

FINANCIAL INTEGRITY SYSTEM ASSESSMENT APRIL 2019

The New Zealand Finance Integrity System Assessment (FISA) is the first ever review of the integrity systems of any country's financial system. Transparency International NZ (TINZ) will lead the review as they are uniquely placed to ensure both independence and objectivity.

Why the time is **now**?

The RBNZ and FMA review into Banks, November 2018, found that *“Overall, there are weaknesses in the governance and management of conduct risks, and significant gaps in the measurement and reporting of customer outcomes”*. They noted that there was *“significant variation in the maturity of banks’ approaches to identifying, managing and remediating conduct risks and issues”*, with some banks described as *“reactive at best, and complacent at worst”*.

Their review into the Insurance sector found *“extensive weaknesses in life insurers’ systems and controls... governance and management of conduct risks is weak and there is a lack of focus on good customer outcomes.”* The report urged Insurers to act urgently.

The **aim** the FISA assessment is to:

- Build **trust** and **confidence**, nationally and internationally, in New Zealand’s financial system
- Examine the current state of the **integrity systems** of New Zealand’s financial system
- Fostering and supporting **good conduct**, and motivating the development of new initiatives and tools that support good conduct and prevent and combat corruption, and
- Reinforce a **culture of integrity** in a way that **realises its benefits**.

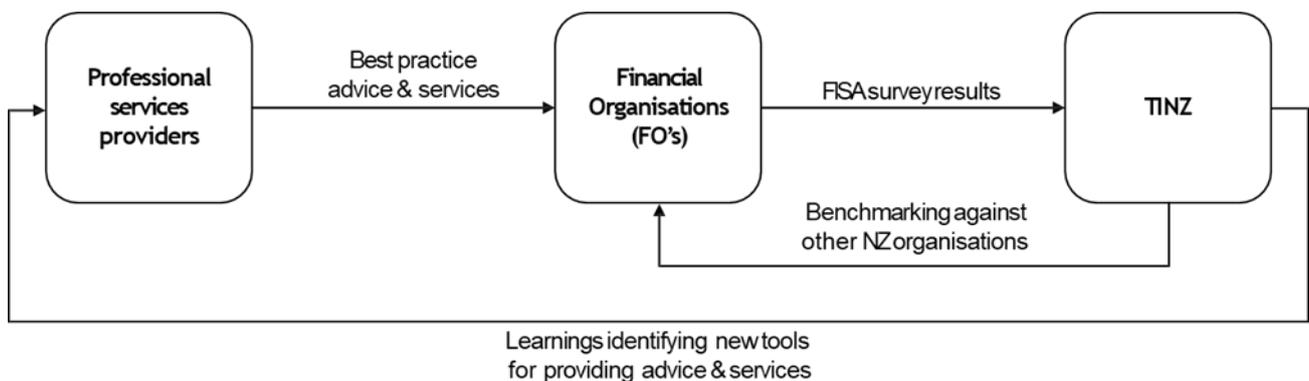
The FISA will provide customers, citizens, communities, civil society organisations, government and businesses detailed information about the way that the financial system identifies and seeks to prevent corruption, enabling them to identify good performance and push for improvement.

Financial organisations will have a blueprint for improvement enabling them to set clear priorities for preventing corruption while seeking the additional returns that come when organisations adopt a pro-active role to promote their integrity.

Brian Yee of *Making Strategy Happen* led the design of a virtuous cycle generated as following:

1. the online self-assessment completed by financial organisations (banks, finance companies, Kiwi-Saver providers and insurance companies)
2. the publication of the anonymised results,
3. the review and context provided by the independent assessment, and
4. the development of TINZ tools for professional services firms as a basis of their advice to their financial services clients and then the next annual self-assessment.

FISA STRATEGY ** – Virtuous cycle - continuous improvement through self-assessment



GOOD CONDUCT PREVENTS CORRUPTION

This FISA assessment examines the extent that financial organisations implement the seven key tools, policies, processes and actions set out in Table A below. These provide the framework for good conduct and prevent corruption. Through implementation of these seven key tools, all organisations can build strong integrity systems.

TABLE A	TOOLS TO PREVENT CORRUPTION
1. Tone at the Top	Commitment to zero tolerance for corruption backed up by prompt and decisive action where corrupt practice is discovered including better ways to prevent corruption by policy makers, boards of directors and senior leadership teams, reinforcing the values that create strong integrity systems and sets an environment for preventing corruption.
2. Code of conduct and guidelines continuously improved	Code of conduct that engage all organisations, their Boards, management teams and staff provide the framework for trusted operations, staff and customer relationships aimed at doing the right thing that is enforced (including through penalties for serious misconduct), regularly refreshed for what works best and continuously improved.
3. Corruption prevention communication and training	Maintaining an ethical, transparent model of business contributes positively to risk management and strategy. Regular communication highlighting the benefits of a trust, cases of individual courage as well calling out corrupt practice when it occurs, backed up with training aimed at preventing corruption.
4. Up-to-date knowledge of relevant legislation/regulation	Consumers are increasingly demanding more ethical products and services. Retail research provides data on consumers' purchase decisions based on ethics. International cooperation around anti-money laundering and domestic legislation are changing at a rapid pace making it necessary to have explicit systems to keep up-to-date on anti-bribery and anti-corruption legislation.
5. Avenues for reporting breaches in ethical standards	Whistle blowing provides a strong lever for preventing corruption through reporting breaches of ethical standards. Strong protective disclosure processes are essential so that all staff members feel safe in reporting breaches when they have evidence.
6. Due diligence of distributors, agents, joint ventures	With an increasingly diverse population, labour force and overseas markets, financial organisations that are pro-active in due diligence of distributors, agents, joint ventures, sub-contractors, are in a stronger position to prevent corruption.
7. Regular audits backed up by independent risk assessments that uncover corrupt practice	Undertaking regular audits that uncover corrupt practice, assists directly in preventing corrupt practice while also signaling that addressing corruption is a priority for organisations, backed up by independent risk assessments.

REALISING THE BENEFITS OF A STRONG INTEGRITY SYSTEM

FISA also examines whether organisations’ strategies and public policy settings for the financial system are supportive to growing returns that can be re-invested in continuous strengthening of integrity systems. It assesses this by looking at the extent that the financial system harvests the benefits of the reputation that comes from an integrity culture. For the assessment, evidence will be collected about the seven integrity system development factors described in Table B below.

TABLE B INTEGRITY SYSTEM DEVELOPMENT FACTORS	
1. Reputation and Brand	The value of a modern organisations is its reputation. If the reputation is harmed, the value of the brand is destroyed. The New Zealand Story toolkit – <i>Ingenuity, Kaitiaki and Integrity</i> provides examples that other NZ businesses have used to their advantage. Also included in the toolkit is a wide range of infographics providing evidence of NZ’s rankings in business. All organisations can add value through enhancing their integrity systems.
2. Easier Market Access	Maintaining an ethical standard of business and adhering to New Zealand’s good reputation opens doors for companies to access new markets, as evidenced by several case studies in the NZ Story toolkit. For NZ financial organisations, this means opening up new product markets here to support the international activities of New Zealand based businesses.
3. Lower Costs	Maintaining an ethical, transparent model of business contributes positively to risk management and strategy. Maintaining good ethics will help financial organisations to remain sustainable, prevent scandal and catastrophe at all costs through proactive culture (rather than reaction after the fact).
4. Customer Loyalty / market position	Consumers are increasingly demanding more ethical products and services. Retail research provides data on consumers’ purchase decisions based on ethics. Companies that can consistently and transparently show customers that they are ethical can maintain and grow their revenue. L’Oréal demonstrates how a strong, ethical reputation can generate a loyal and steadily increasing customer base, targeted to double from 1 billion to 2 billion customers by 2020.
5. Access to capital	Firms able to show that they have integrity are more likely to access capital. Investors will be more likely to invest in a company with solid, ethical risk management, and accessing loans will be easier for those with credible, ethical reputations.
6. Quality committed staff	Maintaining a positive and ethical work environment will ensure more efficient and productive staff. Avoiding favoritism and nepotism allows talented employees to feel certain they can develop careers based on merit and fair compensation.
7. Higher returns	Ethisphere’s <i>World’s Most Ethical Companies</i> list of companies honored over the last decade, provides evidence that adherence to ethical and sustainable behavior lead to increased returns on investment.

For any of the assessment questions to achieve an optimal score, the assessors will examine the ways that financial organisations take steps to implement the above seven development factors. This provides a strategic framework to harvest the benefits that come from addressing bribery and corruption. It is through these activities that organisations can grow in a more sustainable way which leads to returns that can be re-invested in development, including continual refreshment of activities designed to prevent corruption. This will enable quality and active job creation and better customer services.

ASSESSMENT SUBJECTS

The FISA survey assessment questions relate to nine areas where there is pressure on integrity and a risk of corruption. The growth and prosperity outcomes sought for New Zealand are more achievable with a strong financial integrity system. Table C below shows how transparency and anti-corruption activity supports these desired integrity outcomes.

ASSESSMENT SUBJECTS	CORRUPTION/INTEGRITY RISK	VALUES TARGETED	INTEGRITY OUTCOME
(1) POLICY	A lack of clear accountability for the integrity of national and organizational financial policies, systems and processes.	Public expectations of integrity in public policy. Strong policy that considers CSR & environmental sustainability.	Perceptions of high levels of integrity backed up by evidence of a systematic approach to preventing corruption.
(2) GOVERNANCE	Inadequate "Tone from the Top" and/or poor leadership behaviours and complacency leading to poor oversight and monitoring	Public Trust in national and corporate leadership within financial system.	Leadership talks the talk and walks the talk without exception, creating an authentic atmosphere of openness and transparency
(3) ACCOUNTABILITY	Inadequate reporting and surveillance systems, poor non-financial reporting, exposing NZ's vulnerability to grand corruption	Transparency and visibility of financial and non-financial policy and process.	Financial transactions are trusted. Deposits are safe. There is public trust in the financial system.
(4) INFORMATION AND COMMUNICATION	Information is not shared with relevant stakeholders, including staff.	Transparency of financial sector operations & oversight.	Financial sector is trusted.
(5) HUMAN CAPITAL	Staff working unsupported and without adequate skills in sensitive areas. Staff in financial risk given undue permission.	Courage of individuals working in critical areas of the financial sector to identify & communicate irregularities.	There is openness - irregularities are openly discussed and resolved. Effective protective disclosure for whistle blowers.
(6) CUSTOMERS	Lack of financial literacy leaves customers exposed and less effective at using debt to realise market and personal opportunities.	Trusted Financial advisors. Trusted institutions. Trusted and accessible complaint and redress mechanisms.	NZ reputation for integrity upheld as customers and businesses access financial services for daily activities, to invest and grow.
(7) OPERATIONS	Lack of knowledge and or complacency (apathy) about vulnerability to corruption.	Courage to identify and address corrupt practice, backing this up by investment to realise the benefits of reputation.	Organisational justice, higher returns.
(8) RISK MANAGEMENT AND MONITORING	Lack of monitoring to ensure systems and policies operate as intended or to identify areas for improvement.	Policies, laws, systems and processes support cultural and social responsibility aims of the financial sector.	Policies, laws, systems and processes are continuously improved to meet new sustainability challenges.
(9) PROCUREMENT	Poor oversight of contracting processes and of outsourced activities.	Transparency and trust in the financial sector.	Integrity demonstrated at all levels of the financial sector value chain.