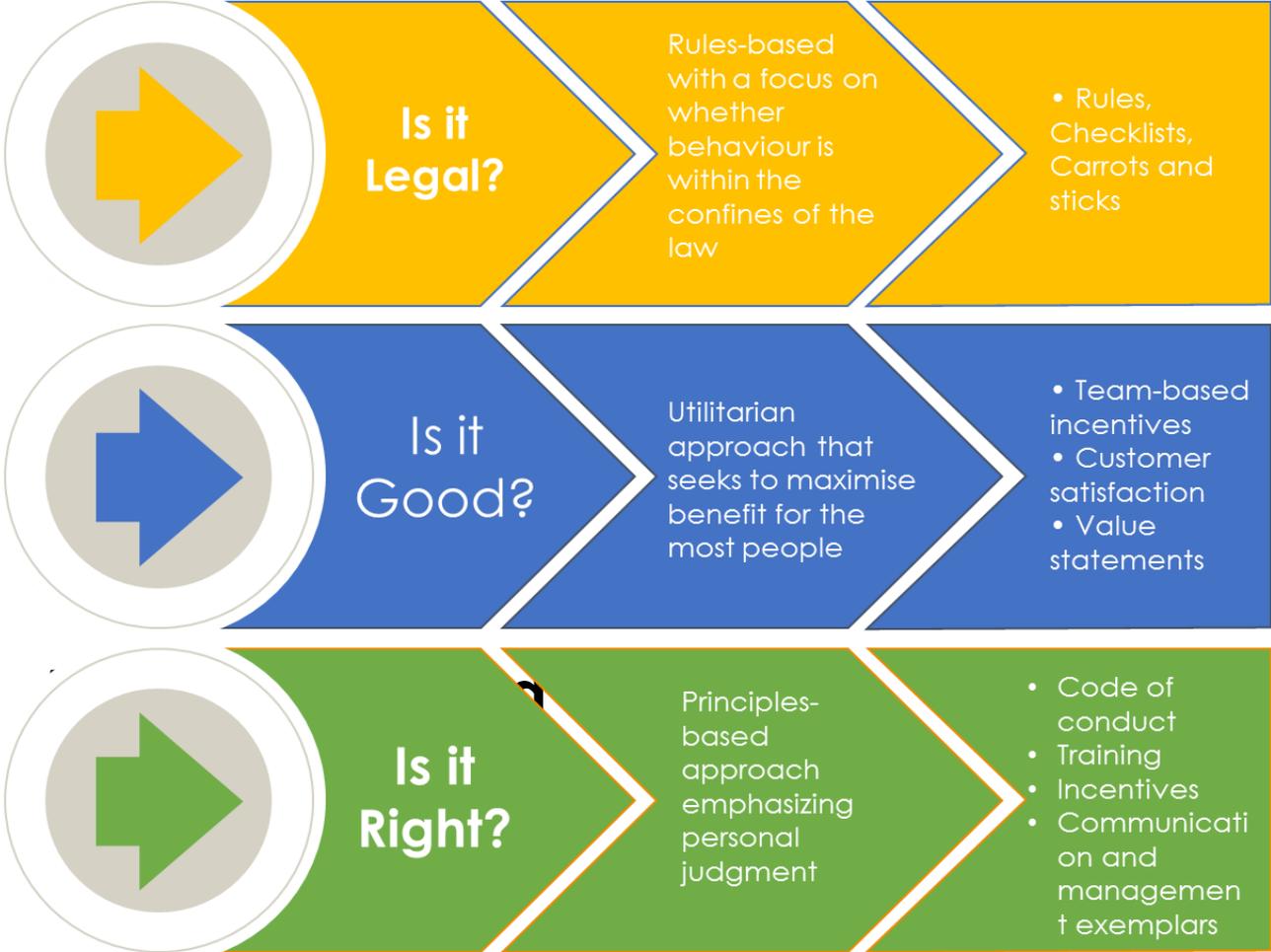


Gut

Empowerment and bravery to question and make the right decisions, even where this conflicts with more immediate incentives, a perceived chain of command or the status quo.

Is there value in managing conduct risk beyond regulatory compliance?

The question “is it legal?” is but a minimum condition and must be supplemented by the questions “is it good?” and “is it right?”



Managing conduct Risk – Is it worth the effort?

- Restores Trust
- Competitive advantage
- Larger Market Share
- Decrease in compliance costs
- Profitability

- Fines
- Reputational Damage
- Litigation Costs
- Erosion

"Management is doing things right; leadership is doing the right things" - Peter F. Drucker

The straight and narrow:



“We must continue to measure every act against not only what is legal but also what we would be happy to have written about on the front page of a national newspaper”

Warren Buffett, Chairman and CEO of Berkshire Hathaway