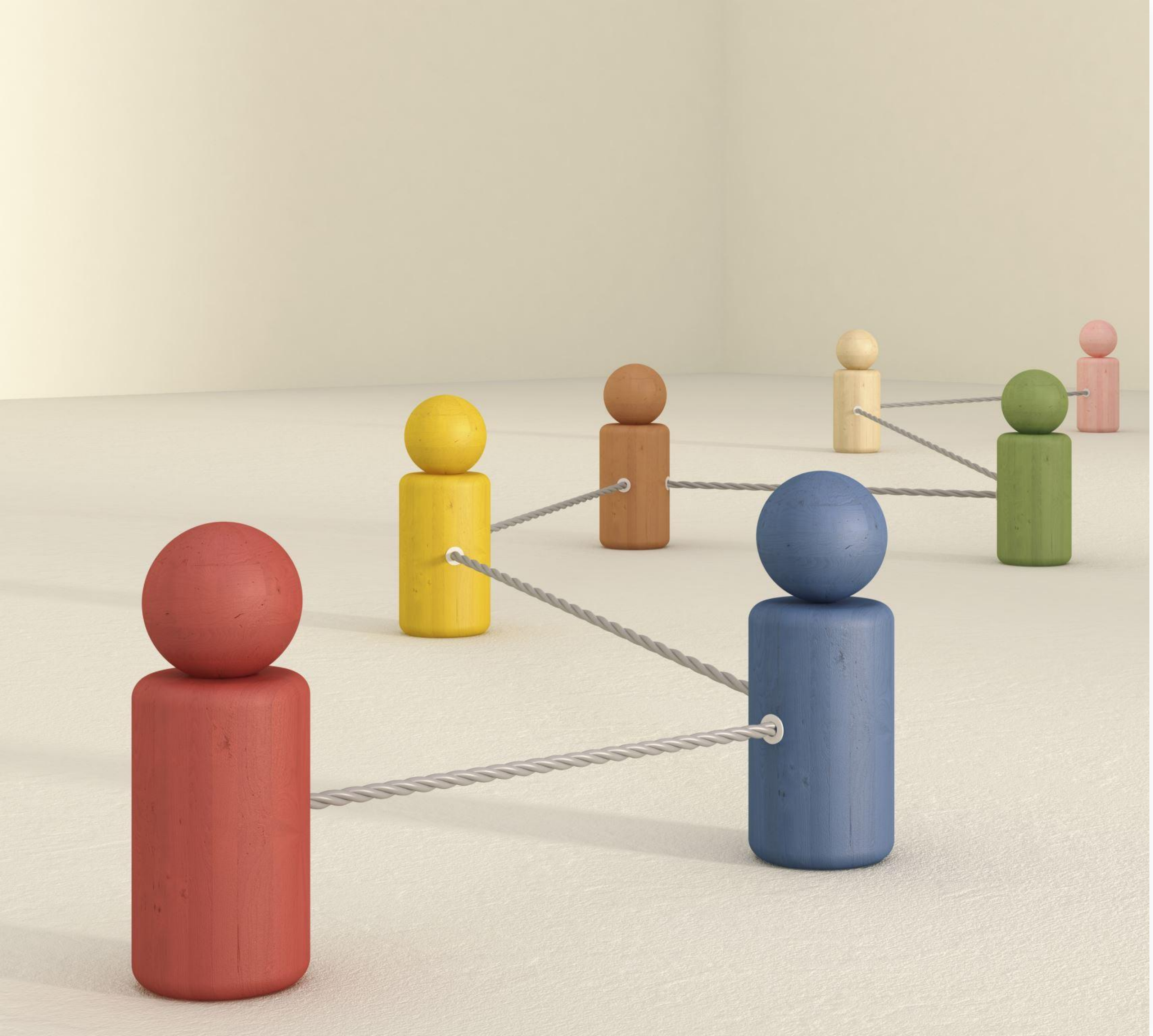

INTEGRITY IN ACTION – CONDUCT, CONFLICTS & PRACTICAL IMPLEMENTATION

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Embedding ethical behaviour to manage risks effectively

FOCUS FOR TODAY

- The Importance and Nature of Conduct Risk
- Global and South African Conduct Risk Frameworks
- Implementing Conduct Risk Management: Client Journey Mapping
- Case Studies: Governance Failures and Conflicts of Interest
- Managing Conflicts of Interest
- Fair Internal Investigations and Whistleblower Protection
- Embedding Ethical Leadership, Culture, and ESG
- Practical Tools and Models for Integrity Implementation

"Conduct risk is rarely about the absence of rules — it is about the presence of pressures."…unknown

THE IMPORTANCE AND NATURE OF CONDUCT RISK

FROM POLICY COMPLIANCE TO BEHAVIOURAL INTEGRITY

Policy Compliance

Policy compliance focuses on following rules and regulations to meet organizational standards.

Behavioural Integrity

Behavioural integrity emphasizes aligning actions with ethical values beyond mere rule-following.

OPENING STORY: WELLS FARGO AND THE CULTURE OF MISCONDUCT

Wells Fargo Scandal Overview

In 2016, Wells Fargo employees opened over 3.5 million unauthorized accounts, exposing widespread misconduct.

Existing Compliance Measures

The organization had strong compliance frameworks, sophisticated risk systems, and extensive internal policies in place.

Root Causes of Misconduct

Incentives, culture, and leadership behaviours normalized misconduct despite robust controls.

WHY CONDUCT RISK MATTERS?: GLOBAL TRENDS AND REGULATORY FOCUS

Regulatory Expectations

Increasing regulatory demands drive firms to prioritize conduct risk to ensure compliance and avoid penalties.

Reputational Risk

Poor conduct can damage corporate reputation, impacting customer trust and long-term business sustainability.

ESG Accountability

Environmental, social, and governance accountability increases scrutiny on company behaviors and ethical standards.

Whistleblower Disclosures

Whistleblower reports highlight misconduct, prompting enhanced regulatory focus and internal controls.

DEFINING CONDUCT RISK AND ITS MANIFESTATIONS

Definition of Conduct Risk

Conduct risk involves firm behavior causing poor customer outcomes or harming market integrity.

Mis-selling Products

Mis-selling occurs when products are sold inappropriately, leading to customer harm.

Market Manipulation

Market manipulation distorts fair trading and can undermine market trust.

Fraud and Corruption

Fraud and corruption involve unethical actions that harm customers and markets.

GLOBAL AND SOUTH AFRICAN CONDUCT RISK FRAMEWORKS

OVERVIEW OF LEADING GLOBAL FRAMEWORKS (FSB, COSO, KING IV, OECD, IIA)

FSB Misconduct Risk Framework

Focuses on governance oversight, incentive structures, risk culture, and accountability mechanisms to reduce misconduct.

COSO Enterprise Risk Management

Centers on governance and culture, risk identification, control activities, and monitoring for effective risk management.

King IV Corporate Governance

Emphasizes ethical leadership, responsible corporate citizenship, and stakeholder inclusivity in governance principles.

SOUTH AFRICAN REGULATORY AND GOVERNANCE APPROACHES (FSCA, TCF, KING IV)

Financial Sector Conduct Authority

The FSCA is responsible for supervising conduct in the financial sector to ensure fair practices and compliance.

Treating Customers Fairly Framework

TCF promotes fair treatment of customers through transparency, suitable products, and effective complaint resolution.

King IV Corporate Governance

King IV emphasizes ethical leadership, accountability, and responsible corporate citizenship in governance.

IMPLEMENTING CONDUCT RISK MANAGEMENT: CLIENT JOURNEY MAPPING

CLIENT JOURNEY MAPPING: STAGES AND RISK ASSESSMENT

Customer Lifecycle Stages

The client journey includes awareness, advice, onboarding, usage, and complaints stages essential for risk evaluation.

Risk Assessment Focus

At each stage, potential harms, behavioural incentives, and mitigating controls should be carefully evaluated to manage conduct risk.

Implementation by Financial Authority

This client journey mapping approach is adopted by the Financial Sector Conduct Authority in South Africa for conduct regulation.

PRACTICAL EXAMPLE: WELLS FARGO AND INCENTIVE-DRIVEN MISCONDUCT

Incentive Structures

Aggressive incentive programs pressured employees to meet unrealistic sales targets, triggering misconduct.

Lack of Oversight

Poor supervision allowed unauthorized account openings to go unnoticed during the sales process.

Cultural Pressure

A toxic workplace culture encouraged unethical behavior to achieve sales goals, leading to widespread misconduct.

CASE STUDIES: GOVERNANCE FAILURES AND CONFLICTS OF INTEREST

SOUTH AFRICAN CASE STUDY: VBS MUTUAL BANK COLLAPSE

Investigation Findings

Forensic investigation uncovered corruption, bribery, governance failures, and conflicts of interest at VBS Mutual Bank.

Financial Impact

More than R2 billion was looted, severely damaging the bank's financial stability and trust.

Consequences of Failures

Conflicts of interest, weak governance, and lack of accountability destroyed the institution and eroded public trust.

CORPORATE GOVERNANCE COLLAPSE: STEINHOFF INTERNATIONAL

Undisclosed Related-Party Transactions

Steinhoff's scandal involved undisclosed related-party transactions undermining transparency in corporate governance.

Financial Statement Manipulation

Financial statements were manipulated to misrepresent the company’s true financial health.

Governance Oversight Failures

Significant governance oversight failures allowed major risks and fraud to go undetected for a long time.

Shareholder Value Destruction

Over R200 billion in shareholder value was destroyed, highlighting severe consequences of poor governance.

ADDITIONAL SOUTH AFRICAN CASE STUDIES: STATE CAPTURE, VBS, KPMG

State Capture Overview

Systemic corruption, procurement manipulation, and political interference plagued key South African state entities.

VBS Bank Collapse

Bribery, insider abuse, and governance failure led to over R2 billion misappropriated from VBS Mutual Bank.

KPMG Audit Crisis

KPMG faced reputational damage, leadership resignations, and regulatory scrutiny due to audit governance failures.

MANAGING CONFLICTS OF INTEREST

NATURE AND SCENARIOS OF CONFLICTS OF INTEREST

Definition of Conflict of Interest

Conflicts arise when private interests improperly influence professional judgement, often leading to misconduct.

Procurement Manipulation

Manipulating procurement processes for personal gain is a common conflict of interest scenario.

Insider Trading

Insider trading involves using confidential information for unfair advantage in financial markets.

Executive Self-Dealing

Executives engaging in transactions benefiting themselves rather than the organization create conflicts of interest.

OECD GUIDANCE AND STEINHOFF EXAMPLE

Definition of Conflict of Interest

OECD defines conflict of interest as private interests improperly influencing official duties.

Common Examples of Conflicts

Common conflicts include insider trading, procurement corruption, related-party transactions, and self-dealing by executives.

Steinhoff Scandal Impact

The Steinhoff scandal involved undisclosed related-party transactions and governance failures, destroying significant shareholder value.

PRACTICAL CONFLICT MANAGEMENT FRAMEWORK

Conflict Identification

Identify conflicts through annual declarations, procurement screening, and board disclosure registers to ensure transparency.

Conflict Mitigation

Mitigate conflicts by recusal from decisions, applying independent oversight, and establishing Chinese walls between departments.

Conflict Monitoring

Continuously monitor potential conflicts using transaction analytics, procurement reviews, and insider trading surveillance.

Conflict Transparency

Disclose conflicts transparently to regulators, shareholders, and stakeholders to maintain integrity and trust.

FAIR INTERNAL INVESTIGATIONS AND WHISTLEBLOWER PROTECTION

PRINCIPLES OF FAIR INTERNAL INVESTIGATIONS

Core Investigation Principles

Fair investigations rely on independence, evidence integrity, confidentiality, and procedural fairness to maintain trust.

Balancing Interests

Effective investigations balance accountability, employee rights, and organizational integrity to ensure justice and trust.

Global Guidance

The Association of Certified Fraud Examiners provides global standards and guidance for conducting fair internal investigations.

WHISTLEBLOWER PROTECTION: BEST PRACTICES AND SOUTH AFRICAN CONTEXT

Impact of Whistleblowing

Whistleblowers detect 43% of fraud cases, highlighting their critical role in misconduct detection worldwide.

Legal Protection in South Africa

South African whistleblowers are protected by the Protected Disclosures Act to encourage reporting of wrongdoing safely.

Challenges and Risks

The murder of Babita Deokaran reveals real risks whistleblowers face, requiring stronger institutional safeguards.

Best Practice Frameworks

International guidelines like Transparency International Principles and UN anti-corruption rules guide effective whistleblower protection.

EMBEDDING ETHICAL LEADERSHIP, CULTURE, AND ESG

ETHICAL LEADERSHIP AND ESG IN GOVERNANCE

Ethical Governance Foundation

Ethical governance is fundamental to sustainable and responsible business practices today.

Leadership Integrity

Visible integrity from senior leaders is essential for ethical leadership and organizational trust.

ESG Governance Components

ESG governance includes anti-corruption, responsible conduct, and transparency as key pillars.

Integrity as Strategic Asset

Integrity is increasingly recognized as a strategic asset fostering sustainable business success.

FROM COMPLIANCE TO CULTURE: DRIVERS AND PRACTICAL STEPS

Leadership Tone

Senior leaders must model ethical behaviour to set a strong integrity example for the organization.

Incentives and Misconduct

Misaligned incentives can drive misconduct, with unethical sales incentives leading to scandals.

Accountability

Misconduct must have clear consequences to maintain organizational integrity and trust.

Psychological Safety

Employees need psychological safety to feel comfortable raising concerns without fear.

PRACTICAL TOOLS AND MODELS FOR INTEGRITY IMPLEMENTATION

CONDUCT RISK IMPLEMENTATION MODEL: FIVE LAYERS

Ethical Leadership Foundation

Ethical leadership, based on integrity and accountability, forms the foundation of conduct risk management.

Governance Structures

Governance oversight through committees and internal audit ensures active conduct risk management.

Risk Management Framework

Embedding conduct risk into enterprise risk management involves identifying drivers and embedding controls.

Behavioural Monitoring Tools

Behavioral analytics detect misconduct early through sales patterns, conflicts of interest, and complaint trends.

Investigation and Accountability

Accountability is ensured by forensic investigations, whistleblower mechanisms, and disciplinary frameworks.

CONDUCT RISK HEAT MAP (TABLE)

RISK AREA	TYPICAL CONDUCT RISK	EXAMPLE
Product Design	Misaligned incentives or misleading product structures	Mis-selling of financial products
Sales Practices	Aggressive targets driving unethical behaviour	Wells Fargo unauthorised accounts
Procurement & Third Parties	Undisclosed conflicts of interest	State capture procurement irregularities
Financial Reporting	Manipulated reporting or undisclosed related-party transactions	Steinhoff International
Leadership Behaviour	Culture of fear or “results at any cost”	Governance failures across institutions

INTEGRITY MATURITY MODEL (TABLE)

LEVEL	DESCRIPTION	CHARACTERISTICS
Level 1 – Reactive Compliance	Integrity driven by regulatory pressure	Policies exist but culture weak
Level 2 – Control-Based Governance	Strong policies and controls	Compliance-led environment
Level 3 – Managed Conduct Risk	Conduct risk integrated into ERM	Monitoring of behavioural risks
Level 4 – Ethical Culture	Leadership actively drives integrity	Incentives aligned with ethics
Level 5 – Integrity Intelligence	Data-driven ethics oversight	Behavioural analytics and proactive misconduct detection

CONDUCT RISK DIAGNOSTIC TOOL

Culture and Ethics

Assess if employees feel safe reporting misconduct and if ethical behaviors are rewarded in the organization.

Incentives and Risk

Evaluate whether performance incentives lead to excessive risk-taking among employees.

Governance Oversight

Ensure the board actively oversees conduct risk and governance practices are robust.

Conflict Management and Investigations

Confirm conflicts of interest are transparently managed and misconduct investigations are fair and independent.

CONCLUSION: DRIVING INTEGRITY IN PRACTICE

Holistic Integrity Approach

Integrity is embedded through combined focus on risk management, governance, leadership, and organizational culture.

Practical Tools

Using practical tools enables organizations to act ethically and uphold integrity in daily operations.

Continuous Vigilance

Ongoing vigilance is essential to maintain trust and ensure ethical behaviour over time.

Q & A

THANK YOU

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