I am delighted to be here to witness the launch of the Financial Services Professional Board (FSPB) Professional Code for the Financial Services Industry. Thank you for allowing me an opportunity to offer some brief remarks this morning on the importance of this initiative from Bank Negara Malaysia’s perspective.

Let me begin by saying that the launch of the Code comes at a time when issues of culture and conduct in the financial industry have become an important focal point for financial regulators. After a hive of activity largely focused on strengthening prudential rules and standards, there is an acknowledgement that behaviour is ultimately regulated by something that runs deeper than rulebooks. It is not an easy thing to put your finger on. Regulators have talked about “the way things get done” in an institution, or “the human element in everyday decisions”. We like to think of it as how one behaves when no one is watching.

On this score, the financial industry could do better. Despite much publicity and widespread efforts to tackle the issue, incidents of misconduct continue to cast a dark shadow over the financial services industry across the world. This is worrying, because misconduct erodes trust in the system. If investors, depositors and policy holders stop believing that their interests are being safeguarded, the entire system quickly comes unraveled at significant costs to society. These costs can arise from failures of financial institutions, a misallocation of economic resources, or simply steep fines that destroy shareholder value and employment prospects for affected workers.

Since the global financial crisis, banks have paid more than USD320 billion in fines and legal costs and have been the subject of numerous Government financial inquiries due to misconduct. In Malaysia, in the last 5 years, Bank Negara Malaysia has imposed fines on financial services providers to the tune of RM116 million. A survey conducted by the Bank revealed that almost two-thirds of reported losses by banks in 2016 were associated with internal fraud, regulatory non-compliance and operational lapses.

We have examined these incidents in some depth. Our observations lead us to conclude that behaviour is very much influenced by contextual factors such as organisational values, incentives and management responses to misconduct or non-compliance. The right contextual setting can exert a powerful influence on individual behaviour. We believe this begins with setting and clearly communicating expectations of desired behaviour. Without clarity on what is acceptable in the first place, it would not be possible to encourage, much less enforce, these expectations.

The FSPB serves an important role in this regard through its work in defining and developing codes of behaviour for financial institutions.

Given the stronger focus of financial regulators on conduct and culture, such professional codes will matter greatly going forward as an important complement to regulatory standards.

The FSPB is well placed to lead and support initiatives to establish standards of conduct for the financial industry. Its standards not only serve as useful frameworks for financial institutions and professional bodies to develop specific guidance for their own employees and members; they also serve to embody the industry’s collective commitment to socially responsible values and
ethics.

For example, I noted with interest that the Professional Code being launched today commits to dealing with counterparties, including suppliers and agents that “subscribe to sound ethical principles”. Matters such as the environmental footprint or human rights record of third party providers are not typical obligations currently found in regulatory standards, yet, these are matters of great importance. They are a reflection of the values of the industry, and they matter to many conscientious consumers in this age of increasingly accessible information.

Given the central role of financial services in any economy, these are issues likely to move from the periphery to increasingly important business considerations. At the global level, we are already seeing greater attention given to sustainable and responsible finance. In many cases, it will require the industry to draw on experience beyond the traditional core competencies of most financial services providers. The industry, through FSBP, can demonstrate much needed business leadership in addressing broader ethical questions that will increasingly confront us as a society and as global citizens.

Apart from what ends up in written codes, there is also important value in simply having frank conversations about shared ethical challenges. In the United Kingdom, senior bankers got together to discuss ways to reform organisational culture following the widespread PPI mis-selling scandals, but some would consider this “too little too late”. We need to bring such discussions forward and actively encourage a process that would allow the industry to get in front of emerging issues around professional conduct and ethics. These include examining issues like how institutions might go about gaining a pulse on culture at various levels within the organisation, and the effects of incentive structures on behaviour.

With the digital revolution, there will be an increasing need for the industry to come together to set standards for novel areas of practice. Already now there is much buzz about the use of artificial intelligence and big data in finance. This creates opportunities for innovation, efficiency and growth, but also new risks, challenges and – without a doubt – difficult ethical questions on lines that should be drawn to prevent unfair, systematic, discrimination against specific groups, (for instance as a result of algorithmic programs) the inappropriate use of personal data and excessive volatilities from high-frequency trading.

As the industry navigates these issues, a shared commitment to a common set of values has never been more critical to build trust – with customers, with employees, with other financial institutions, and with the public at large. There are compelling economic, not just social or moral, reasons to do so. It encourages healthy competition, more efficient and sustainable markets, and consistently high levels of performance over the long term.

The FSBP, however, cannot achieve this alone. Deliberate and sustained efforts by the industry will be needed to engage, to communicate, to educate and to internalise these shared values. By pooling inputs across the industry, richer worked examples can be developed to shed light on how ethical principles should apply in practice. The consequences of misconduct should also be clear and unambiguous to firmly entrench behavioural norms – both within individual financial institutions and at an industry level. As you are aware, moves in this direction are already being taken with the requirement financial institutions to capture and share information on employee misconduct to inform hiring decisions beginning from July this year.

The Bank on its part will continue to provide a credible deterrent against misconduct through enforcement actions. With the enactment of the Financial Services Act 2013, the Bank has not hesitated to use wider enforcement powers that include stiff administrative penalties provided under the Financial Services Act to bring institutions to book for serious conduct breaches, and barring individuals from holding senior roles in financial institutions. We will continue to pursue investigations and enforcement actions into serious conduct breaches to the full extent of powers provided under laws administered by the Bank. Beyond the limits of the Bank's powers, the Bank
maintains close cooperation with other authorities to facilitate investigations and enforcement actions.

**Conclusion**

Building trust is not easy. It takes hard work, a determination to do the right thing and confidence to make judgements in situations that are not always well-defined. Taken in this context, the work of the FSPB serves as an important anchor for decisions and actions that will engender trust in the financial industry. In a fast moving world, a strong commitment to a professional code of conduct provides the assurance that the public seeks – that financial institutions and employees are held to and will consistently demonstrate high standards of professional and ethical conduct.

I hope that the industry will continue to lend its strong support to the FSPB’s work. Following today’s launch of the Professional Code, the Bank would urge financial institutions and professional bodies to reflect the standards set out in the Code in the values and conduct that you demand of your staff, agents and members. This needs to move beyond symbolic gestures, to the diligent implementation of policies and programs that promote the desired culture. The Bank is confident that the FSPB will continue to play an important role in supporting these efforts – including through its work to identify implementation challenges, develop solutions and introduce improvements to reflect emerging issues.

The financial industry has demonstrated leadership in so many areas – surely none can be as important as leadership in something as fundamental as professional and ethical conduct. On that note, let me once again commend and congratulate the FSPB on this important, and certainly most relevant initiative.