



Are you prepared to be Accountable?

January 2018

With rapid and constant changes in the financial services (FS) sector, there has been a notable trend for regulators across multiple jurisdictions to increasingly focus on the importance of accountability, culture and conduct.

Specifically, a renewed approach to accountability for the decisions taken within organisations and the risks associated with them have emerged from regulators in the U.K., Australia and Hong Kong.

With executive accountability being increasingly formalised, and the landscape changing rapidly, a number of questions arise:

- *How will organisations cope with the all the moving parts?*
- *What are the implications for decision-making?*
- *How will this affect behavioural drivers?*
- *What will be the impact on an organisation's overall risk profile?*

Current regulatory initiatives across the globe

Formalised executive accountability regimes have been introduced over the past 1-2 years in the U.K., Australia and Hong Kong (refer to Figure 1). Whilst the specifics of the regulations might differ between the jurisdictions, the spirit of the new measures are consistent in their endeavour to improve accountability through a sound risk culture, effective corporate governance and imposing stronger consequences for conduct that are not in line with expectations. These approaches recognise that leadership is key to driving cultural change, and offer many opportunities to empower both leadership and individuals to do the right thing.

Organisations who have commenced their implementation of increased accountability may have encountered a number of challenges to date, including:



*Underestimating
how much work
is involved*



*Lack of
consideration for
practical
implementation
and implications*



*Possibility of
increased
conservatism in
decision making*



*Potential gaps or
overlaps in
allocation of
responsibilities*



*The emotive
impact of
accountability
on their people*



*Extraterritorial
implications and
market and
cultural nuances*

As with any regulation, if the requirements are perceived as more than a compliance mandate, with thoughtful implementation the impact to financial institutions (FIs) could result in achieving real benefits for their risk culture as well as their businesses as a whole. For example, firms who have implemented the requirements have found that establishing clearer accountabilities and responsibilities helped in decision making, particularly in times of crisis.

Figure 1: Summary of regulatory expectations across the globe

Specific expectations across jurisdictions vary, but all drive more defined individual accountability as well as significant reporting requirements.

Senior Managers and Certification Regime (SMCR) U.K.	Manager-in-Charge Regime (MICR) Hong Kong	Banking Executive Accountability Regime (BEAR) Australia
<p>The regulator's aspiration is to make senior staff individually accountable for the firm</p> <ul style="list-style-type: none">• Application depends on firm type, size and complexity• Firms must allocate 'prescribed responsibilities' to senior managers through individual• In the event of issues in a prescribed area, the FCA will consider whether 'reasonable steps' were taken in the discharge of their responsibilities• SMs need to be pre-approved by the regulator before appointment	<p>MICR puts forward the following key objectives:</p> <ul style="list-style-type: none">• Definition of members of senior management• Promote awareness of regulatory obligations and potential liabilities of senior management• Establish general expectation that members of senior management should seek SFC's approval to be 'Responsible Officers'• Provide guidance on the information a Licensed Corporation should submit on human resources and organisational structure	<p>The spirit of BEAR is to improve accountability through a sound risk culture, effective corporate governance and by imposing stronger consequences</p> <ul style="list-style-type: none">• Executive registration with APRA• Accountability mappings• APRA powers over remuneration policy• Remuneration deferral• Increased expectations and penalties for executives• Penalties for ADIs (Authorised Deposit Institutions) that do not appropriately monitor suitability of their executives for senior positions

The trend in Singapore

Whilst, at present, there is no official guidance for FIs in Singapore, we see an emerging trend putting a greater spotlight on executive accountability as well as culture and conduct. It is anticipated there could be a heightened focus on this topic in the near future, thus, we would strongly encourage FIs to be prepared.

In the consultation paper “*Amendments to Banking Regulations and Banking Corporate Governance Regulations*” by the Monetary Authority of Singapore (MAS) published in February 2017, a number of proposed requirements make reference to executive accountability, albeit not in a prescriptive manner. The inherent messaging indicates the expectation for further development of this space (refer to Figure 2 for details). Additionally, enhancing the risk management capabilities of the sector is in line with the MAS’ Roadmap for a Global Financial Centre in Asia, enabling a strong and robust foundation for the sector’s growth.

Figure 2: Highlights from the MAS consultation paper “*Amendments to Banking Regulations and Banking Corporate Governance Regulations*”, 7 February 2017

34.—(1) A bank shall, in a manner that is commensurate with the nature, scale and complexity of its business –
[...]

(b) put in place compliance function and arrangements including specifying the roles and responsibilities of officers and employees of the bank in helping to ensure its compliance with all applicable laws, codes of conduct and standards of good practice, and reduce the bank’s risk of incurring legal or regulatory sanctions that may be imposed by the Authority or any other public authority, financial loss, and reputational damage;
[...]

(g) set out in writing the limits of the discretionary powers of each officer, committee, sub-committee or other group of persons of the bank empowered to commit the bank to any financial undertaking or to expose the bank to any business risk (such as financial, operational or reputational risk);



From regulatory imperative to business advantage

Our global experience shows that regulatory requirements and mandated programmes can bring commercial benefits, if implemented in the right way and to meet the right objectives. Feedback from our clients in the U.K. suggests that despite initial organisational resistance to establish clearer executive accountability lines, firms started to see benefits approximately 18 months after implementation, in particular:

- Clear delineation of responsibility assisted decision making
- Reduction in compliance mistakes
- Improvement in shareholder confidence and consumer trust

In order to realise the possible benefits and gain a business advantage, organisations can leverage from lessons learned.

Helping organisations implement accountability enhancing measures - selected lessons learned

*Early
involvement of
HR and business
is key*

*Mapping of
overlap with
existing
regulatory
projects*

*Leveraging
existing (risk)
culture
initiatives*

*Focus on
reporting lines,
particularly in
matrix
organisations*

*As the nature of
regime is
personal and
emotive, good
communications
is essential*



The future - crystal ball.... or a “black mirror”?

The FS sector has changed dramatically over the past decade; decreasing levels of trust, increasing levels of regulatory scrutiny and advancements in automation, digitalisation and the changing nature of delivering services to customers.

With the transformation journey set to continue in the future, it is clear that there is a need to find new ways to replace the “crystal ball” and reduce the unpredictability – ***but do we increasingly stare into the “black mirror” with unknown consequences?***

Some questions for consideration in the near future could include:

What impact will developments such as robotics have on executive accountability?

How will risk decisions be made in future and to what extent will a person play a part?

How to continually strengthen risk culture and promote desired behaviours at both an organisation and individual level?

How well equipped are senior leaders to make informed risk decisions with the increase of timely and accurate risk data?

How will traditional frameworks of assigning responsibility need to evolve for areas of possible distributed control and diffused responsibility, e.g. blockchain?

In what ways can an organisation challenge its existing approach to risk governance to align with changes in culture, behaviour and technology?

Anticipating the change – what you can do now

In the absence of specific new regulatory requirements or guidance, it is often assumed that the analysis and roadmap for action can be addressed when the regulatory ask is more clear.

However, in our experience, organisations which look at the regulatory trends in a proactive manner achieve a smoother transition and implementation, coupled with tangible business benefits. Forward looking analysis can help identify potential limitations early on and eliminating them to be ready once new requirements are published.

Taking action sooner rather than later allows the organisation to be prepared – and ready to act when the need arises. As Abraham Lincoln once said “Give me six hours to chop down a tree and I will spend the first four sharpening the axe” - the importance of timely preparation cannot be underestimated. Take the opportunity to start “sharpening that axe” now.

How PwC can help

From performing diagnostics, to planning for change, implementing the agreed roadmap and ongoing monitoring of accountability, we have helped our clients as they face ongoing and evermore complex organisational and regulatory changes. Our subject matter experts cover a variety of issues on the risk agenda, ranging from governance, conduct and risk culture to creating data-driven risk functions which all strive to enhance organisations’ strategies and capabilities. We would be delighted to have a discussion on how we can help you navigate this journey.

Contact us

If you would like further information in relation to the issues outlined above, please call your usual PwC contact or any of the individuals listed below:

Jennifer Pattwell

Partner

+65 9238 3900

jennifer.pattwell@sg.pwc.com

Natalja Sesterikova

Senior Manager

+65 9673 8205

natalja.sesterikova@sg.pwc.com

