

THE ETHICAL CHALLENGE

Building a Culture of Professionalism and Integrity

The Business of Ethics Conference 2017 highlighted the importance of having in place a strong culture of professionalism anchored on a set of core ethical principles across the financial services industry.

The global financial crisis and other financial scandals over recent years have shown a lack of integrity within the financial services industry and have shaken public trust and confidence in regulators and financial institutions. As a result, the financial services industry has seen many new regulatory developments being undertaken to address the root cause of the crisis. Financial intermediaries must keep to the rules of the law and industry standards, act ethically, and acknowledge and accept that ethics is not just a side issue within the financial services industry but should be a part of its core.

The inaugural Business of Ethics Conference 2017, entitled *'The Ethical Challenge: Building a Culture of Professionalism and Integrity'*, jointly organised by the Financial Services Professional Board (FSPB) and **AIF** was held on 24 April 2017 at Sasana Kijang, Kuala Lumpur. The conference, attended by over 120 financial services' leaders and experts on ethics, focussed on the importance of having in place a strong culture of professionalism anchored on a set of core ethical principles across the financial services industry, and its role in restoring customers' confidence and trust in the industry.



OPENING REMARKS

Tan Sri Dato' Dr Mohd Munir Abdul Majid, Chairman, Financial Services Professional Board (FSPB); and Chairman, Bank Muamalat Malaysia Berhad

Tan Sri Dato' Dr Mohd Munir Abdul Majid said that the inaugural Business of Ethics Conference 2017 was intended to encourage the financial services industry to instil ethical and professional standards of conduct for the good of the industry.

He said the findings from the ethics survey undertaken by FSPB and AIF point to the distance, disconnect and disparity between the lower-downs and the higher-ups within organisations. The structure of privilege and unaccountability cannot be allowed to reach an unconscionable level that results in cynicism, disbelief and lack of confidence. FSPB must be more engaging and represent the industry in developing ways and means to make ethical practices and conduct a matter of course.

He hoped that this conference and subsequent conferences will help not only in the development of ethical and professional conduct, but also in engagement across the industry, a common conclusion and a shared experience.





SPECIAL ADDRESS

Bad Apples or Bad Barrels?

Shaik Abdul Rasheed Abdul Ghaffour, Deputy Governor, Bank Negara Malaysia

As leaders, the challenge is to take a holistic, thoughtful and realistic approach in building a culture of genuine professionalism and ethics – one that sinks into the very DNA of the industry.

While ethics has been discussed and debated throughout the ages, it has been put into sharp focus only lately, and especially so within the ambit of the financial services industry. Plato claimed that 'good people do not need laws to tell them to act responsibly, and bad people will find a way around the laws'. In essence Plato suggests that there are 'good apples' and there are 'bad apples' and implies that the state of 'the apples' has nothing to do with 'the barrel'.

Shaik Abdul Rasheed Abdul Ghaffour, Deputy Governor, Bank Negara Malaysia, said that the global financial crisis has generated much conversation about ethics and culture. Corporate governance routines and practices did not safeguard against excessive risk taking. One crucial shortcoming was the corporate culture within financial institutions. It is therefore no surprise that 'weaknesses in risk culture are often considered a root cause of the global financial crisis'.

He emphasised that it is crucial and timely that we take the ethical challenge seriously in Malaysia to ensure that the unflattering history that we have seen elsewhere does not repeat itself here. As stewards of the people's money, the finance community must step up to the moral obligation owed to society.

The Deputy Governor went on to say that the ethical challenge for leaders in the corporate and public sectors is to focus on cultivating a system and designing situations that encourage continuous ethical behaviour in people. It is therefore important that the entire financial sector embraces the language of ethics.

In the Malaysian system, legal and regulatory frameworks for the financial sector are stewarded by Bursa Malaysia, Securities Commission Malaysia, Companies Commission Malaysia and Bank Negara Malaysia. The Bank recently issued the enhanced corporate governance standards for the financial sector and will be introducing a strengthened transparency framework for enforcement actions.

The situation represents the environment in which financial industry professionals operate – (1) remuneration which plays a significant role in influencing behaviour, including ethical choices; and (2) attitudes towards speaking-up – clear and robust whistleblowing arrangements for employees to raise legitimate concerns about illegal or unethical practices.

Organisations must pay careful attention to people they hire and promote. The Bank is currently pursuing an initiative that will mandate the sharing of employment references with future employers to mitigate the problem of 'rolling bad apples' within the industry.

Shaik Abdul Rasheed concluded his speech by stressing that as leaders the challenge is to take a holistic, thoughtful and realistic approach in building a culture of genuine professionalism and ethics – one that sinks into the very DNA of the industry.



As stewards of the people's money, the finance community must step up to the moral obligation owed to society.

SURVEY FINDINGS



Earning the Trust: Ethical Landscape of the Malaysian Financial Services Industry

Kee Gek Choo, General Manager, Market Research, Asian Institute of Finance

AIF and FSPB commissioned a survey in 2016 to gauge the ethical health of the Malaysian financial services industry and its readiness to adopt the FSPB Code of Ethics. The key findings were:

- ethical values are not embraced as a norm by everyone;
- there is a disconnect between principles and practice, most glaringly in the insurance sector;
- a significant proportion of professionals behave ethically only when they have to; and
- younger professionals in their 20s are twice as likely to exhibit such an attitude.

While certain unethical practices – receiving bribes, not being honest or transparent in dealings – are clearly rejected, several fall within grey areas. For example, four in ten professionals do not reject the receipt of gifts.

These gaps exist in spite of all financial institutions surveyed having in place mechanisms to promote ethical behaviour, suggesting slackness in execution and implementation. A case in point is the lack of confidence in the integrity of the whistleblowing mechanism. While a large majority would use it, almost half are concerned about potential negative repercussions.

The Malaysian financial services industry needs to tighten its ethical standards through a concerted effort at the legal, regulatory, corporate and individual levels to ensure longer term sustainable growth. The FSPB Code can play a crucial role in harmonising standards within the industry and ensuring their conformity to international norms.

A Question of Ethics: Just How Ethical Are You?

Simon Culhane, Chartered Fellow and Chief Executive, Chartered Institute for Securities & Investment, UK



According to Simon Culhane, professionalism is a critical aspect of our jobs and a combination of three factors – knowledge, skills and integrity. Integrity and trust are important and necessary components for firms operating in both local and global centres and need to be part of a firm's culture. The principles of integrity are honesty, openness, transparency and fairness. The availability of skilled professional people and ongoing professional development are among the top two factors in the human capital of any business.

Research has revealed people's ability to delude themselves about the ethics of business decisions and 'the backfire effect' where they react to facts which contradict what they believe by strengthening those beliefs. So someone may genuinely think an inappropriate action complies with the rules. This should be disconcerting for regulators, standards bodies and leaders conducting risk initiatives as rules, ethics codes and the likelihood of punishment have no preventative sway over people who have persuaded themselves they are acting correctly.

KEYNOTES



KEYNOTE 1

Building and Promoting an Ethical and Professional Culture: Making a Difference

Professor Thomas Donaldson, Mark O. Winkelman Professor of Legal Studies and Business Ethics, Wharton School, University of Pennsylvania, USA

Professor Thomas Donaldson said that professionalism today means moving beyond firm-centred compliance and ethics programmes. These programmes are critically important but depending solely on them means relying on a rather thin reed to handle some of the emerging challenges of today's banking culture. Firm-centred compliance and ethics programmes were inadequate as was proven in the events leading to the global financial crisis.

He insisted that what is missing is active, intense leadership attention to culture and an industry-level process to identify risk and create a collective attempt to deal with those risks. Leaders should create a culture in which people are willing to speak up by communicating expectations, showing candor and transparency, rewarding employees who speak up and by 'being there' and this should lead towards creating an ethical and professional culture in organisations.

Professor Donaldson stressed the importance of adopting and putting in place effective implementation systems that integrate professional standards, as well as internalising the value and spirit of standards in the overall culture of the organisation. Standard corporate compliance and ethics structures must include 'help lines', ethics training, codes of conduct, credo statements, investigation policies, audit committee monitoring, employee surveys, ethics offices and communication initiatives.

KEYNOTE 2

Contribution of the Financial Sector to the National Economy and the Importance of the Industry's Reputation

Tan Sri Abdul Wahid Omar, Group Chairman, Permodalan Nasional Berhad, Malaysia

Tan Sri Abdul Wahid Omar delivered his keynote address in three parts: contributions of the financial sector to the Malaysian economy, the importance of its reputation, as well as trust in the industry.

The Malaysian financial sector plays an important intermediary role and has contributed immensely to the growth, dynamism and development of Malaysia particularly since the 1997-1998 financial crisis. Malaysia today is an open economy and has displayed resilience in the face of a weak global environment.

He stressed that Malaysia has made significant progress towards upholding corporate governance and enhancing investor protection, and therefore increasing the resilience of our economy against global financial shocks which dented public faith and confidence particularly in the 'western' banking sector. Restoring a culture of trust based on strong ethical standards is imperative to securing a bright future for a purposeful financial industry.

Most people are good and have no intentions of committing crimes, but there are also people who break the law if they think they can get away with it. Therefore, if laws are enforced firmly, fairly and consistently, many of the problems we have in this world today may be significantly reduced.



PANEL DISCUSSIONS



PLENARY 1 Embedding Ethics into Your Culture: Challenges and Critical Success Factors

Bill Howarth, President, International Compliance Association; and Group Managing Director (Risk and Compliance), Wilmington plc, UK

Clare Payne, Consulting Fellow, Ethics in Banking and Finance, The Ethics Centre; and Director, The Banking and Finance Oath, Australia

Keith Stoddart, Managing Director, Senior Advisor of Compliance and Operational Risk Control, UBS AG, Hong Kong

Moderator:

Datuk Shireen Muhiudeen, Founder, Managing Director and Principal Fund Manager, Corston-Smith Asset Management, Malaysia

To raise professionalism to the next level it is important that the financial sector adopts and implements professional standards by having in place effective implementation systems that integrate standards across an organisation's business operations and processes, and internalises the value and spirit of standards in the overall culture of the organisation.

Keith Stoddart highlighted that ethics and culture must be embedded in the DNA of the organisation to tangibly affect the way people think, work and behave. He said that it is important to have a strong governance programme followed through effectively by senior management.

Clare Payne said that the challenges facing the industry include the limited influence of CEOs, effecting change at the middle management levels, unwieldy structures that have encouraged unethical behaviour and incorporating the language of ethics.

The role of professionalism in compliance is the biggest challenge that Bill Howarth has come across in his 20 years as a CEO. He emphasised that organisations must measure ethics by using good measurement tools including ISO standards; ensure systems and controls are properly tested and audited; and training and communication plans are appropriate for the staff and type of business.

PLENARY 2

The Current and Future Role of Ethics in the Financial Services Industry

Antony Lee, Chief Executive Officer, AIG Malaysia; and Chairman, General Insurance Association of Malaysia

Dr Tony Tan, Head, Global Society Advocacy Engagement, CFA Institute, Hong Kong

Moderator:

Richard Thomas, OBE, Institutional, Governmental and Multilateral Relationships, Gatehouse Bank, UK

Professionalism and ethics in financial institutions are important in promoting the sustainability and stability of the industry. This session examined the crucial role of younger generations in adopting professional standards and the impact of changes in customers' behaviour, disruptive technologies, tighter regulatory oversight and increased competition on developing professional standards and instilling ethics in the financial services industry.

With reference to the **AIF** report '*Earning the Trust: Ethical Landscape of the Malaysian Financial Services Industry*', Richard Thomas raised the issue of a lower level of trust in the insurance industry and Islamic banking compared to conventional banking and investment management.

Antony Lee said that the negative perception of insurance among the younger generation is a legacy issue. The industry is working on raising the standards of its agents by collaborating with The Malaysian Insurance Institute on professional qualifications and has embarked on installing a fraud-intelligence system. He stressed that ethics really starts from the home and family and this fundamental issue needs to be addressed.

People in the investment management industry are generally more aware of compliance and ethical issues and this could probably be a good reason for the lower level of 'breaches' said Dr Tony Tan. He emphasised that from an ethics awareness viewpoint within Asian culture, we need to encourage people to talk about ethics-related issues in a very structured manner.





PLENARY 3

Preventive Medicine: Are New Initiatives to Improve Professionalism and Ethics Enough to Prevent Another Financial Crisis?

Dato' Mohammad Faiz Azmi, Executive Chairman, PricewaterhouseCoopers Malaysia
Simon Culhane, Chartered Fellow and Chief Executive, Chartered Institute for Securities & Investment, UK

Mahendra Gursahani, Managing Director and Chief Executive Officer, Standard Chartered Bank Malaysia Berhad

Dato' Yusli bin Mohamed Yusoff, President, Malaysian Institute of Corporate Governance

Moderator:

Rajeev Peshawaria, Chief Executive Officer and Executive Director, Iclif Leadership & Governance Centre, Malaysia

Regulations and initiatives introduced to improve professionalism and ethical conduct in various jurisdictions affected by the financial crisis were the topic of discussion for this panel. Rajeev Peshawaria asked the panel to explain what they thought the financial services industry should do to create an ethical culture.

Dato' Mohammad Faiz Azmi said ethical conduct must prevail to ensure that the excessiveness of profits and returns are moderated. He said that bonus clawbacks should be made mandatory in Malaysia. According to Mahendra Gursahani the new generation of bankers are more susceptible to being tempted to indulge in practices that are unethical.

Simon Culhane mentioned that regulators should develop a mandate where promotions are granted based on bankers joining a professional body and obtaining the right qualifications and skills of which ethics should be the core. Dato' Yusli bin Mohamed Yusoff said that if FSPB can address the issues of ethical conduct and ensure training is provided on a regular basis, as well as ensuring it is included within annual performance reviews, it will go a long way towards creating an ethical culture.

CLOSING REMARKS

Tan Sri Dato' Dr Mohd Munir Abdul Majid, Chairman, Financial Services Professional Board (FSPB); and Chairman, Bank Muamalat Malaysia Berhad

In his closing remarks, Tan Sri Dato' Dr Munir Abdul Majid made three key points on the issues of internalising and embedding ethics and professional conduct. The first point was to measure ethics by using good behavioural tools, including ISO standards and compliance management systems. Secondly he stressed engagement and the importance of the younger generation and customers being part of this engagement. Thirdly he emphasised the importance of measuring performance at the top against ethical and professional standards.

