

INTERNATIONAL **DIRECTORS** SUMMIT 2019

The Trust Compass: Resetting the Course

14 & 15 OCT 2019 | Shangri-La Kuala Lumpur

**IT'S NOT JUST ABOUT YOU:
THE CONSEQUENCES OF YOUR ACTION & INACTION**

By: Paul Moore, Halifax Bank of Scotland

Is this the only way to speak truth to power?



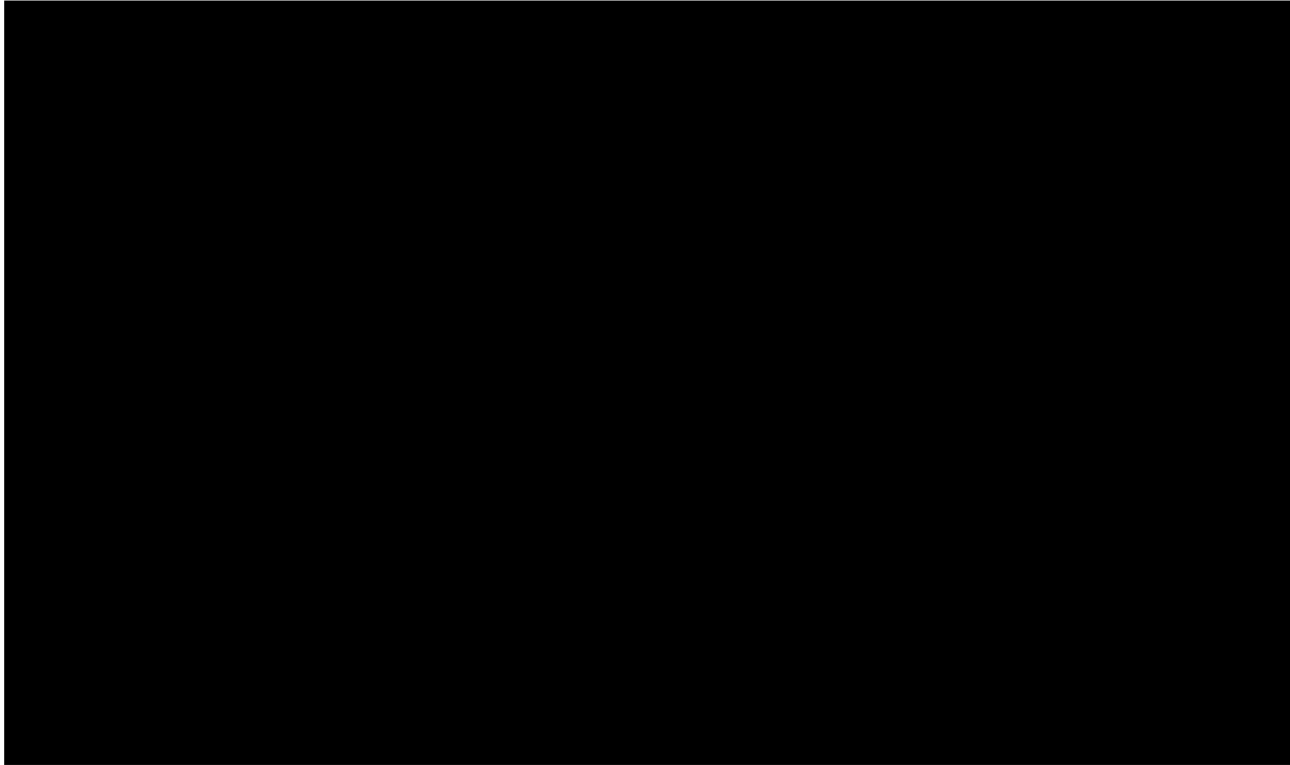
Theology of the Court Jester

The HBOS story and the lessons learned

“I felt like a man in a rowing boat trying to slow down an oil tanker”



Video clip from BBC Newsnight February 2009



The sales culture was a serious risk

“I told the Board....that their sales culture was significantly out of balance with their controls.” [A serious breach of regulatory rules]

“That ...very careful consideration should be given ...as to what level of sales growth is achievable... without putting customers and colleagues at risk.”

The two most important points in evidence to TSC

“...this crisis was caused....because there has been a completely inadequate “separation” and “balance of powers”between the executive and all those accountable for overseeing their actions ...”

“...you can have the best governance processes in the world but if they are carried out in a culture of greed, unethical behaviour and indisposition to challenge, they will fail.”

A little taste of the evidence we found

- Head of Risk in Halifax...verbatim:-

"Leadership and focus on risk matters has had no priority

Sales are regarded as more important than anything else.

Risk management is not ... a core business imperative or competence

And you know they are animals around here.."

- COO nicknamed "Whacker" (Dick Fuld – "The Gorilla")
- Charles Dunstone – Chairman of Risk Control Committee.
- **Replaced by sales manager** with no experience of risk or compliance

Process without right culture will fail

- Nothing wrong with HBOS risk & governance policies, processes & structures.
- In fact there were too many and they were overcomplicated
 - **“A model of self delusion; a triumph of process over purpose”**

“The biggest risk we have around here is drowning under the risk management & compliance process”

“Even if I had the time to read the papers for the risk committee, I would not understand them”

HBOS competence framework for top leaders!!

- **Courage - Never backs away from an opportunity to demonstrate personal courage**

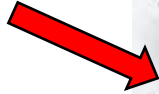
Key behaviours included:-

- **Taking courageous decisions even when they may result in criticism or unpopularity**
- **Standing up for beliefs in the face of opposition from colleagues**
- **Saying what needs to be said when others are holding back from expressing real feelings**

London Evening Standard – 10th Feb 09



Crosby



Me



Sunday Telegraph – 15th Feb 09



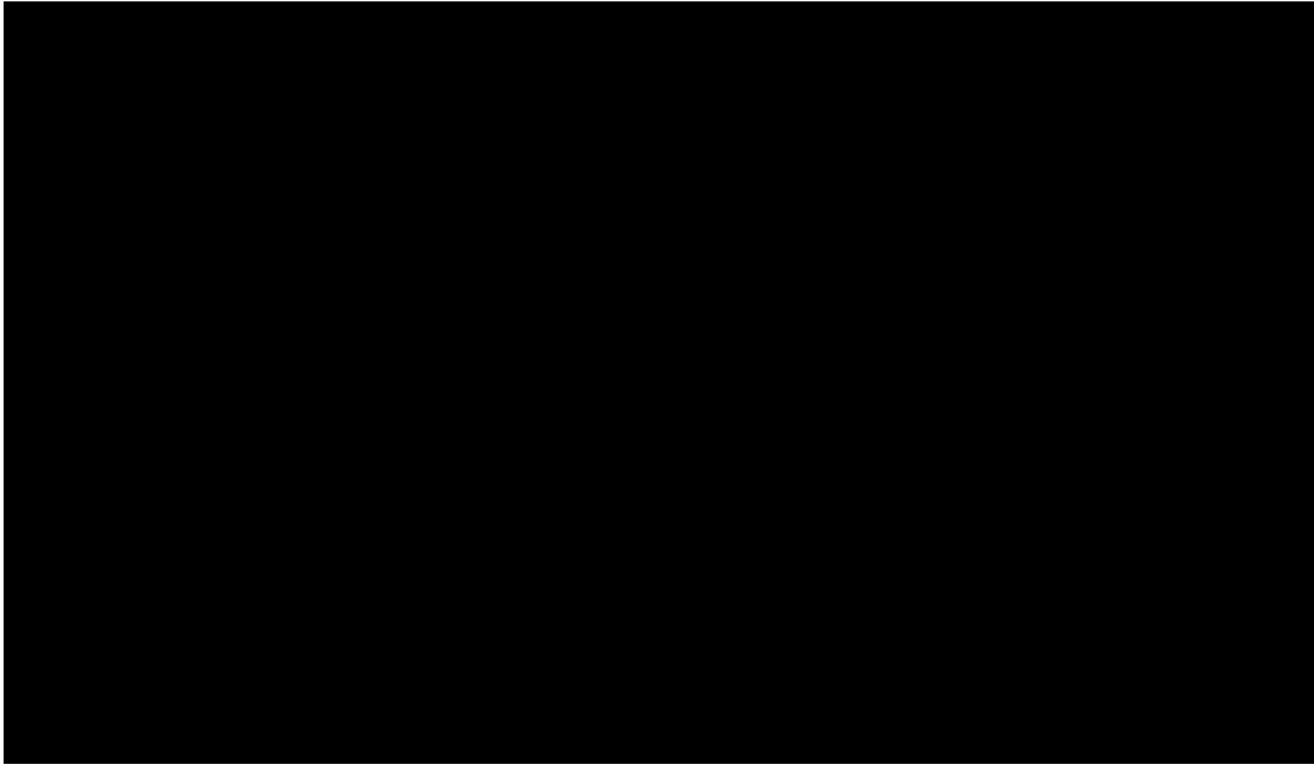
And here it is - “From an anonymous admirer!”



Final vindication....

**After four years of struggle my
evidence was vindicated in April 2013
by The Parliamentary Commission on
Banking Standards**

Channel 5 News 5 April 2013



April 2013 - “An accident waiting to happen”

- The report of The Parliamentary Commission on Banking Standards:-

“The HBOS story is one of catastrophic failures of management, governance and regulatory oversight.”

“The losses were caused by a flawed strategy, inappropriate culture and inadequate controls.”

- **And what about their views on risk management?**

The risk function in HBOS was a cardinal area of weakness in the bank.....Successive Group Risk Directors were fatally weakened ...by their lack of expertise and experience...

The weaknesses...were a matter of design, not accident. Responsibility for this lies with Sir James Crosby.... Andy Hornby...and particularly with Lord Stevenson....

And overall corporate governance

“...corporate governance of HBOS at board level serves as a model for the future...It represents a model of self-delusion, of the triumph of process over purpose.”

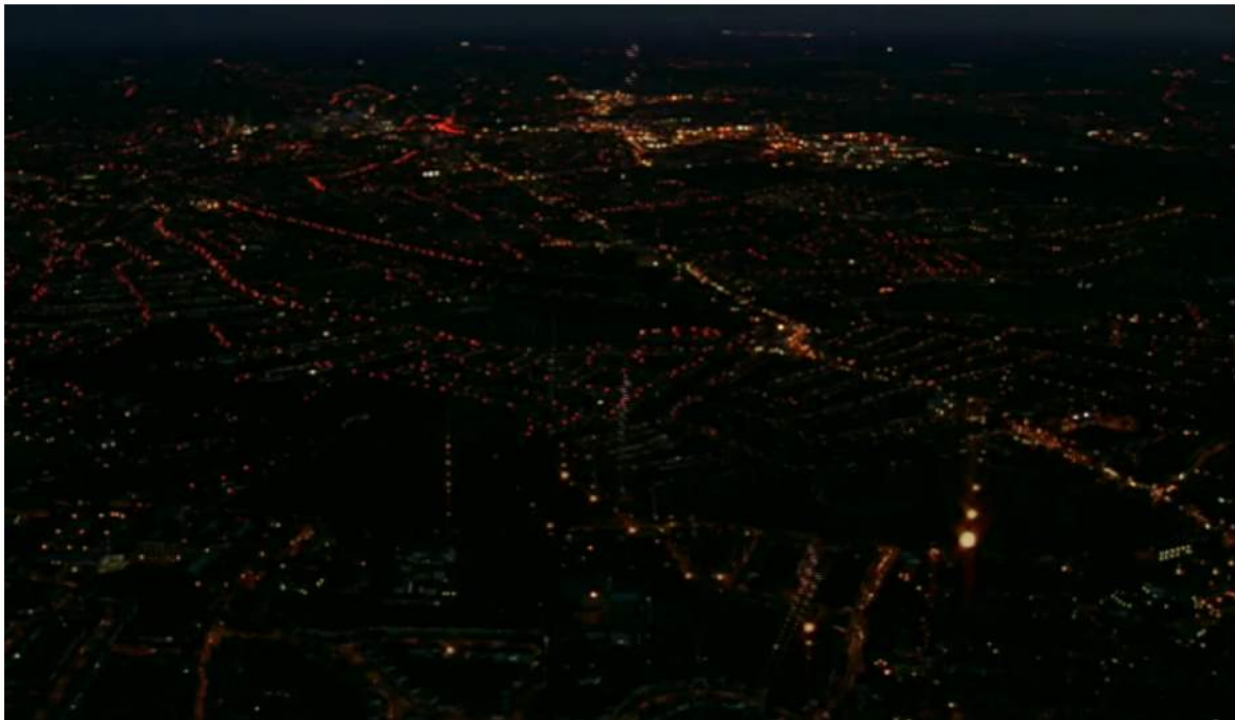
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- “Conclusion: a manual for bad banking”!!

“...the primary responsibility for the downfall of HBOS should rest with Sir James Crosby...Andy Hornby...& Lord Stevenson...”

Three days later [Sir] James Crosby gave up his Knighthood & is described by Paxman on BBC Newsnight as:-

“The prominent incompetent”

BBC Newsnight 8th April 2013



Final HBOS Report by PRA and FCA – 19 Nov 2015

- Over 500 pages including separate report on enforcement:-
 - Board failed to instil a culture that balanced risk and return....
 - Board and control functions failed to challenge effectively
 - The FSA did not supervise adequately & just relied on management
- As a result, the FSA has been instructed to review whether it should have taken disciplinary action against board members. Still no news!
- Also, FRC are reviewing if KPMG (auditor) should be investigated and are now doing so...Have now said “No” – Three times but still not over!

The key lessons learned – “The five C_s”

- To avoid major risks we need right combination / balance of:-
 - **C**ulture.
 - **C**apability of control functions – risk, compliance, internal audit.
 - **C**orporate Governance including auditing and accounting.
 - **C**ombine critical controls and ensure **C**orrobo**r**ation in high risk areas.
 - **C**ompany Law.

Culture must always come first

- Culture always trump strategies, processes & structure - **“A culture of openness, ethics and excellence in which fear, blame and excessive pride play no part.”**
- Biggest cultural risks are the story of human nature:-
 - “The love of money” and “He who pays the piper calls the tune”
 - “Power corrupts...” and “Pride comes before a fall” (Hubris)
 - “Emperors new clothes” and “Lemmings” (Group-think)
 - “Shoot the messenger”
- **Control functions and the Regulator MUST conduct rigorous oversight & assurance of the corporate culture.....Not difficult!!**

Global survey of risk professionals

“The most remarkable finding of the survey is that risk professionals....believe that the banking crisis was caused not so much by technical failures as by failures in organisational culture and ethics.”

Survey report published March 2010

Global survey of risk professionals

The picture that emerges from the survey is clear. Most risk professionals saw the technical factors which might cause a crisis well in advance. These included easy availability of global capital, excessive leverage and accounting standards which permitted over-valuation of assets. The risks were reported but senior executives chose to prioritise sales. That they did so is put down to individual or collective greed, fuelled by remuneration practices that encouraged excessive risk taking. That they were allowed to do so is explained by inadequate oversight by non-executives and regulators and organisational cultures which inhibited effective challenge to risk taking.

Survey report published March 2010

Albert Einstein

“The world is a dangerous place. Not because of the people who are evil; but because of the people who don’t do anything about it”

Albert Einstein

Capability & Competence of Control functions

- Training needs substantial development to level of other professions such as lawyers, accountants and actuaries.
- There is NO chartered institute of risk management and compliance.
- BUT - its not all about policies, forms, process & technical knowledge
- Risk management and compliance is as much about anthropology (culture) and human psychology as it is about policy and process.
- Concentrate on simple policy and process and culture and people.

Corporate Governance – the right balance of power

- Key point – An inadequate separation and balance of power
- Control functions **MUST ONLY** report to non-executive.
- MUCH stronger protections & reform of whistleblowing law & practice.
- New paradigm for non-executive directors?
- Audit & accounting and it's regulation needs completely redesigning.
- Shareholder stewardship and oversight needs substantial work.
- Regulatory system must separate supervision from enforcement & focus on right things.....and have the right people.

Proposals for stronger whistleblowing protections

- **No dismissal of head of control function except by non-executive and with prior approval of regulator.**
- **If “Protected Disclosure” found, onus on employer and objective test.**
- **Whistleblower has right to mandatory injunction to prevent dismissal.**
- **No settlement gagging clauses without approval of regulator.**
- **Fairness of process given inequality of financials resources.**
- **No discrimination for new employment.**
- **Set up “Office of the Whistleblower”.**

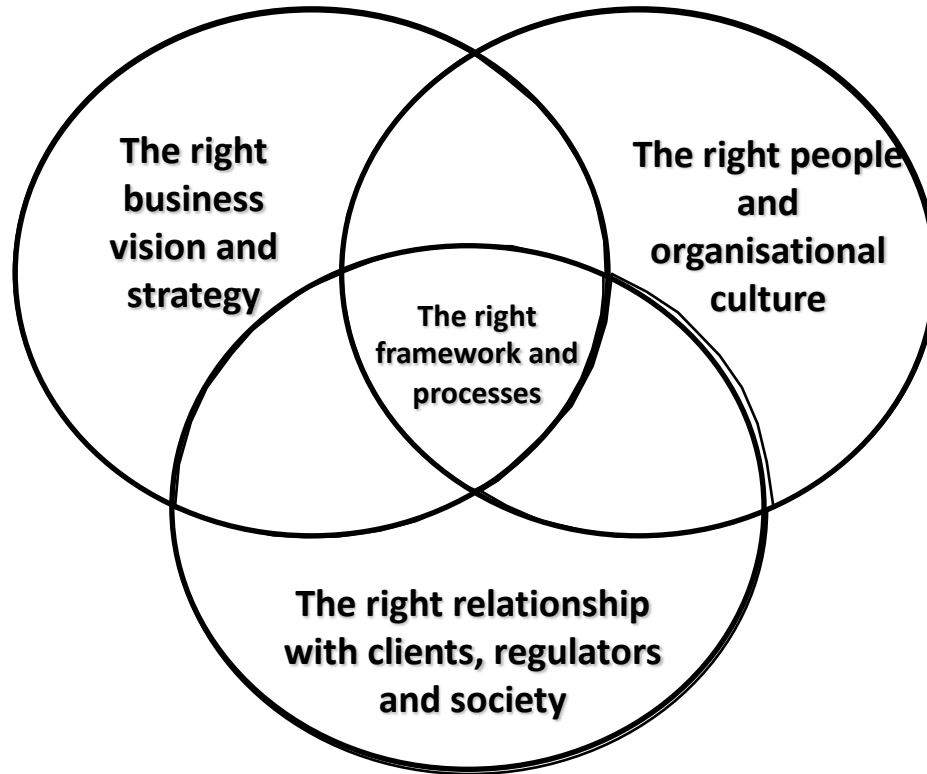
Combine of Critical Controls

- **Need to combine all elements of corporate governance, risk management and compliance so they work together.**
 - Risk, Compliance, Internal Audit (and legal?)
 - Non-executive directors / trustees
 - Statutory Auditors
 - Regulatory Supervision, Investigation and Enforcement
- **Create one seamless and comprehensive annual oversight plan.**
- **Use much more forensic techniques for oversight in areas of high risk**
- **Beware self-serving management statements without corroboration. These are often the root cause of disasters.**

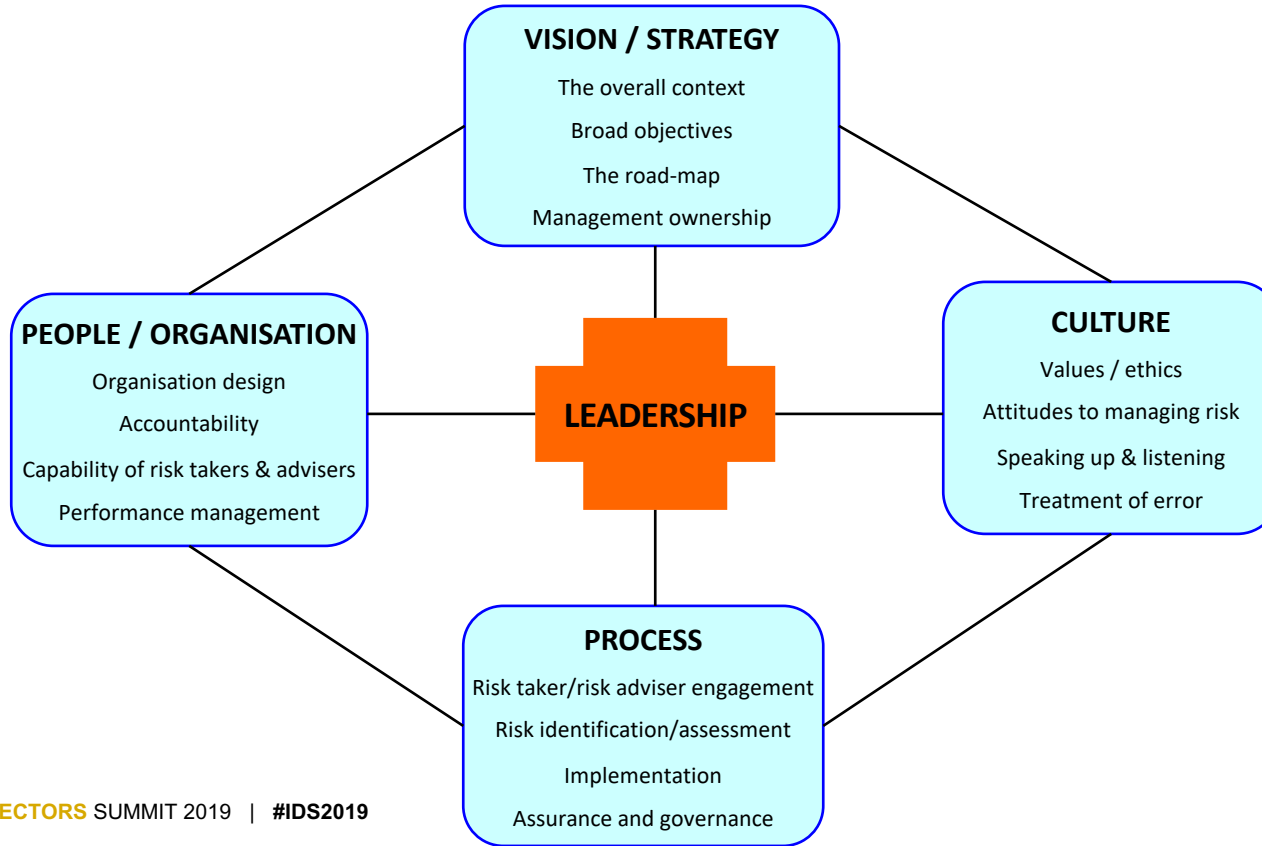
Company Law

- “Company Law was never designed for companies with balance sheets the size of sovereign governments....”
- “The fiduciary duties of directors are an inadequate constraint on behaviour and actions when they are driven by the insatiable drive for ...short term profit. “
- **Fiduciary duties MUST now include public duties?**

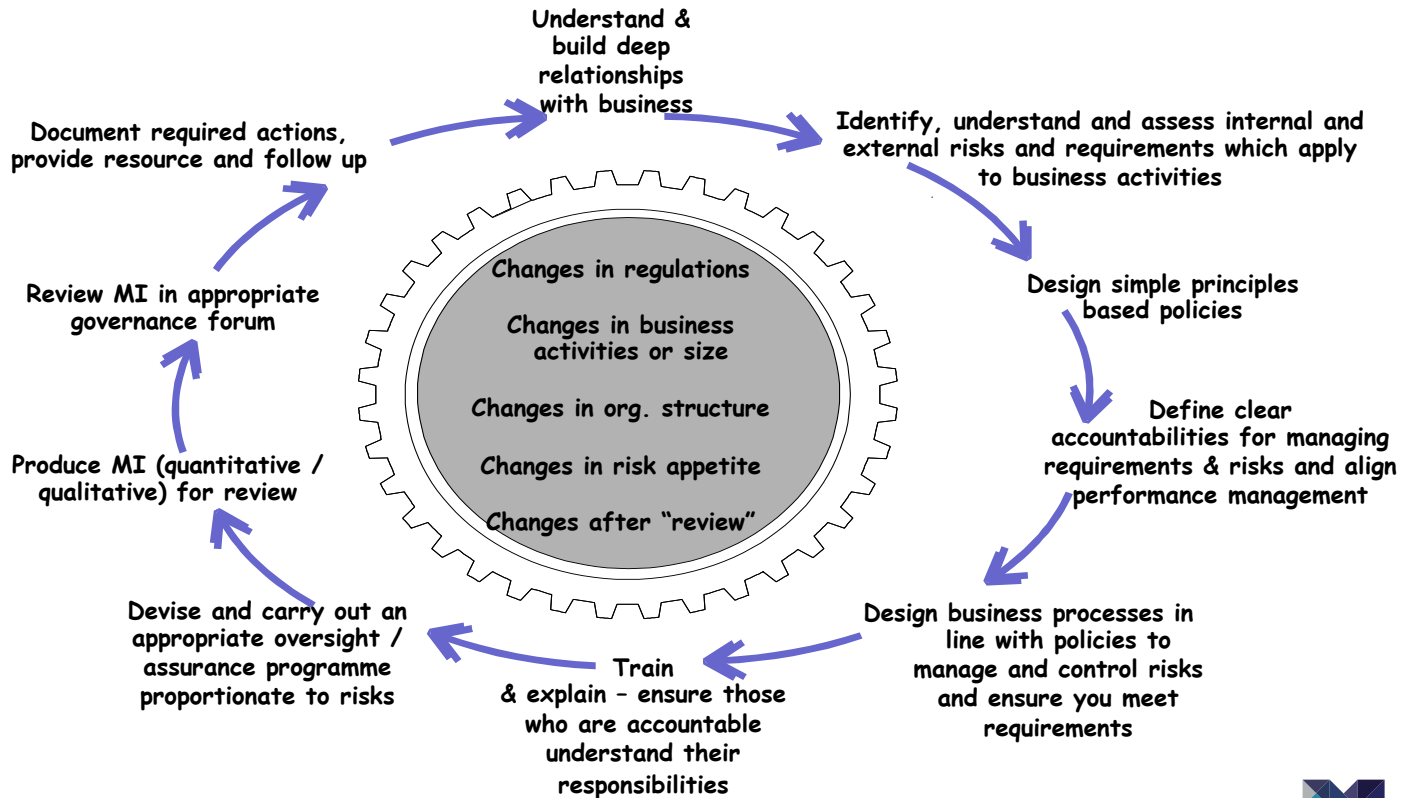
The risk management & compliance environment



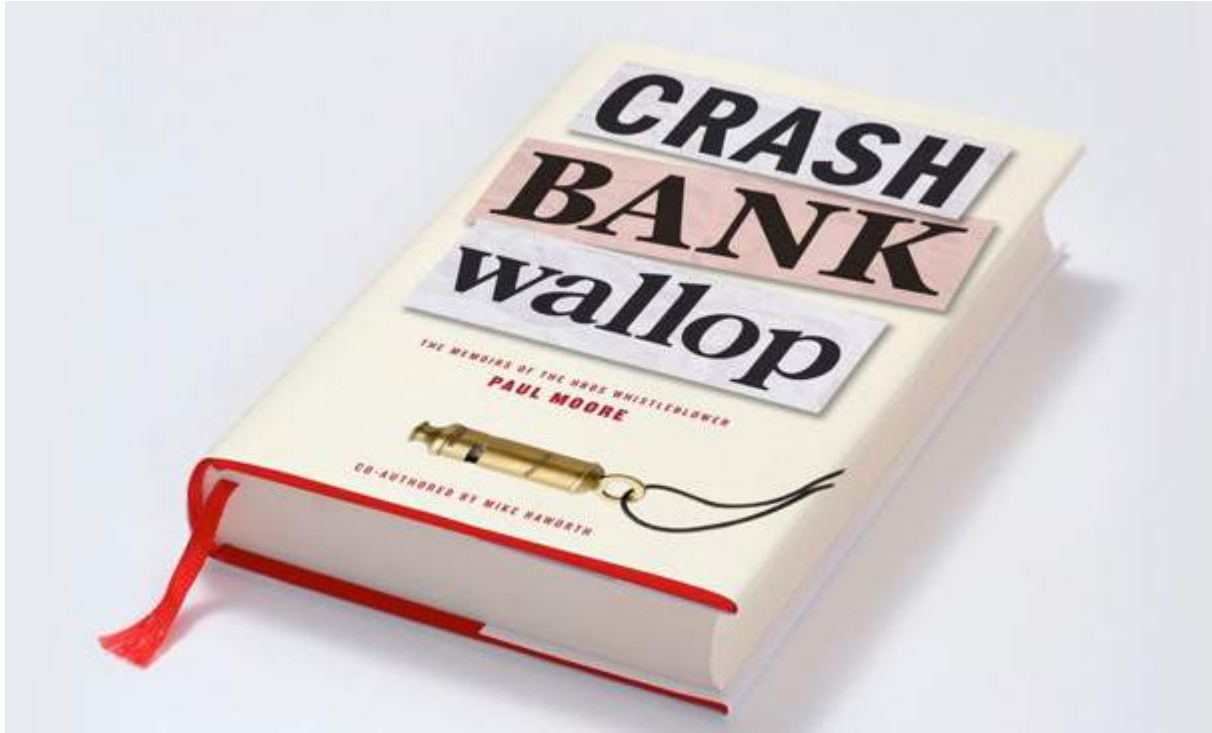
'systems thinking' – the key elements must align



A simple risk and compliance framework



If you want to read more about the HBOS story



Final thoughts

“Once profit becomes the exclusive goal, if it is produced by improper means and without the common good as its ultimate end, it risks destroying wealth and creating poverty”

The UN estimated that the banking crisis drove 100m people back into poverty

“With profit the only measuring stick, destroying the planet is built into the system.”

The Age of Stupid

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THANK YOU