pyxis

Reducing Bank Fraud

By John R Childress
Chairman, PYXIS Culture Technologies

Reducing Bank Fraud

The recent $3 billion fine given to Goldman Sachs in an ethics and corruption scandal tied to the Malaysian 1MDB sovereign wealth fund is a sad recurring theme in the modern banking and financial services industry.

Between 2008 and 2019, banks and financial services organizations paid over $340 billion in fines for unethical and fraudulent behaviour.

Why has unethical behavior continued, even after the trillion dollar bailout of banks in 2008 at the start of the global financial crisis, and the assurance by senior bankers that they are fixing the problem? And why is this still going on when regulators have increased their oversight and established new reporting and compliance requirements?

51,600	$5.1 B	$ 3 B	$ 3 B
# of new banking regulations in 2015	2019 UBS fined for money laundering	2020 Wells Fargo civil fine for fraud	2020 Goldman Sachs fine for fraud

While some blame bad behaviour on rogue employees and greedy senior executives, the real issue is the internal corporate culture of banking and financial services. But not "culture" as the HR department or culture consultants define it, which focuses on values and employee engagement scores. We know employees, from senior leaders to front line staff, can act in unethical and even fraudulent ways. But the real question is why?

The answer clearly lay in the internal company policies, process and leadership behaviour that influence and reinforce excessive risk and unethical behaviour. These factors drive the risk culture.

One of the most significant drivers of unethical behaviour in financial services companies is compensation, especially bonus compensation for generating and participating in profitable business deals. Compensation, especially wildly excessive bonus opportunities, can easily drive the wrong kind of behaviors.

Compensation, Board oversight and fear of speaking up make up a large percentage of the factors influencing banking fraud.

75%	70%	66%	57%
Compensation Structure	Weak Board Oversight	Poor Risk Understanding	Fear of Speaking Up

By John R Childress
Chairman, PYXIS Culture Technologies

Huge bonus opportunities, combined with a top-down, command and control management system, tempt many employees to participate in excessive risk and unethical deals. The rewards outweigh the potential consequences, especially for senior leaders. When a bank pleads guilty and is fined, it's the corporation which pays the fine, not the individual leaders. And it is clear that increased regulation is not the solution.

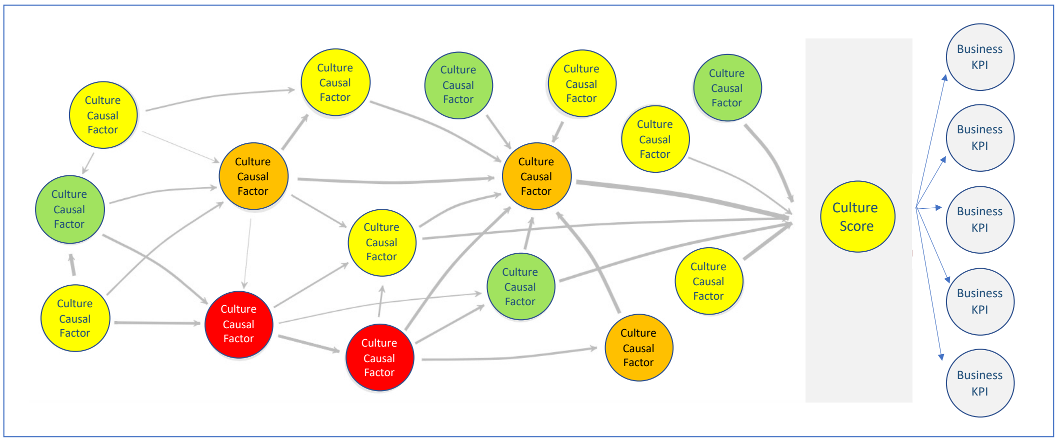
To reduce the human temptations for excessive risk, change the internal policies that drive and reinforce risky behaviour. New behaviours will soon follow.

What drives and reinforces your culture?

When we work with a senior leadership team, that is one of the first questions we ask. In most cases, there is total silence. Then usually someone speaks up, saying: *"We have a culture assessment that focuses on employee engagement. But it doesn't connect to our business results."*

Everyone agrees that culture impacts business performance, but few know how, or exactly which organizational factors create their specific culture. No wonder most banking executives are slow to implement real culture change. They don't have enough information and data on the causal factors that create and sustain bad behaviour.

Recently, PYXIS Culture Technologies has developed a risk culture model and software, using current and historical company operational and people data, that produces a visual ecosystem map of the culture drivers, their interconnections, and whether or not an individual driver is a business enabler or risk.



In principle, a risk culture system causal factor map would not only show you the various factors in your organization that drive conduct risk, but also link your risk culture to business metrics. Here is an example of how your risk culture map might look:

In this example, it is easy to pinpoint the potential conduct risk elements and how they impact on the overall conduct risk culture.

By John R Childress
Chairman, PYXIS Culture Technologies

Rather than mapping the overall corporate culture, this is a business approach to culture, whereby the map gives insight into such specific business issues as cybersecurity, safety, risk, innovation, or customer satisfaction. And the drivers link directly to specific business metrics, thus allowing management to track and improve performance over time.

Change the causal factors, reduce the risk

It is easy, using the PYXIS culture mapping platform, to locate those causal factors that drive risky or unethical behaviour. Reshaping policies, procedures, work practices and management objectives can reduce the incentives for risky behavior and begin to build a less risky, high performance culture.

pyxis

cw@pyxisculture.com
pyxisculture.com