



The Alchemist's Guide to...

Conduct Risk

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The Alchemist's Guide to Conduct Risk

Objectives

- Create the Philosophers' Stone
- Turn lead into gold
- Develop the elixir of life

Framework

- Theory and terminology
- Experimental processes and laboratory techniques

Results

- Proto-scientific disciplines that heavily influenced chemistry and medicine
- Spiritual, mystic and contemplative aspects
- Charlatanism

Agenda

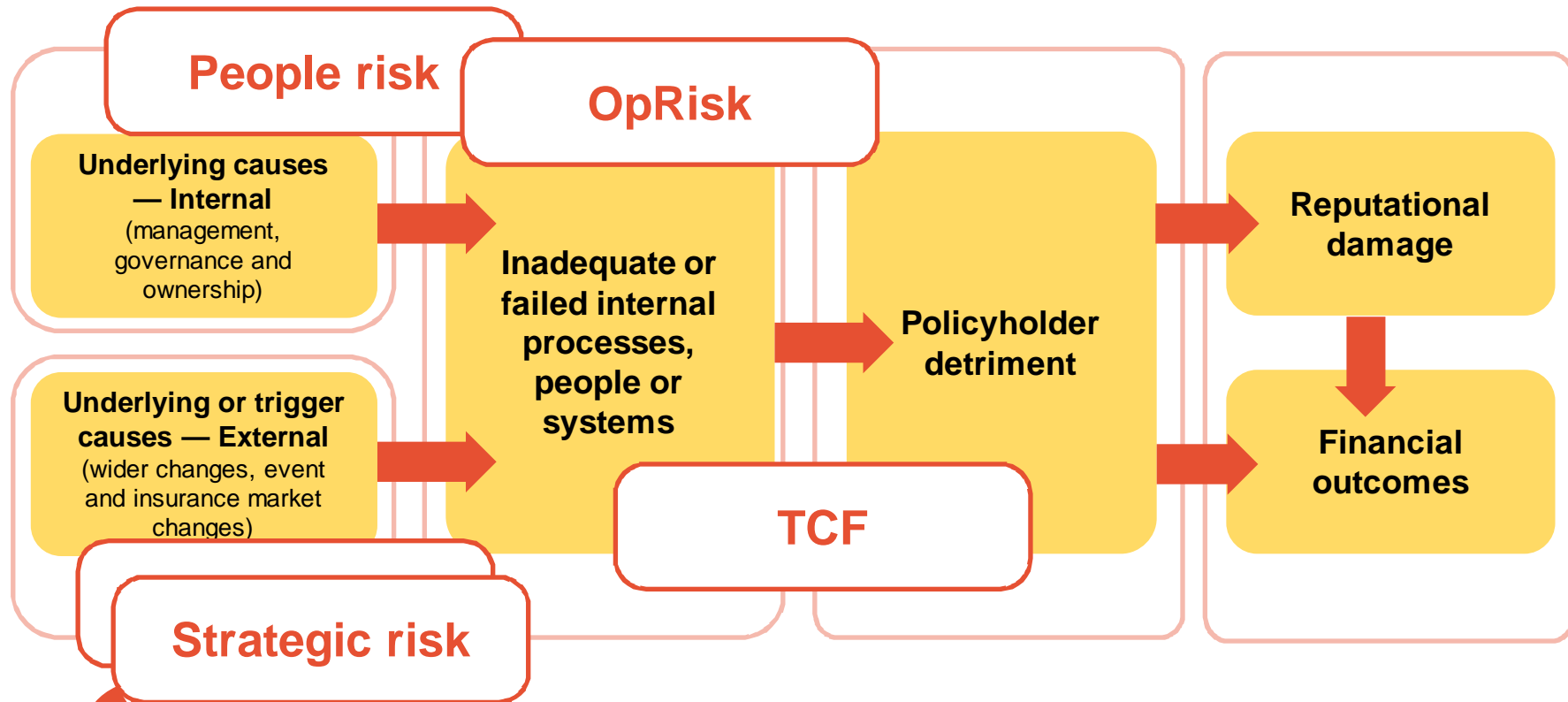
 **Putting Conduct Risk into context**

 **Can you measure Conduct Risk?**

 **Assessment and control**

 **Value for money**

Conduct risk map



“ The **risk** of causing consumer detriment [that could result in financial or reputational **damage** to the **firm**]. ”

Quantifying conduct risk

- FCA approach is top-down
 - Integrate strategy, risk thinking and a supportive culture — not box-ticking
 - Strong focus on people and culture
- Expanding scope beyond historic focus on TCF and sales conduct
 - Wholesale and retail relationships
 - Conduct risk governance
 - Whole product lifecycle
- Handbook:
 - Possibility in the foreseeable future: damage to reputation or serious detriment to a customer
 - Consider probability and severity
 - May be difficult to determine



Quantifying conduct risk across the product lifecycle



Purpose

- Prudential requirement
- Business management



Severity

- Indemnification
- Compensation
- Internal and external investigation costs
- Fines
- Increased lapses
- Restricted new business
- Reputational damage (all stakeholders)



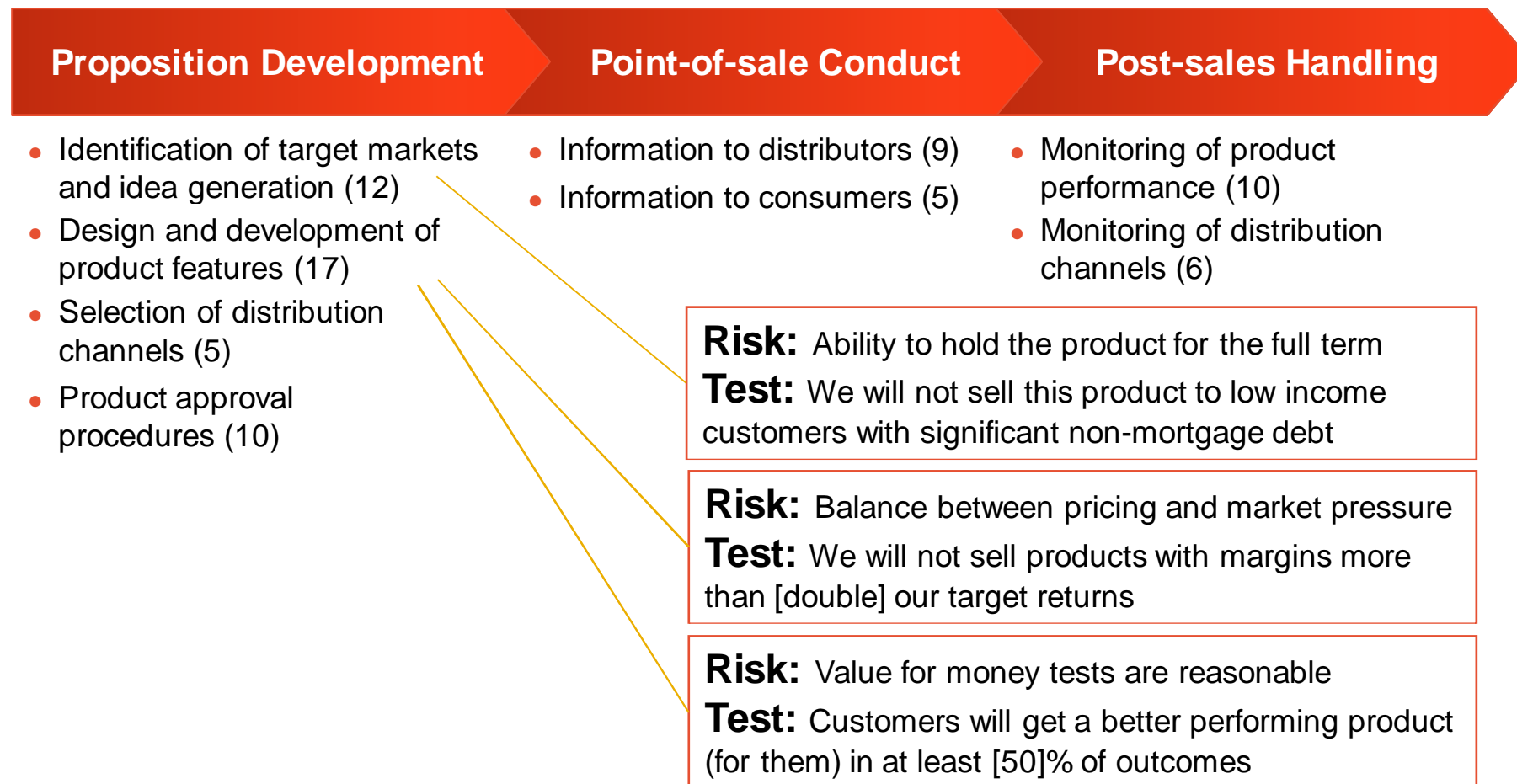
Probability

- Start with industry-wide frequencies
- Adjust for known threats — FCA focus, CMCs, internal complaints
- Weighted RAG using product checklist
- Build a hierarchy of risk tolerance statements

Developing a conduct risk assessment

Increased FCA Focus

Traditional FSA Intervention



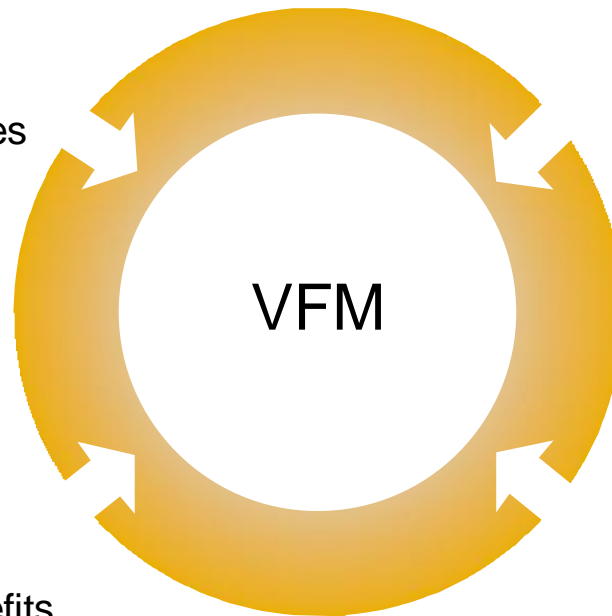
Value for money frameworks

Complexity

- Different positions
- Different expectations
- Changing circumstances
- Value allocation among stakeholders

Subjectivity

- Value perceptions
- Quantifying softer benefits



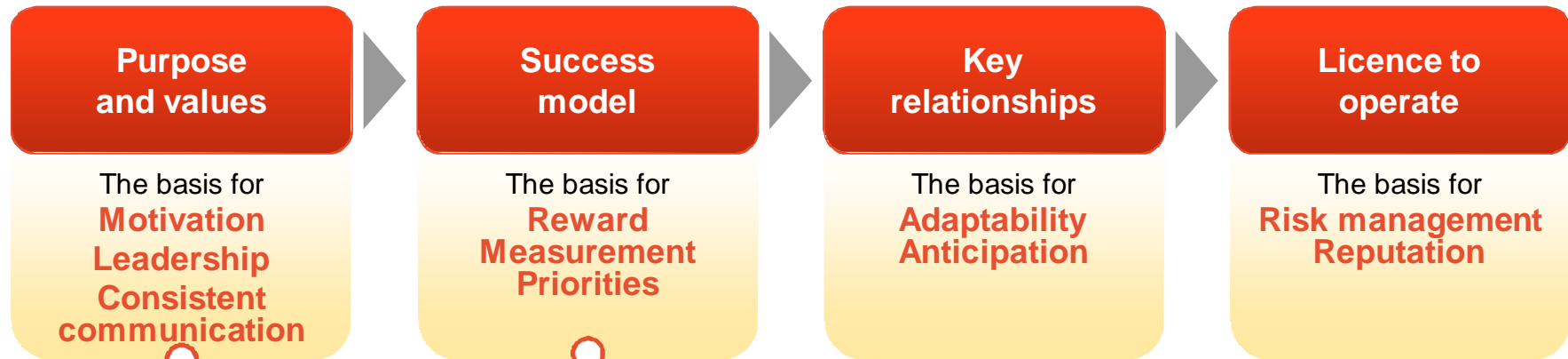
Challenges

- Recouping costs
- Proportionate charges

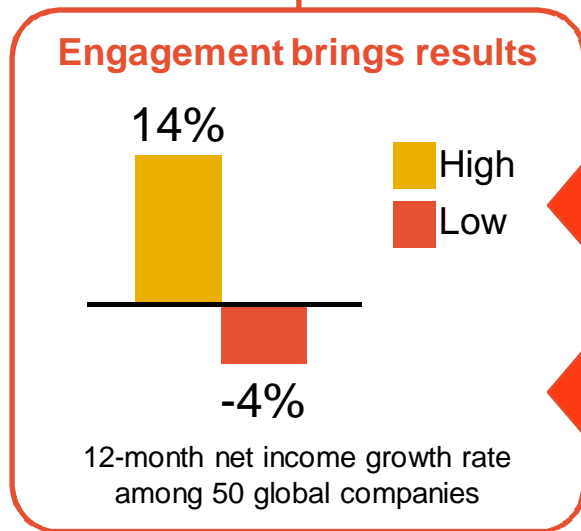
International

- Market overlays
- Regulatory landscapes

Spiritual, mystical and contemplative aspects

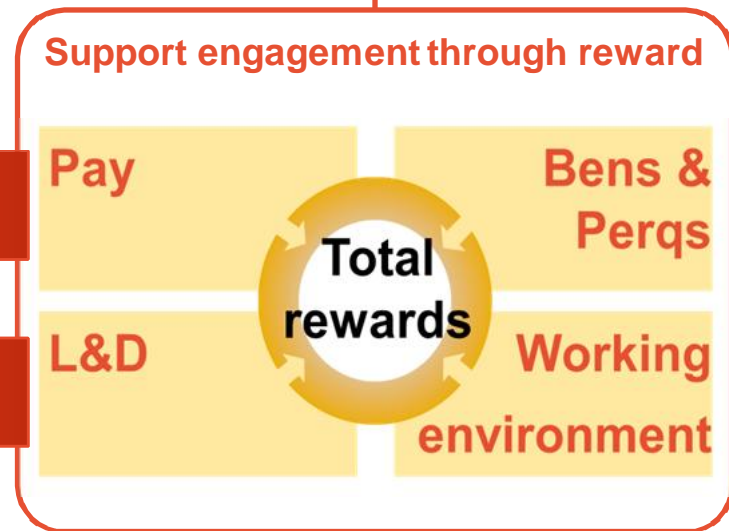


Source: Centre for Tomorrow's Company.



Hygiene factors

Strategic factors



“Save customers £2bn by 2015”
— MoneySupermarket.com

“I don't know how to be good”
— Tracey McDermott's daughter (age 4) 8

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