Embedding Conduct Risk– Training for Board Members and Compliance Officers.

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LAYOUT OF THE PRESENTATION

- INTRODUCTION AND DEFINITION OF KEY CONCEPTS/TERMS
- TWIN PEAKS REFORM PROCESS
- EVOLUTION OF MARKET CONDUCT IN SA
- ROLES AND RESPONSIBILITIES OF BOARD AND MANAGEMENT
- CULTURE AND GOVERNANCE
- COFI FRAMEWORK AND RELATED STARNDARDS
- TASKS AND OR EXERCISES (GROUP)
- CLOSING (Q&A)

Introduction

- ❖ Thank you!
- ❖ As to the topic –
- ❖ Previously (generally) market conduct risk having enjoyed less of the spotlight the world-over as compared to prudential risk
- ❖ Brief elaboration on what each entails – Conduct (FIs' conduct when dealing with customers) v Prudential (safety and financial soundness of Fis)
- ❖ 2007/2008 Global Financial Crisis – Shift in focus to Market Conduct + Prudential.
- ❖ SA position prior to GFCs – policy decision having been taken to move to a Twin Peaks earlier than the GFC
- ❖ Key concepts –
- ❖ Conduct, at its most fundamental level, refers to how people within an organisation behave in practice, particularly how decisions are made, how customers are treated, and how risks are managed.
- ❖ Culture refers to the shared behaviours, values and norms of individuals and groups within an organisation, which collectively shape and influence those conduct outcomes.
- ❖ Customer-centricity refers to putting customers at the core of a given financial institution's business
- ❖ Conduct and Culture are at the core of today's discussion (NB)
- ❖ Sources.

Objectives

Objectives – At the end of this session participants should understand:

- ❖Key concepts
- ❖Brief understanding of the Twin Peaks reform process and its relevance to the topic at hand.
- ❖Specific to market conduct, how has same since evolved in SA.
- ❖Understanding of the role and responsibilities of Board and Management.
- ❖Why focus and or spotlight is on culture and governance.
- ❖The future – COFI framework as such is relevant to the topic at hand

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Key Concepts

Conduct

- It is the most fundamental level, which refers to how people within an organisation behave in practice, particularly how decisions are made, how customers are treated, and how risks are managed.

Culture

Refers to the shared behaviours, values and norms of individuals and groups within an organisation, which collectively shape and influence those conduct outcomes.

Customer-Centricity

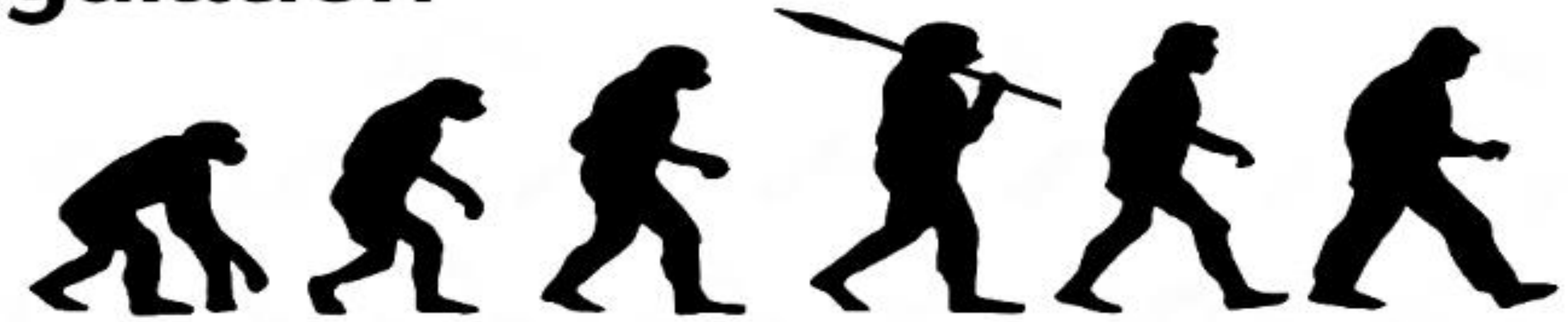
- Refers to putting customers at the core of a given financial institution's business

TWIN PEAKS REFORM PROCESS IN SA

- ❖ Brief of what it entails? – Two dedicated authorities
- ❖ Policy position to operationalizing via the Financial Sector Regulation Act 9 of 2017 (FSR Act)
- ❖ FSR Act – establishing both Authorities
- ❖ COFI – Comprehensive consolidation of conduct pieces of legislation (Future)

Issues relating to conduct and culture increasing importance duo – to rapidly changing financial markets driven by innovation and broader societal challenges

The evolution of market conduct regulation



What was?

- Silo focus
- Reactive
- Box-ticking
- Ritualistic
- Adversarial
- Non-strategic
- Backwardlooking
- Rules based

What-is? ☑

- Pre-emptive
- proactive
- Forwardlooking
- Intensive
- Collaborative
- Risk-based
- Outcomes focused
- Comprehensive
- Operational and business model focused
- Align with international standards

The Evolution

Move from ***talking*** about TCF outcomes s ***proactive management*** of market conduct / conduct of business risks

The link - culture, governance & accountability

Expectation from the Board – promoting and overseeing effective governance and culture Setting the "Tone from the top":	"Mood in the middle" Senior Management Responsibility	"Echo from below":
❖Oversee the implementation of desired organisational culture at all levels ❖Streamline board and governance structures to ensure integrated and holistic prioritization and oversight of high impact risks ❖Empower boards to engage more robust decision making through better quality tracking data and management information -measure delivery of key outcomes ❖Assess diversity and inclusion of representation, knowledge and skills across board and senior management ❖Set business objectives and strategies for achieving objectives ❖Effective oversight of Senior Management ❖Promote a culture of openness and debate within the Board, with proper involvement of Senior Management and Key Persons in Control Functions	❖Promoting sound risk management, compliance and fair treatment of customers ❖Implementation of governance arrangements	❖Decision-making and behaviours at the middle and lower levels - critical to evaluating how deeply embedded the cultural tone is ❖Positive tone at the top, including promoting a sound culture of openness and debate at all levels -help set norms for responsible and ethical behaviour down through middle management and front-line employees.

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Roles and Responsibilities of the Board

❖ Board of Directors – Exercising **overall oversight and ultimately responsibl**e for compliance with relevant legislative prescripts :

-**Setting tone-from-the top** (healthy culture geared toward good customer outcomes)

-Setting and **embedding corporate values**

-Strategy setting which is **customer focused and or -centric**.

❖ Compliance Officers – assist the Board and Executive Management in discharging their duties and responsibilities.

What does good conduct and culture look like

Core of Good Conduct

❖ Good conduct is reflected in everyday behaviors, ethical decisions, and respectful customer interactions.

Customer-Centric Culture

❖ A strong culture places customers at the center, ensuring transparency, fairness, and honest communications.

Empowered Employees

❖ Healthy culture empowers staff to speak up and manage risks without fear of retaliation or reprisal.

Leadership and Accountability

❖ Effective leadership and governance align organizational values with customer-focused strategies and accountability.

Four Elements of Managing Conduct and Culture

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Checklist for Managing Conduct & Culture

Good Customer Outcomes

Simple and Suitable Products

Design products that are easy to understand and meet customer needs without causing confusion or pressure.

Aligned Staff Incentives

Ensure employee motivations prioritize customer wellbeing over sales targets to foster trust and ethical behavior.

Effective Communication

Maintain transparent, honest, and timely communication to support positive customer experiences.

Ongoing Customer Reviews

Conduct regular reviews to ensure products and services continue to meet evolving customer needs.

Conduct and Culture Governance

Leadership Commitment

Board and senior management must actively engage in shaping a customer-focused, ethical, and transparent culture.

Employee Empowerment

Create a safe environment where employees feel empowered to report concerns without fear of retaliation.

Governance Structures

Implement committees and management structures to monitor and evaluate conduct and culture performance.

Aligned Incentives

Ensure remuneration and incentives support desired conduct to prevent conflicting motivations within the organization.

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Conduct and Culture Risk Management

Defined Governance and Roles

Clear roles and governance structures enable proactive risk identification and effective mitigation.

Skills and Ethical Standards

Employees must have the competence and training necessary to ensure good customer outcomes and uphold ethics.

Whistleblower Support Culture

A trusted whistleblower framework encourages staff to report misconduct and cultural weaknesses safely.

Conflict of Interest Management

Systems must identify, track, and resolve conflicts of interest to maintain fairness and transparency.

Collaboration - What are we doing from a regulatory perspective?

Joint Standard Governance requirements for financial institutions

- Cross cutting, principle based, focused on good governance outcomes, aligns with King Code
- Culture, leadership, and ethics
- Governance framework requirements
- Governance of the ‘four lines of defense’
- Conflict of interest management;
- Principles relating to the use of technology, information, artificial intelligence, and machine learning by financial institutions;
- Remuneration and incentives

Conduct of Financial Institutions Bill

- Enhanced focus on Business Principles, Culture and Governance
- Accountability of governing body, oversight over governance arrangements
- Governance arrangements promote accountability of key persons and address roles, responsibilities and duties of the governing body

TASKS AND OR EXERCISES

TASK 1 Group work – Draft and or come-up with **5 key strategic objectives (organizational)** which are customer focused and or centric and present same to the overall class.

TASK 2 Group work – Draft and or come-up with a **balanced Executive Score Card**. Present to the group with a key focus on the rationale behind the measurements.

TASK 3 Group work – Come-up with suggested ways and or methods of ensuring that **tone-from-the- top echo at the bottom.**

Q&A

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Financial Sector
Conduct Authority

END.
THANK YOU

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