Ravi Menon: Strengthening trust in finance

Opening address by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at the Symposium on Asian Banking and Finance, Singapore, 3 June 2019.

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Dr Mary Daly, President and CEO, the Federal Reserve Bank of San Francisco,

guests, colleagues, ladies and gentlemen, good morning.

Welcome to Singapore for the Symposium on Asian Banking and Finance, jointly organised by the Federal Reserve Bank of San Francisco and the Monetary Authority of Singapore.

- This year marks the twelfth edition of the Symposium.
- This Symposium has carved a name for itself as a high-quality platform for industry captains, distinguished academics, and senior policy-makers to exchange views on global finance.
- And it stands out for bringing a strong dose of Asian voices while retaining the global relevance of the issues.

The theme for this year's Symposium is "Banking for the Common Good". Why did we choose this topic?

More than ten years have passed since the global financial crisis. We have seen a spate of regulatory reforms over the last decade – unprecedented in scope and scale but necessary.

- Implementation is not quite complete but the global financial system is generally safer and stronger today, with more capital and liquidity, less leverage and risk.

But it is not enough that finance is merely safer today. Just doing no harm is not enough.

- Finance needs to be a positive force for good.

I believe there are three things that finance must aspire to, if it is to be a force for good:

- it must be trusted;
- it must be inclusive; and
- it must be sustainable.

This Symposium will cover these issues in greater depth. I want to focus my opening remarks on the issue of trust.

Global surveys show that the financial sector suffers from a trust deficit.

- The Edelman Trust Barometer asked over 33,000 respondents globally to rate how much they trust businesses in each of 15 industries to "do what is right". Financial services was the least trusted industry.
- There is also a broader sense that finance has not served the economy or society well.

Why this mistrust? The reckless risk-taking and blatant disregard for ethical conduct that we saw in the lead-up to the global financial crisis are a big part of the explanation.

And it has not helped that the financial industry continues to be dogged by disappointing revelations of financial misconduct and malfeasance.

- Europe saw its largest ever money laundering scandal last year, with hundreds of billions of Euros in tainted money flowing through European banks and their branches across the world.
- In the US, regulators and prosecutors imposed on financial institutions a total of US$1.5 billion in penalties last year for failing to comply with anti-money laundering requirements.
- In the UK, more than 13 million complaints have been made against retail banks for the aggressive mis-selling of so-called Payment Protection Insurance.
- In Australia, the Hayne Royal Commission has detailed a litany of wrong-doing in the country's banking industry, including forging loan documents and pushing customers into bad investments to meet bonus targets.

I take some comfort that financial institutions in Singapore have generally been better behaved and are better regarded.

- But we have had our problems too:
  - the mis-selling of Minibonds and other structured products;
  - the manipulation by traders of financial benchmarks; and more recently
  - the laundering of 1MDB-related funds through our banking system.
- We too can do better.

Let me briefly suggest three things the industry and regulators can do together to strengthen trust in finance, with a focus on what we are doing here in Singapore.

First, we must ensure that the financial system is not abused for illicit purposes – be it money laundering, tax evasion, or terrorist financing.

In Singapore, we had a rude awakening in 2015 when it came to light how 1MDB-related funds were laundered through our banking system. MAS and the industry have worked hard since then to strengthen systems and processes to detect and deter illicit fund flows.

Financial institutions have made significant strides in managing money laundering risks.

- Boards and management are more focused on addressing issues related to illicit finance.
- They have made the detection of money laundering risk a responsibility of front-line, customer-facing staff, and not just the compliance function.
- Many financial institutions have strengthened their remuneration frameworks to include financial crime risk management as a key performance indicator.
- A growing number are harnessing the power of data analytics to detect illicit fund flows and flag suspicious transactions.

MAS too has been enhancing its surveillance and supervision of money laundering risks.

- We are conducting more anti-money laundering focused onsite inspections.
- We are applying network analysis to detect across financial institutions high risk clusters of entities and activities.

MAS, financial institutions, and law enforcement agencies have come together to pool their expertise to identify emerging money laundering typologies and possible ways to combat them. The partnership has produced advisories and best practices on how to:

- detect complex corporate structures involved in illicit finance;
- use data analytics to detect unusual transaction patterns; and

- combat highly complex trade-based money laundering

We have come a long way. Today, it is less likely that 1MDB-type methods of money laundering would go undetected in our banks.

But there is no guarantee and there is no room for complacency.

- The methods used by money launderers are becoming more sophisticated.
- Financial institutions must remain alert to emerging risks and typologies.
- Eternal vigilance is the price we must pay to keep our financial system clean.

Second, financial institutions must ensure that they deal fairly with their customers, always acting in their best interest.

MAS has issued guidelines on fair dealing that place the onus on the board and senior management of financial institutions.

- They must set a clear strategy to achieve the fair dealing outcomes, monitor its implementation, and train their staff to treat their customers fairly.

It is the duty of the financial institution and its representative to help the customer understand what he is buying and what risk he is taking.

- Disclosure alone is not enough.
- Ask any consumer of financial products having to go through hundreds of pages of product disclosure written in unintelligible legalese.

Financial institutions must make the information they provide more transparent:

- transparent about risk, especially the circumstances under which the customer could lose all or most of his money;
- transparent about the assumptions underlying return projections or estimates; and
- transparent about fees, charges, and commissions.

Financial institutions must ensure that their sales representatives have sufficient knowledge and skills.

- In Singapore, prospective financial advisory representatives are required to pass relevant examinations before they are allowed to offer advisory services.
- They are tested on not just product knowledge but also the skills to effectively engage their customers to understand their financial needs and risk profiles.
- Going forward, they will be tested on their understanding of ethical principles.
  - More specifically, their ability to assess situations where there might not be explicit rules, but which nevertheless present potential conflicts of interest.

Those who sell financial products should recommend what to buy based on what is most suitable for their customers, not what will maximise their own commissions or rewards.

- MAS worked with the industry a few years ago to put in place a “balanced scorecard” as the basis for remunerating financial advisory representatives.
- The scorecard incorporates non-sales performance indicators, such as providing suitable product recommendations and making proper disclosures of material information to customers.

In all of this, the tone from the top is critical.

- Senior management and supervisors at all levels must make clear to their staff that meeting revenue targets must never be at the expense of treating their customers with fairness and honesty.
- This will go a long way in strengthening public trust in finance.

Third, and more fundamentally, we must foster a culture of good conduct underpinned by strong standards of ethics.

Regulations and controls can only go so far in shaping behaviour.

- Be it being alert to money laundering risks or dealing fairly with customers, mere compliance with regulatory requirements or internal rules is not enough.

Ultimately, how professionals in the financial industry conduct themselves is shaped by the shared values, attitudes and norms in their organisations – in short, the culture.

- Rules can only tell us what we cannot do, it is values that tell us what we should not do.
- Those who work in financial institutions must look beyond the question:
  - “Is this legal?” to “Is this right?”
  - “Have I checked the box?” to “Have I checked the risk?”

This is why some regulators, including MAS, have intensified their supervisory emphasis on the culture and conduct within financial institutions.

- Mary will say a lot more about this in her keynote address, so let me highlight briefly some of what MAS has been doing on this front.

MAS has conducted a stocktake of culture and conduct practices across selected financial institutions.

- Our supervisors had extensive one-on-one conversations with not just the management of these financial institutions but staff across the ranks.
- These conversations allowed our supervisors to gain insights on the staff’s perceptions of culture and their level of risk awareness.
- They helped us develop a keener sense of:
  - whether the tone-from-the-top echoed from the bottom; and
  - whether the organisational values plastered on the walls of the board room were practised on the ground.

What have we found?

- Culture and conduct practices are uneven in the industry.
- Many financial institutions still struggle to articulate the conduct risks they face.
- Many are only starting to develop tools and indicators to obtain a holistic, cross-functional view of the culture within their organisation.

What’s next?

- MAS with the banks have set up a steering group to identify emerging trends in conduct and behaviour as well as share best practices in “getting the culture right”.
- MAS has also set up a small behavioural sciences unit to build up our capabilities in this

area and support our supervisors with methodologies to get a better understanding of culture and conduct issues in the institutions they supervise.

Let me conclude.

- Financial institutions have restored their capital, but not public trust.
- They have repaired their balance sheets, but not their compact with society.
- They have reformed their systems, but not their culture.

Only with trust can the financial industry earn the “social license” it needs to thrive and grow.

To strengthen this trust, we must:

- ensure that finance is not abused for illicit purposes;
- that it places its customers first and deals with them fairly; and
- that it fosters a culture of good conduct grounded in strong values and ethics.

It is my pleasure now to invite Mary to share her views on fostering stronger culture and conduct at financial institutions.