

On alert

Stepping up vigilance
against financial crime

Conduct soundbites

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Andrew Clark

Financial Services Risk and Regulation Partner – Forensic Services

As investigations intensify and costs mount, how can financial services (FS) organisations develop more watertight ways to guard against financial crime?

Appearing before the Treasury Committee in March, the Governor of the Bank of England, Mark Carney described the Forex rigging scandal as being ‘as serious as LIBOR if not more so because this goes to the heart of integrity of markets’¹. A 50-strong team from the Financial Conduct Authority (FCA) is helping to co-ordinate the global investigations², which have now been extended to include the Bank of England itself following allegations that some staff may have been aware of market abuse as far back as 2006³.

The costs of these and other abuses can no longer be ignored. Analysts are suggesting that a number of UK and Continental European banks will collectively need to put aside more than €8billion to cover a gathering wave of litigation expenses and fines over the next two years⁴. Overall, the FCA believes that the cost to the global economy of financial crime is \$2.1 trillion⁵.

In the FCA’s sights

So what do we mean by financial crime and why are the stakes now so much higher? Financial crime within financial services encompasses fraud, market abuse, money laundering, bribery and data compromise. As cases ranging from LIBOR and Forex manipulation to the £1.5 billion losses racked up by rogue trader Kweku Adoboli⁶ highlight, the threats just as likely to come from within the organisation as outside.

The FCA sees the fight against financial crime as a key element of its determination to uphold market integrity. The focus on knowing your customers as part of anti-money laundering requirements also have clear overlaps with the customer understanding needed to deliver good outcomes.

For the institutions involved, sanctions for financial crime might once have been seen as an absorbable cost of doing business. But the fines are escalating and if the UK follows the hefty penalties being imposed in the US they could spiral still higher. On top of the fines there is the huge expense of operational redress and repairing reputational damage.

The other big change is that it’s no longer enough for boards to say that we had no knowledge of the negligence or wrongdoing. Regulators are asking who should have known, why didn’t they and where did the governance system fail to allow this to happen. The Government’s determination to hold executives to account is highlighted by its proposed introduction of ‘criminal sanctions for serious misconduct in the management of a bank’⁷.

Strengthening controls

What this demands is a more comprehensive, assured and demonstrable approach to financial crime. But this is more easily said than done. Organisations often have an incomplete view of the risks they’re vulnerable to. A recent PwC survey also indicated that many FS boards are over-confident about the adequacy of the controls, particularly in relation to cybercrime⁸.

¹ BBC News Online, 11.03.14

² Financial Times, 09.03.14

³ Financial Times, 05.03.14

⁴ Financial Times, 09.03.14

⁵ Speech by Martin Wheatley, Chief Executive, the FCA, at the FCA Financial Crime Conference, London, 01.07.13

⁶ The head of the police investigation described the case as ‘Britain’s biggest fraud’ (Guardian, 20.11.14)

⁷ Sanctions for the directors of failed banks’, HM Treasury consultation, July 2012

⁸ 1,330 financial services respondents were polled for PwC’s 2014 Global Economic Crime Survey <http://www.pwc.com/gx/en/economic-crime-survey/downloads.jhtml>



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Underlying concerns centre on whether control systems are able to keep pace with increasingly complex trading activity or the constantly morphing threat from cybercrime and money laundering. In turn, a lack of the necessary data, technology and intra-company connectivity is making it difficult to aggregate all the amber flags into a clear red light – without this ability to join the dots, there is always a risk that lapses will slip through.

These potential vulnerabilities demand a review and possible overhaul of controls. Have you identified the key risk scenarios? Is the control system integrated and dynamic enough to stay on top of the evolving threats? Do control teams have a sufficient mandate to challenge and check abuses? Is sufficient management information being passed to senior decision makers? How are you going to demonstrate comfort to the FCA?

It's going to be very difficult to achieve the necessary adaptability, co-ordination and proactive alert mechanisms without building financial crime prevention into the target operating model. Smart businesses also have a response and escalation plan in place and ensure this is regularly reviewed. Some are going further by using big data and other new analytical techniques to detect patterns of behaviour that could point to fraud and other risks.

Culture as the ultimate safeguard

However, the complexities of today's business and the matrix management that directs it mean that the deficiencies can't be

fixed by tighter rules alone. Culture and values are critical, shaping the shared assumptions ('unwritten rules') that drive attitudes to integrity, risk taking and compliance – what staff do when nobody is looking. What is especially crucial in relation to financial crime and market abuse is the tone from the top and the extent to which challenge is encouraged within an organisation – regulators are going to be looking beyond formal controls at any nods and the winks that put profit before probity. A further posting in this conduct series looks in more detail at the relationship between conduct, integrity and culture.⁹

Responding quickly to breakdowns

Inevitably, there will be some failures. In the ensuing period, there may be a temptation to investigate everything. But this can take too much time, during which your business may be prevented from taking key strategic steps such as acquisitions or product launches. It's therefore important that the initial review follows the trail of evidence to identify the most pressing issues for remediation.

So how urgent is this rethink and possible overhaul of your approach to financial crime? Clearly FS organisations are in the FCA's and the media's sights. But the risks of doing nothing go further. As more and more organisations look to strengthen their controls, both criminals and riskier staff are going to gravitate towards the laxer businesses. You certainly don't want to be the last to de-risk.

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⁹ PwC 'Set up to do the right thing: Creating a winning culture' www.pwc.co.uk/conductsoundbites

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Contacts

Julie Coates

**UK Leader – Financial Services Risk
and Regulation Practice**

T: 020 7212 3211

E: julie.x.coates@uk.pwc.com

Andrew Clark

**Partner – Financial Services Risk and
Regulation – Forensic Services**

T: 020 7804 5761

E: andrew.p.clark@uk.pwc.com

Richard Smith

Partner – Co-head, Conduct and Culture

T: 020 7213 4705

E: richard.r.smith@uk.pwc.com

David Kenmir

Partner – Co-head, Conduct and Culture

T: 020 7804 4794

E: david.kenmir@uk.pwc.com

www.pwc.co.uk/conductsoundbites

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