

Conduct risk reporting in South African insurance firms

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PREFACE

This mini-dissertation is the final deliverable for the Master of Commerce (MCom) in Applied Risk Management. The mini-dissertation was written in article format and consists of three sections: Chapter 1: Introduction (Research project overview); Chapter 2: Article; and Chapter 3: Conclusions, limitations and recommendations (Reflection).

This mini-dissertation is the student's work. The student was responsible for the final concept, set up, execution of the research project and writing of the mini-dissertation. The members of the supervisory team contributed in an advisory and technical support capacity to study conception and design, analysis and interpretation of data and critical revision of the manuscript. The mini-dissertation was language edited before submission.

The main study supervisor gave the student permission to submit this mini-dissertation for examination.

ABSTRACT

Conduct risk offers a lens into the culture of organisations, and conduct failings seem to be widespread across several jurisdictions and cut across financial services organisations. Managing conduct risk within the financial industry is an essential part of rebuilding trust and supporting future sustainable growth. Furthermore, the regulatory focus on conduct risk is expected to persist and firms will continue to face pressure to be alert to poor behaviour as well as to apply best practice standards to conduct risk. The aim of this study was to compare conduct risk reporting of South African insurance firms to the literature on conduct risk. The study found that conduct risk reporting by the insurance firms was adequate and in most instances aligned to what was published in literature. Although conduct risk reporting by insurance firms seemed adequate, conduct risk is a growing concern not only for the financial industry but for non-financial industries as well. Developing the right conduct framework supported by the right regulations and tone at the top within organisations can therefore drive the effectiveness of managing conduct risk across industries.

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To my Supervisor Mr. Emmanuel Mulambya, thank you for being patient with me and pushing me to deliver my best work. It is because of you that I have managed to complete my research paper on time for submission.

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CHAPTER 1: INTRODUCTION (RESEARCH PROJECT OVERVIEW)

Research problem statement

South Africa has seen several corporate scandals over the recent past. According to Transparency International (2018), corruption remains prevalent in South Africa. The country remains among the world's most corrupt countries and was ranked 73rd in the 2018 Corruption Perceptions Index. Transparency International (2018) highlighted issues such as personal greed, decline of personal ethical sensitivity, low awareness or lack of courage to report corrupt behaviour and inefficient controls as drivers of corruption. Transparency International (2018) links the above-mentioned drivers to unethical business practices, individual and organisational, to outcomes that have impaired organisations. Given these arguments, it is possible to assume that conduct risk reporting may be lacking within organisations in South Africa.

Expected contribution of this study

There is much published academic research on conduct risk and reporting as separate topics, but I could not find any published research in the academic literature that examined conduct risk reporting as a single topic. The research findings presented here are expected to be relevant to risk management practitioners, professional bodies, and regulators as well as to anyone who seeks knowledge about conduct risk. The aim of this study was to compare conduct risk reporting of South African insurance firms to what was published in the literature. The results section provided valuable insights on how insurance firms in the country report on their conduct risk.

Selected journal

The *Journal of Risk Management in Financial Institutions* is the essential professional and research journal for all those involved in the management of risk at retail and investment banks, investment managers, broker-dealers, hedge funds, exchanges, central banks, financial regulators and depositories, as well as service providers, advisers, researchers and academics. This journal was chosen because it has a wide range of readership across the world. Furthermore, it is easily accessible to the targeted audiences in all industries. The journal publishes various papers on different risk management topics, but a paper on conduct risk reporting was not found. This study will add therefore add value to the journal and benefit its readers.

<https://www.henrystewartpublications.com/jrm>

CHAPTER 2: ARTICLE

Conduct risk reporting in South African insurance firms

Abstract

Conduct risk offers a lens into the culture of organisations, and conduct failings seem to be widespread across several jurisdictions and cut across financial services organisations. Managing conduct risk within the financial industry is an essential part of rebuilding trust and supporting future sustainable growth. Furthermore, the regulatory focus on conduct risk is expected to persist and firms will continue to face pressure to be alert to poor behaviour as well as to apply best practice standards to conduct risk. The aim of this study was to compare conduct risk reporting of South African insurance firms to the literature on conduct risk. The study found that conduct risk reporting by the insurance firms was adequate and in most instances aligned to what was published in literature. Although conduct risk reporting by insurance firms seemed adequate, conduct risk is a growing concern not only for the financial industry but for non-financial industries as well. Developing the right conduct framework supported by the right regulations and tone at the top within organisations can therefore drive the effectiveness of managing conduct risk across industries.

Keywords: Conduct risk reporting, Insurance firms, Financial Sector Conduct Authority, Document analysis, Risk Culture Indicator Model

1. Introduction

The concept of conduct risk has evolved in the past 10 years from being a relatively unexplored risk, to being one of the major risks faced by financial institutions (Management Solutions, 2016). Although there is some diversity in the way conduct risk is defined by different institutions, it is generally accepted that conduct risk refers to losses for an organisation emanating from its poor conduct (Management Solutions, 2016). The European Systemic Risk Board (2015) refers to conduct risk as a way in which an organisation and its staff behave. As such, it includes the way in which customers and investors are treated, the mis-selling of financial products, and the manipulation of markets.

As in many other aspects of the financial industry, the 2008 global financial crisis and other financial black swans have in the past shaken the status quo and ruined relationships between financial institutions and their customers (Argandoña, 2012). The need for certain state owned entities, banks and other financial institutions to be bailed out by governments across the world led to increased

pressure from public opinion urging governments and regulators to act on behalf of the general public and make financial institutions accountable (The Banking Association South Africa, 2018).

Ashby, Palermo, and Power (2012) believe that many financial organisations have a poor culture of customer protection. These organisations have led a culture of short-termism, orientated toward financial results rather than fair customer outcomes (Dallas, 2011). This view is supported by the UK Parliamentary Commission on Banking Standards (2013), which stated that incentive schemes are likely to have encouraged mis-selling and conduct risk. Thus, in some instances, inappropriate incentives schemes were at the heart of such poor behaviour.

Given the above, conduct risk analysis is quickly spreading across borders and industries. In some regions, this progress is being prompted and encouraged by regulatory intervention, where public authorities stress the impact of conduct risk on the broader financial system. By 2013, according to South Africa's National Treasury (2013), the scale of conduct risk in financial institutions had risen to levels that have the potential to create systemic risk. To improve the conduct risk management, the South African National Treasury established a regulator in 2018, the Financial Sector Conduct Authority (FSCA), to develop and implement a conduct framework to assist in managing conduct risk in organisations. (Claessens & Kodres, 2014).

The objectives of this research were (1) to compare the conduct risk reporting of South African insurance firms to what has been published in the literature, and (2) to contribute to the conduct risk research in South Africa.

2. Background

2.1 What is conduct risk and why is it important?

Conduct risk (which has to do with the way in which people conduct themselves) has been defined as the potential for behaviours or business practices that are illegal, unethical, or contrary to a firm's stated beliefs, values, policies and procedures (Chaly, Hennessy, Menand, Stiroh, & Tracy, 2017). According to Shadnam and Lawrence (2011), social science research on culture and behaviour provides a useful framework for understanding persistent organisational failures that trigger or allow conduct risk. In this context, the term 'culture' is used to describe the shared set of norms within a group of professionals that influences decision-making and is evidenced through behaviour (Financial Stability Board, 2014).

Conduct risk affects consumers of goods and services as well as organisations (Hargarter & van Vuuren, 2018). Regulators in developed countries, such as the US Consumer Financial Protection Bureau (CFPB) and the UK Financial Conduct Authority (FCA), concentrate their conduct oversight in dedicated teams or agencies while implementing comprehensive regulation that covers both a broad array of conduct-related issues and a model for supervision (Oliver Wyman, 2013). South Africa has recognised that a strong market conduct policy is required to build a financial sector that delivers good conduct outcomes (National Treasury, 2013). South Africa's market conduct regulations aim to prevent poor outcomes that arise when financial institutions conduct their business in ways that are unfair to customers, or that undermine the integrity of financial markets and confidence in the financial system (National Treasury, 2018). South Africa's Financial Sector Conduct Authority (FSCA), which is responsible for market conduct regulation and supervision, monitors and enforces regulations designed to protect investor and consumer interests (FSCA, 2019).

2.2 Requirements for risk reporting

Risk reporting is the communication of information about risks and risk management needs throughout an organisation to ensure full awareness of the risk factors (Airmic, 2013). Accurate, complete and timely data create a foundation for effective risk management (Basel Committee on Banking Supervision, 2013). However, data alone do not guarantee that the board and senior management in an organisation will receive appropriate information for decision-making about risk. To manage risk effectively, the right information needs to be presented to the right people at the right time (Ntim, Lindop, & Thomas, 2013).

Risk reports based on risk data should be accurate, clear and complete. Risk reports must contain the correct content and be presented to the appropriate decision-makers in time to allow for an appropriate response (Barakat & Hussainey, 2013). Busco, Frigo, Riccaboni, and Quattrone (2013) believe that for an organisation to have effective risk reporting, management must identify the right risks that are affecting the organisation and communicate these in plain language. Furthermore, Busco et al. (2013) reiterate that there needs to be greater transparency and accountability by organisations for what is being reported in annual integrated reports.

Risk reporting requirements vary greatly around the world. However, there is a clear trend toward requiring greater transparency in risk reporting and more accountability to shareholders (De Villiers, Unerman, & Rinaldi, 2014). Well-documented risk reports provide confidence for boards, management, investors, and regulators as well as the wider public.

2.3 Requirements for conduct risk reporting

Regulators understand that organisations and industries are not the same, and for this reason they have not set a “master definition of conduct risk” (Deloitte UK, 2015). This allows businesses the flexibility to articulate what conduct risk means to them and to produce conduct risk reports that are relevant to their businesses. It is important for individual businesses to have consistent understanding of conduct risk and what conduct risk reporting is intended to deliver within their businesses (Deloitte UK, 2015).

Building on regulatory expectations, Deloitte UK (2015) identified 10 principles of strong conduct risk reporting. While the structure of conduct risk reporting is unique to every business, Deloitte UK (2015) believes that these 10 principles offer a sound foundation for conduct risk reporting across all financial services firms. Table 1 summarises the ten principles of conduct risk reporting.

Table 1

Principles of conduct risk reporting

No.	Principles
1	Linked to strategy, culture and risk management framework
2	Outcomes-focused
3	Holistic and used to support analysis of trends
4	Forward-looking
5	Efficient and proportionate
6	Accurate and timely
7	Measured and reported on at appropriate frequency
8	Comprehensible and traceable
9	Supports open communication and challenge
10	Acted upon and recorded

Note. Information sourced from Deloitte UK – Management Information for Conduct Risk report (2017).

Several themes emerged from these principles. Conduct risk reporting should be linked to strategy, culture and risk management frameworks and be outcomes-focused and forward-looking (Deloitte UK, 2015). Organisations should use a suite of reports, analysed in different ways to identify trends, for instance, over a period, across products or business lines, or focusing on one team or individual. Getting the frequency, accuracy and timeliness of conduct risk reports right is important, as is the need for reports to be comprehensible and traceable, so that senior managers are not overwhelmed with detail (Bennett, James, & Klinkers, 2017).

Aven (2016) believes that conduct risk reporting to management should support open communication and challenge management as well as allow for discussion around real challenges within the organisation. Where relevant, reports on conduct risk should be acted upon, with those actions recorded and included. Conduct risk reports aim to provide management with information that is efficient and proportionate, so that they help management proactively to manage conduct risks (Fischhoff, 2017).

2.4 Application of the Risk Culture Indicator (RCI) model to the study

Figure 1 provides a risk culture indicator (RCI) model (Zaaiman, Pretorius, Van der Flier, & Born, In progress)(H. Zaaiman, Pretorius, Van der Flier, & Born, In progress)(H. Zaaiman, Pretorius, Van der Flier, & Born, In progress) that has been developed based on the Financial Stability Board's risk culture indicators (FSB, 2014) and the Dutch National Bank's (DNB) approach to the supervision of behaviour and culture (DNB, 2015). The model shows a dynamic and interlinked view of 10 risk culture indicators, with "external societal culture" being added as the 11th indicator (named in the diagram below):

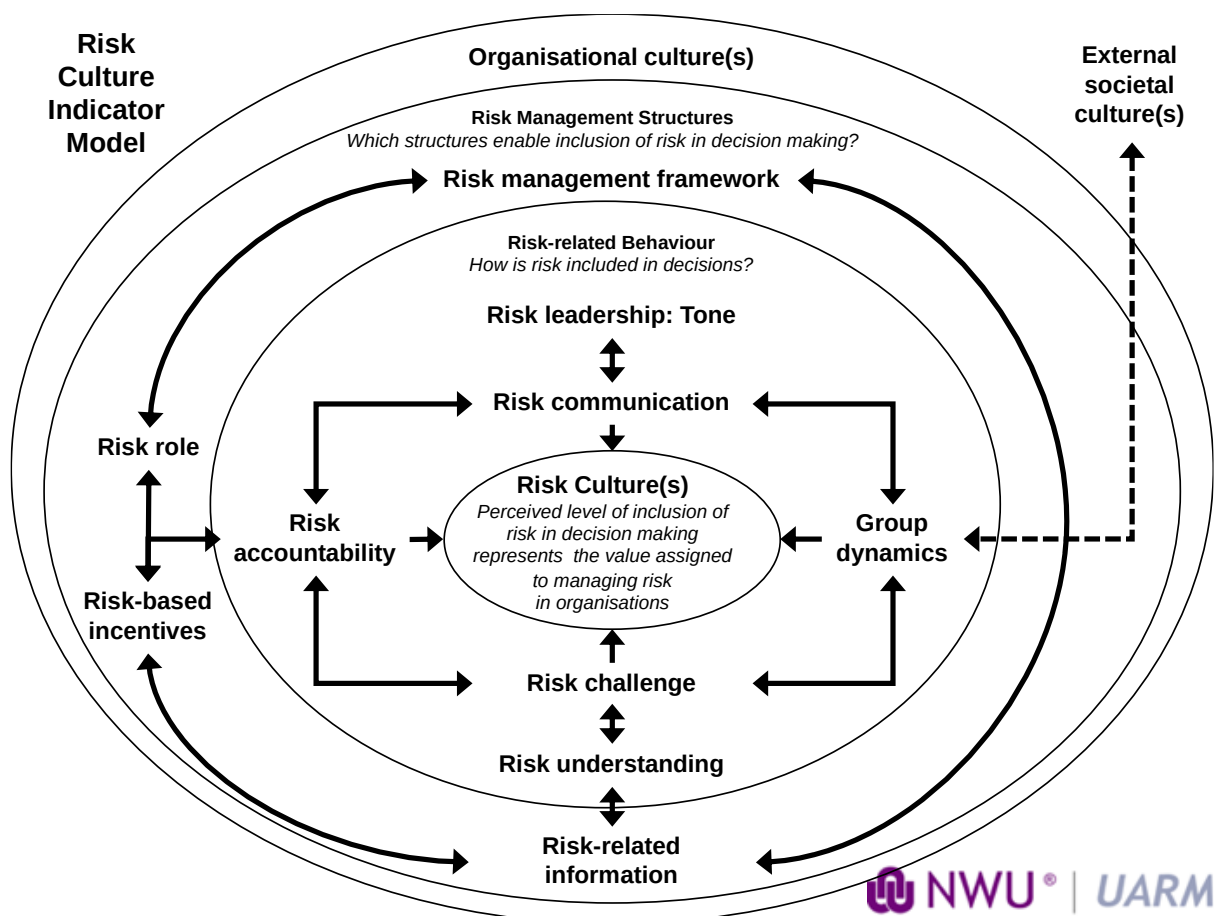


Figure 1: Risk Culture Indicator Model

The aim of the present study is to compare conduct risk reporting of South African insurance firms to the literature on conduct risk. Figure 1 shows that risk communication (or reporting) is one of the behavioural-based indicators of risk culture according to this coherent model of risk culture indicators. Conduct risk reporting is a subset of risk reporting and therefore an integral part of the RCI. In this study, the application of the RCI model supported the development of a codebook that was used to compare the literature and data from the insurance firms.

3. Method

3.1 Research design

This research is a qualitative study that followed an inductive approach. An inductive approach allows the researcher to search for a pattern within the information gathered and helps with making a general conclusion from the pattern that was observed. This research employed the UARM Risk Culture Indicator Model (Figure 1), analysing, coding and interpreting the study results. Coding is the process of subdividing data as well as assigning categories. Coding attaches varying-sized words, phrases, sentences or whole paragraphs, connected or unconnected to a specific setting. Coding assists the researcher to ask questions, to compare across data, to change or drop categories and to make a hierarchical order of them. This is done to establish an understanding of the research in more detail.

3.2 Data sampling

The sample (which is a subset of a population) consisted of three insurance firms in South Africa, which have a combined market share of 80% of the country's insurable market, employ a combined total of more than 20 000 people, and service a client base of over 1 million customers nationally (South African Insurance Association, 2017). The sample therefore seems representative enough for the South African insurance industry.

3.3 Data collection (104)

The study data were obtained from a number of sources, namely, annual integrated reports over a three-year period (2016–2018) of the selected insurance firms, the FSCA conduct framework, an article published by Hargarter and van Vuuren (2018) on conduct risk in South African banks, and Deloitte's conduct risk management reporting principles.

The data sourced from the annual integrated reports were used to understand how insurance firms report on conduct risk. The data collected from the FSCA conduct framework, Hargarter and van Vuuren's article and Deloitte's reporting principles were used as the basis for best practice standards for reporting on conduct risk within organisations.

3.4 Data analysis (409)

Document analysis was employed as the method of data analysis. Although time consuming, document analysis was suitable for this comparative study (Goodrick, 2014). Document analysis allows for voluminous content data to be analysed in order to draw meaningful information from it.

This study used a thematic analysis technique to analyse the documents listed above. There are not many published guides on how to carry out thematic analysis, and those that exist are often used in published studies without clear specification of the techniques employed. However, there are a few useful guides including the following: Boyatzis (1998), Braun and Clarke (2006), and Joffe and Yardley (2004). The present study used Braun and Clarke's (2006) six-phase thematic analysis approach.

Phase 1: Familiarising yourself with the data

I first familiarised myself with the documentary sources by analysing and identifying data that focused on conduct and risk reporting. Once the analysis was completed, I made notes to ensure understanding of the data and commenced with conceptualising the data for coding.

Phase 2: Generating initial codes

I then used the data notes from each of the documents to identify statements and phrases that had a conduct risk reporting connotation. Once these were highlighted, I recorded them in an excel spreadsheet under each data source. Five codes were identified from the FSCA conduct framework, 10 codes were identified from Deloitte's conduct risk management reporting principles and, lastly, four codes were identified from Hargarter and van Vuuren (2018).

Phases 3, 4 and 5

Phases 3, 4 and 5, which involve searching for themes, reviewing potential themes, and defining and naming themes, respectively, were completed as one phase. This phase was executed through rigorous research conducted by (Zaaiman et al., In progress) on risk culture indicators.

The RCI Model was aligned to the Stability Board's risk culture indicators (FSB, 2014) and the Dutch National Bank's approach to the supervision of behaviour and culture (DNB, 2015). The present study matched the codes developed in Phase 2 to the RCI Model.

Phase 6: Producing the report

To ensure that this paper answers the research objectives, the following was conducted: an analysis of the annual integrated reports of the selected insurance firms, followed by a comparison of all the statements and phrases containing conduct risk reporting information to the established themes and code descriptions from the documents analysed in Phase 1. A detailed interpretation of the findings was discussed in the results and discussion section below.

3.5 Ethical requirements

This study was based on a literature review and document analysis using information that was readily available in the public domain. Therefore, no formal ethical permission was needed.

4. Results and discussion

4.1 Structure

Table 2 is an overview summary of the codebook that was completed based on the conduct risk reporting information found in the literature.

Table 2

Summary of the codebook from literature on conduct risk reporting

No.	Code	Description example from literature	Source
1	Good corporate culture and governance	"A financial institution must at all times conduct its business in a manner that prioritises fair outcomes for financial customers, so that there is confidence that their fair treatment is central to the corporate culture of the financial institution."	FSCA, 2018
2	Linked to strategy, culture and risk management framework	"Conduct risk reporting is considered when the business discusses its strategy and puts in place a process to review the conduct risk reporting it collects if the strategy or business environment should change (e.g. due to the economy, developments in policy and regulation or technology)."	Deloitte UK, 2017 KPMG, 2016
3	Efficient and proportionate	"The business takes a risk-based approach to reporting management information to avoid a deluge of information, information that would not provide value to senior management is not included in the reports."	Deloitte UK, 2017 KPMG, 2016

No.	Code	Description example from literature	Source
4	Obligations of governing body (The Board)	"The governing body of a financial institution must endorse and be ultimately responsible for the establishment, implementation, subsequent reviews of, and continued internal compliance with, governance arrangements within the financial institution, to reasonably ensure compliance with regulation."	FSCA, 2018
5	Tone at the top	"Is used to define management's leadership and commitment towards openness, honesty, integrity, and ethical behaviour. It is the most important component of the control environment."	Hargarter and van Vuuren (2018)
6	Accountability of a conduct framework in an organisation	"The Compliance function with the support of the Risk function and the Board is responsible for the implementation of a conduct framework within an organisation."	Hargarter and van Vuuren (2018)
7	Holistic and used to support analysis of trends	"Businesses use a suite of reports, based on an assessment of what is needed, rather than what is readily available through existing systems and processes, so that a combination of indicators are measured and used to identify potential problems to be investigated further."	Deloitte UK, 2017 KPMG, 2016
8	Forward-looking	"Management reporting should contain information on potential and emerging conduct risks, in addition to crystallised risks, for example, monitoring whether a product is sold to the target market."	Deloitte UK, 2017 KPMG, 2016
9	Measure and reported on at an appropriate frequency	"To allow proactive, rather than just reactive responses conduct risk reporting is provided to senior management as part of monthly, quarterly and annual reporting and on an ad hoc basis (where risk appetite triggers are breached)."	Deloitte UK, 2017 KPMG, 2016
10	Comprehensible and traceable	"Senior management receives clear and concise reports that highlight the key messages and risks in an easily digestible format, it is possible to drill down into the information for further detail and to trace where the information originated."	Deloitte UK, 2017 KPMG, 2016
11	Open communication and challenge	"Senior management openly discusses and seeks to understand weaknesses in how reports are collated and analysed."	Deloitte UK, 2017 KPMG, 2016
12	Acted upon and recorded	"Once potential, emerging and crystallised conduct risks are identified, the root causes are investigated, and actions are tracked and reviewed to ensure they addressed the risks."	Deloitte UK, 2017 KPMG, 2016
13	Unfair contract terms in contracts with retail financial customers	"A financial institution that provides financial products or financial services to retail financial customers must ensure that the terms, and conditions of a contract or agreement in respect of a financial product or financial service are fair, reasonable and transparent."	FSCA, 2018
14	General confidentiality obligations of financial institutions	"A financial institution may not disclose or use any personal or confidential information acquired or obtained from a financial customer, except in accordance with the Protection of Personal Information Act."	FSCA, 2018
15	Support open communication and challenge	"Senior management openly discusses and seeks to understand weaknesses in how reports are collated and analysed."	Deloitte UK, 2017 KPMG, 2016
16	Prohibited practices in relation to financial customers	"A financial institution must not request or induce in any manner a financial customer to waive any right or benefit conferred on a financial customer. Any waiver of any right or benefit conferred on a financial customer by or in terms of any provision of regulation is void."	FSCA, 2018
17	Outcome-focused	"As part of the product governance process, businesses articulate what a good outcome would be for the target end client, as well as the inherent risks of the product or service and identify reports they need to monitor this."	Deloitte UK, 2017 KPMG, 2016
18	People risk	A risk that arises "because of decisions made, or not made, by individuals and/or groups of individuals, which are somewhat at odds with the goals/objectives of the firm and may cause losses."	Hargarter and van Vuuren (2018)

No.	Code	Description example from literature	Source
19	Conflict of interest	"A situation in which a person or organisation is involved in multiple interests, financial or otherwise, and serving one interest could involve working against another."	Hargarter and van Vuuren (2018)

The 19 codes were found in the literature and were used as the basis for comparing the literature and the information from the annual integrated reports of the selected insurance firms. However, seven codes, namely – “*Obligations of governing body (The Board)*”, “*tone at the top*”, “*accountability of a conduct framework in an organisation*”, “*forward-looking*”, “*measure and reported on at an appropriate frequency*”, “*comprehensible and traceable*” and “*open communication and challenge*” could be linked to more than one theme code (Appendix D).

4.2 A comparison of conduct risk reporting: the literature and the selected insurance firms

Table 3

A comparison of the findings from the literature on conduct risk reporting and the document analysis of the annual integrated reports of selected insurance firms

No.	Codes	Example from the literature	Example from annual integrated reports of selected insurance firms		
			Insurance firm A	Insurance firm B	Insurance firm C
1	Good corporate culture and governance	"A financial institution must at all times conduct its business in a manner that prioritises fair outcomes for financial customers, so that there is confidence that their fair treatment is central to the corporate culture of the financial institution."	"Conduct business with customers and suppliers in a manner that demonstrates our commitment to fair competition."	"The Board strives to act in good faith at all times and to lead the organisation with integrity, fairness and transparency."	"The Board is responsible for statutory matters across all businesses, as well as monitoring operational efficiency and risk issues throughout the Group. In respect of separately listed subsidiaries, this is done within the limitations of sound corporate governance practices."
2	Linked to strategy, culture and risk management framework	"Conduct risk reporting is considered when the business discusses its strategy and puts in place a process to review the conduct risk reporting it collects if the strategy or business environment should change (e.g. due to the economy, developments in policy and regulation or technology)."	"Throughout 2018 we executed on our strategy to deliver long-term, profitable growth by improving underwriting capabilities, mitigating risk and volatility by repositioning reinsurance structures and risk limits, adding world-class talent and utilizing capital opportunistically to reinvest in the business. Delivering on our strategy was influenced heavily by the strength of our culture, and our employees globally."	"The Board sets the risk appetite of the organisation and the tolerable level of risk that the organisation is willing to accept in the achievement of its strategic goals. The implementation of effective risk management is delegated to management."	"The governance structures ensure that an appropriate culture and environment are maintained, such that no transactions are concluded outside areas of competence, or without following normal procedures. This business culture is the product of a formal credit risk strategy and credit risk policy."
3	Efficient and proportionate	"The business takes a risk-based approach to reporting management information to avoid a deluge of information, information that would not provide value to senior management is not included in the reports."	"Risk reporting and active risk management which includes meetings and collaboration between ERM and the business."	"The segmental results are reported on a basis consistent with the practice that the chief operating decision-maker (executive committee) assesses performance of the underlying businesses and allocated resources. The group has identified its reportable segments based on a combination of products and services offered to customers and the location of the markets served."	"A formalised, risk-based approach is followed for the management of major projects to ensure that projects are effectively implemented and the project hurdle rate is achieved. Key deliverables, progress and risks are monitored on a continuous basis throughout the project life cycle."
4	Obligations of governing body (the Board)	"The governing body of a financial institution must endorse and be ultimately responsible for the establishment, implementation, subsequent reviews of, and continued internal compliance with, governance arrangements within the financial	"Our Board of Directors has oversight responsibility for the management of risk. Through the Risk and Capital Committee (RCC) and Audit Committee, the board is accountable for the implementation and oversight of risk policies is aligned with individual corporate executives, with the	"The Board has overall responsibility for the group's systems of internal control and risk management. The executive management is responsible for the management and implementation of the group enterprise risk management framework and governance frameworks."	"The Board is responsible for the Group's risk management framework and policies, as well as monitoring the effectiveness and disclosure thereof, in accordance with best practice."

No.	Codes	Example from the literature	Example from annual integrated reports of selected insurance firms		
			Insurance firm A	Insurance firm B	Insurance firm C
		institution, to reasonably ensure compliance with regulation."	risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit."		
5	Tone at the top	"Is used to define management's leadership and commitment towards openness, honesty, integrity, and ethical behaviour. It is the most important component of the control environment."	"Governance committees support efforts and promote transparency to enable improved management decision making."	"The Board acts in good faith at all times and leads the company with integrity, fairness and transparency. The Chairman, who is a non-executive director, is principally responsible for the effective operation of the Board. To this end, we have appointed a lead independent director to meet its regulatory requirements and internal governance rules."	"In terms of the Group's overall governance structure, the meetings of the Boards accountable are conducted to improve the flow of information and to increase the efficiency of the Boards."
6	Accountability of a conduct framework in an organisation	"The Compliance function with the support of the Risk function and the Board is responsible for the implementation of a conduct framework within an organisation."	"Compliance function under ERM is responsible for monitoring compliance with limits and providing regular, timely reporting to our senior management and risk committees"	"The Board of directors and management are actively monitoring the changes in the regulatory and compliance business landscape. The possible implications for the business plans and governance structures going forward are analysed on a continuous basis and the necessary changes are implemented where deemed reasonable. The group seeks constructive engagement with the various regulators and policymakers. Conduct risk is the risk that a firm's behaviour may result in unfair treatment of its clients. To this end the regulator has introduced the Treating Customers Fairly (TCF) initiative as a precursor to conduct risk. Structures are in place to report on TCF initiatives to the Risk Committee."	"Group Risk Management develops Group risk management framework, policies and guidelines for approval by the Board, coordinates reporting responsibilities and improves risk management across the Group."
7	Holistic and used to support analysis of trends	"Businesses use a suite of reports, based on an assessment of what is needed, rather than what is readily available through existing systems and processes, so that a combination of indicators are measured and used to identify potential problems to be investigated further."		"The risk identification process is used to build an aggregated view of all significant risks faced by the group. The risk appetite framework governs how the risks should be managed within the group. It is within this risk appetite framework that the group has selected its asset allocation and reinsurance programme which are among the most important determinants of risk and capital requirements within the group."	"The risk appetite reflects the Group's overall philosophy to risk taking, thus reflecting how it balances its goals of efficiency, growth and return from a risk taking perspective. It reflects the setting of targets for risk taking across the Group as a whole, plus the breakdown of these high-level statements into more detailed risk tolerances."
8	Forward-looking	"Management reporting should contain information on potential and emerging conduct risks, in addition to	"Our risk management identification process includes ongoing capturing and monitoring of all existing, contingent,	"The group manages its insurance risk through the underwriting strategy, approval procedures for transactions that	"The risk administration and reporting department is in place to implement risk control measures and maintain ongoing

No.	Codes	Example from the literature	Example from annual integrated reports of selected insurance firms		
			Insurance firm A	Insurance firm B	Insurance firm C
		crystallised risks, for example, monitoring whether a product is sold to the target market."	potential and emerging risk exposures, whether funded or unfunded."	involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues."	review of the risk reports and conditions, and to ensure overall compliance with the risk management policy."
9	Measured and reported on at an appropriate frequency	"To allow proactive, rather than just reactive responses conduct risk reporting is provided to senior management as part of monthly, quarterly and annual reporting and on an ad hoc basis (where risk appetite triggers are breached)."		"The Risk Committee provides an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk, also taking account of reports by management and the group Audit Committee to the Board on all categories of identified risks"	"The internal model allows for the measurement of organisations's expected performance relative to the risk appetite assessment criteria agreed to by the Board. The risk appetite process also includes the assessment of non-financial measures in determining the overall capital requirements. These assessments are presented to the risk and investment committees as well as the Board on a quarterly basis for consideration."
10	Comprehensible and traceable	"Senior management receives clear and concise reports that highlights the key messages and risks in an easily digestible format, it is possible to drill down into the information for further detail and to trace where the information originated."	"Disclosed controls and procedures are designed to ensure that information required to be disclosed in reports is recorded, processed, summarized and reported within the time periods specified by management."	"We subscribe to a philosophy of providing meaningful, timely and accurate communication to its key stakeholders, based on transparency, accountability and integrity."	"The Board endorses the principle of transparency in financial reporting."
11	Support open communication and challenge	"Senior management openly discusses and seeks to understand weaknesses in how reports are collated and analysed."	"During the FY 2017, management uncovered many issues and challenges that were deeper and more pervasive than anticipated, and management worked aggressively across multiple fronts to address what we found."	"A consolidated view of the risks facing the organisation is presented to the Risk and Compliance Committee, with the presented risks being considered and discussed at each quarterly meeting."	"A key benefit of the framework from a risk management perspective is that it facilitates enhanced oversight and collaboration between business units and significantly improves the understanding and management of risk concentrations that arise from time to time and that extend over several business unit portfolios in most instances."
12	Acted upon and recorded	"Once potential, emerging and crystallised conduct risks are identified, the root causes are investigated and actions are tracked and reviewed to ensure they addressed the risks."	"Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns."	Where weaknesses were identified in the internal controls, corrective action has been taken to eliminate or reduce the concomitant risks."	"The risk assessment process used consists of risk identification, risk analysis, risk evaluation, risk treatment/management and risk reporting of those risks that are relevant to strategic objectives."
13	Unfair contract terms in contracts with retail financial customers	"A financial institution that provides financial products or financial services to retail financial customers must ensure that the terms and conditions of a contract or agreement in respect of a financial product or financial		"We believe that the integrity of our brand image and reputation is paramount. Therefore, we actively drive Treating Customers Fairly (TCF) initiatives, embedding an organisational customer-led culture. Customer-centricity is the best way to drive growth. This requires critical self-assessment to identify how we can	

No.	Codes	Example from the literature	Example from annual integrated reports of selected insurance firms		
			Insurance firm A	Insurance firm B	Insurance firm C
		service are fair, reasonable and transparent."		make it easier for our intermediary business partners and customers to do business with us"	
14	General confidentiality obligations of financial institutions	"A financial institution may not disclose or use any personal or confidential information acquired or obtained from a financial customer, except in accordance with the Protection of Personal Information Act."	"Our customers expect us to carefully handle and safeguard the business and personal information they share with us. Never compromise a customer's trust by disclosing private information other than to those with a legitimate business need to know."	"Major sources of operational risk can include operational process reliability, information security, outsourcing of operations, integration of acquisitions, fraud, human error, etc., however the group and company manage operational risk by a comprehensive system of internal controls."	"Market conduct comprises market discipline (including transparency and corporate governance) and consumer protection (including treating clients fairly)."
15	Support open communication and challenge	"Senior management openly discusses and seeks to understand weaknesses in how reports are collated and analysed."	"During the FY 2017, management uncovered many issues and challenges that were deeper and more pervasive than anticipated, and management worked aggressively across multiple fronts to address what we found."	"A consolidated view of the risks facing the organisation is presented to the Risk and Compliance Committee, with the presented risks being considered and discussed at each quarterly meeting."	"A key benefit of the framework from a risk management perspective is that it facilitates enhanced oversight and collaboration between business units and significantly improves the understanding and management of risk concentrations that arise from time to time and that extend over several business unit portfolios in most instances."
16	Prohibited practices in relation to financial customers	"A financial institution must not request or induce in any manner a financial customer to waive any right or benefit conferred on a financial customer. Any waiver of any right or benefit conferred on a financial customer by or in terms of any provision of regulation is void."	"The Financial Stability Oversight Council may also recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that we and other insurers or other nonbank financial services companies, including insurers, engage in."	"We believe that the integrity of our brand image and reputation is paramount. Therefore, we actively drive Treating Customers Fairly (TCF) initiatives, embedding an organisational customer-led culture. Customer-centricity is the best way to drive growth. This requires critical self-assessment to identify how we can make it easier for our intermediary business partners and customers to do business with us."	"Financial Director office ensures that sound financial practices are followed, adequate and accurate reporting occurs, and financial statement risk is minimised."
17	Forward-looking	"Management reporting should contain information on potential and emerging conduct risks, in addition to crystallised risks, for example, monitoring whether a product is sold to the target market."	"Our risk management identification process includes ongoing capturing and monitoring of all existing, contingent, potential and emerging risk exposures, whether funded or unfunded."	"Forward-looking assessments are performed on an individual or collective basis. Forward-looking factors are aligned with risk factors used in risk assessments, stress testing, budgeting as well as strategy and pricing decisions. Relevant factors include factors intrinsic to the entity and its business or derived from external conditions."	"The risk administration and reporting department is in place to implement risk control measures and maintain ongoing review of the risk reports and conditions, and to ensure overall compliance with the risk management policy."
18	Comprehensible and traceable	"Senior management receives clear and concise reports that highlight the key messages and risks in an easily digestible format, it is possible to drill down into the information for further	"Disclosed controls and procedures are designed to ensure that information required to be disclosed in reports is recorded, processed, summarized and	"We subscribe to a philosophy of providing meaningful, timely and accurate communication to its key stakeholders,	"The Board endorses the principle of transparency in financial reporting."

No.	Codes	Example from the literature	Example from annual integrated reports of selected insurance firms		
			Insurance firm A	Insurance firm B	Insurance firm C
19	Support open communication and challenge	detail and to trace where the information originated." "Senior management openly discusses and seeks to understand weaknesses in how reports are collated and analysed."	reported within the time periods specified by management." "During the FY 2017, management uncovered many issues and challenges that were deeper and more pervasive than anticipated, and management worked aggressively across multiple fronts to address what we found."	based on transparency, accountability and integrity." "A consolidated view of the risks facing the organisation is presented to the Risk and Compliance Committee, with the presented risks being considered and discussed at each quarterly meeting."	"A key benefit of the framework from a risk management perspective is that it facilitates enhanced oversight and collaboration between business units and significantly improves the understanding and management of risk concentrations that arise from time to time and that extend over several business unit portfolios in most instances."
20	Measured and reported on at an appropriate frequency	"To allow proactive, rather than just reactive responses conduct risk reporting is provided to senior management as part of monthly, quarterly and annual reporting and on an ad hoc basis (where risk appetite triggers are breached)."		"The Risk Committee provides an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk, also taking account of reports by management and the group Audit Committee to the Board on all categories of identified risks."	"The internal model allows for the measurement of organisations's expected performance relative to the risk appetite assessment criteria agreed to by the Board. The risk appetite process also includes the assessment of non-financial measures in determining the overall capital requirements. These assessments are presented to the risk and investment committees as well as the Board on a quarterly basis for consideration."
21	Outcome-focused	"As part of the product governance process, businesses articulate what a good outcome would be for the target end client as well as the inherent risks of the product or service and identify reports they need to monitor this."	"The process of establishing loss reserves is complex and imprecise because it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments about our ultimate exposure to losses are an integral component of our loss reserving process. Because reserve estimates are subject to the outcome of future events, changes in prior year estimates are unavoidable in the insurance industry."	"The Board plays a leadership role by providing strategic direction and ensuring that it enhances the long-term positive outcomes of the business, society and the environment."	"Any new type of business or product is subjected to a comprehensive review process before initiation to ensure that all of the risks associated with new businesses or products have been identified and can be appropriately managed."
22	People risk	A risk that arises "because of decisions made, or not made, by individuals and/or groups of individuals, which are somewhat at odds with the goals/objectives of the firm and may cause losses."	"There have been a number of cases involving fraud or other misconduct by employees in the financial services industry in recent years and we run the risk that employee misconduct could occur. Instances of fraud, illegal acts, errors, failure to document transactions properly or to obtain proper internal authorization, misuse of customer or proprietary information, or failure to comply with regulatory requirements or our	"The Audit Committee reviewed significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by the company or its employees as reported by management."	"The failure to deliver fair client outcomes or the failure to uphold integrity within the market. It also refers to the failure to uphold the Group's core values and code of ethical conduct."

No.	Codes	Example from the literature	Example from annual integrated reports of selected insurance firms		
			Insurance firm A	Insurance firm B	Insurance firm C
			internal policies may result in losses and/or reputational damage. It is not always possible to deter or prevent employee misconduct, and the controls that we have in place to prevent and detect this activity may not be effective in all cases."		
23	Obligations of governing body (the Board)	"The governing body of a financial institution must endorse and be ultimately responsible for the establishment, implementation, subsequent reviews of, and continued internal compliance with, governance arrangements within the financial institution, to reasonably ensure compliance with regulation."	"Our Board of Directors has oversight responsibility for the management of risk. Through the Risk and Capital Committee (RCC) and Audit Committee, the board is accountable for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit.	"The Board has overall responsibility for the group's systems of internal control and risk management. The executive management is responsible for the management and implementation of the group enterprise risk management framework and governance frameworks"	"The Board is responsible for the Group's risk management framework and policies, as well as monitoring the effectiveness and disclosure thereof, in accordance with best practice."
24	Tone at the top	"Is used to define management's leadership and commitment towards openness, honesty, integrity, and ethical behaviour. It is the most important component of the control environment."	"Governance committees support efforts and promote transparency to enable improved management decision making."	"The Board is ultimately responsible for the adoption of policies and procedure which supports the establishment of an ethical culture within the organisation. We have therefore adopted the group's Code of Conduct which sets the tone for the ethics of the organisation."	"In terms of the Group's overall governance structure, the meetings of the Boards accountable are conducted to improve the flow of information and to increase the efficiency of the Boards."
25	Accountability for a conduct framework in an organisation	"The Compliance function with the support of the risk function and the board is responsible for the implementation of a conduct framework within an organisation."	"Compliance function under ERM is responsible for monitoring compliance with limits and providing regular, timely reporting to our senior management and risk committees."	"The Board is assisted by senior management, enabling the business to comply with the regulatory landscape to ensure its sustainability. Governance processes are reviewed on a regular basis to reflect best practice."	"Group Risk Management develops Group risk management framework, policies and guidelines for approval by the Board, coordinates reporting responsibilities and improves risk management across the Group."
26	Conflict of interest	"A situation in which a person or organisation is involved in multiple interests, financial or otherwise, and serving one interest could involve working against another."		"As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors."	"As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve

No.	Codes	Example from the literature	Example from annual integrated reports of selected insurance firms		
			Insurance firm A	Insurance firm B	Insurance firm C
					collusion, forgery, intentional omissions, misrepresentations, or the override of internal control."

4.2.1 A comparison of conduct risk reporting between the literature and insurance firms

In table 4, a five-scale rating method was employed to analyse the comparison of results. This was done to illustrate the adequacy of conduct risk reporting by the insurance firms and how it compares to the literature as well as to the RCI model.

Table 4

Scale or ratings used to compare the agreement in conduct risk reporting

Scale rating	Score (in %)	Description
Non-existent	0	No reporting
Poor	25	Reporting meets minimum required best practice standards with room from improvement
Adequate	50	Reporting meets basic required best practice standards
Good	75	Reporting meets majority of the required best practices standards
Very good	100	Reporting meets all the require best practice standards

Table 5 provides a comparative analysis of the reporting of conduct risk by insurance firms to best practice standards established from the literature (FSCA conduct framework, Hargarter and van Vuuren (2018)) on conduct risk in South African banks, and Deloitte's conduct risk management reporting principles). Furthermore, it illustrates the frequency count of the scale ratings for each code. The table was used to measure the average occurrence for the scale rating (how many times each scale rating occurs for each code).

Table 5

Indication of level of agreement

No.	Codes based on themes and principles	Document analysis level of agreement with the literature		
		Insurance firm A	Insurance firm B	Insurance firm C
1	Risk management framework			
	• Good corporate culture and governance	Good	Good	Very good
	• Linked to strategy, culture and risk management framework	Very good	Very good	Very good
	• Efficient and proportionate	Good	Very good	Very good
2	Risk leadership: Tone			
	• Obligations of governing body (the Board)	Very good	Very good	Very good
	• Tone at the top	Good	Good	Good
	• Accountability of a conduct framework in an organisation	Good	Good	Good
3	Risk communication			
	• Holistic and used to support analysis of trends	Non-existent	Very good	Very good

No.	Codes based on themes and principles	Document analysis level of agreement with the literature		
		Insurance firm A	Insurance firm B	Insurance firm C
	• Forward-looking • Measure and reported on at an appropriate frequency • Comprehensible and traceable • Support open communication and challenge • Acted upon and recorded	Good	Good	Good
		Non-existent	Very good	Very good
		Very good	Very good	Very good
		Good	Good	Good
		Good	Adequate	Adequate
4	Risk accountability			
	• Unfair contract terms in contracts with retail financial customer • General confidentiality obligations of financial institutions	Non-existent	Very good	Non-existent
		Very good	Very good	Very good
5	Risk challenge			
	• Support open communication and challenge	Good	Good	Good
6	Risk understanding			
	• Prohibited practices in relation to financial customers • Forward-looking • Comprehensible and traceable • Support open communication and challenge	Very good	Very good	Very good
		Good	Good	Good
		Very good	Very good	Very good
		Good	Good	Good
7	Risk related information			
	• Measure and reported on at an appropriate frequency	Non-existent	Very good	Very good
8	Risk based incentives			
	• Outcome-focused	Very good	Very good	Very good
9	Group dynamics			
	• People risk	Very good	Very good	Very good
10	Risk role			
	• Obligations of governing body (The Board) • Tone at the top • Accountability of a conduct framework in an organisation	Very good	Very good	Very good
		Good	Good	Good
		Good	Good	Good
11	External societal cultures			
	• Conflict of interest	Non-existent	Very good	Very good

Table 6 gives an overview of the frequency count in numbers.

Table 6

Indication of frequency count of the scale ratings

Scale ratings	Frequency count of scale ratings		
	Insurance firm A	Insurance firm B	Insurance firm C
Non-existent	4	0	1
Poor	0	0	0
Adequate	0	1	1
Good	12	10	9
Very good	9	15	15

The results presented in Table 5 and 6 gives a summary that the insurance firms selected for this research appear to have a good record of reporting conduct risk. For Insurance firm A, the average conduct risk reporting scale rating was “good”, for Insurance firm B and C it was “Very good”. Although the annual integrated reports of the selected insurance firms show alignment with best practice standards on conduct risk reporting and acknowledge the use of independent external auditors, it should be noted that annual integrated reports are biased towards their organisations. Adequate and transparent reporting of conduct risk does not necessarily mean that conduct risk issues are effectively managed within organisations. Conduct risk is still a challenge for many organisations (Management Solutions, 2016) and in some industries a growing issue (National Treasury, 2018).

Conclusion

The results of this study showed that conduct risk reporting by the South African insurance industry seemed to be adequate and aligned to best practice standards. This outcome can be attributed to the increased awareness and stringent regulatory requirements by the South African National Treasury.

It would be unrealistic to expect the complete eradication of conduct risk in organisations, and hence the regulatory agenda continues to evolve, as does the management of conduct risk. Organisations across all industries are expected to put in place a proactive framework to continuously identify and tackle poor conduct and adopt frameworks developed by regulators.

Designing the right conduct programme supported by the right technology solution starts by bringing together business, technology and regulation experts. Tapping into the collective pool of knowledge will best draw out the relevant conduct issues that could undermine the successful execution of strategy and enable bespoke and sustainable solutions to be developed. By identifying the core drivers of the ways that regulators and industry have sought to address these drivers, and the new technologies that can optimise responses, I hope this research paper has provided ideas for a foundation on which to build a conduct programme that will inspire trust.

Limitations

The biggest limitation for this study was finding published academic literature on conduct risk reporting. Literature on conduct risk and reporting as separate topics could be found but as a single topic, it was a challenge. Thus, I hope that, by combining these topics, this study contributes to the academic literature a novel approach to conduct issues.

Recommendations

Based on this research paper, I would advise that companies not only report on conduct risk but also adopt best practice standards such as the FSCA conduct framework and implement it in their organisations. This will equip management of organisations to efficiently manage conduct risk.

Furthermore, organisations can develop proactive conduct risk frameworks, innovative technology can also assist organisations to manage conduct risk. There are still significant hurdles to work through: much of the regulatory technology ("RegTech") market is in its infancy (Deloitte, 2017) and many of its ideas are still only at proof concept stage. Nevertheless, RegTech represents an

important opportunity to explore innovative processes supported by technologies that can drive the right conduct outcomes.

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CHAPTER 3: REFLECTION

What went well?

I really did not believe that at the end of 2019 I would be writing the reflection of this UARM mini-dissertation study. I started this course at the beginning of 2017 and hoped to complete the course at the end of 2018. However, for personal reasons and through not being fully committed, I took a break from studying. I resumed my studies at the beginning of 2019. I am immensely grateful to the support of my colleagues, family and friends. One big contributing factor that inspired and kept me going was my Supervisor, Mr Emmanuel Mulambya. He contributed significantly to my completion of this study. I owe him special gratitude.

Areas of improvement

Time management, time management and more time management. What challenged me most throughout the study was not managing my time effectively. Often, I found myself struggling to balance my work life and my study life. However, this is something I am working on personally so that one day, if I want to go for further studies, I would be able to do so with good time management skills.

Lessons learnt

I am truly privileged to have been exposed to the wealth of knowledge that was present in each contact session. From the supervisors, to the classmates, to the guest speakers. I really hope that the learnings that I have gained from this course will manifest in my professional life and propel me to greater heights in my career. This master's programme is unique, and I would recommend it to anyone who is not scared of giving up sleep for two years or being able to handle constructive criticism with humour.

APPENDICES

Appendix A

Financial Sector Conduct Authority ("FSCA") conduct framework

Codes	Description	Source
Obligations of governing body (The Board)	"The governing body of a financial institution must endorse and be ultimately responsible for the establishment, implementation, subsequent reviews of, and continued internal compliance with, governance arrangements within the financial institution, to reasonably ensure compliance with regulation."	FSCA, 2018
Good corporate culture and governance	"A financial institution must at all times conduct its business in a manner that prioritises fair outcomes for financial customers, so that there is confidence that their fair treatment is central to the corporate culture of the financial institution."	FSCA, 2018
Prohibited practices in relation to financial customers	"A financial institution must not request or induce in any manner a financial customer to waive any right or benefit conferred on a financial customer. Any waiver of any right or benefit conferred on a financial customer by or in terms of any provision of regulation is void."	FSCA, 2018
Unfair contract terms in contracts with retail financial customers	"A financial institution that provides financial products or financial services to retail financial customers must ensure that the terms, and conditions of a contract or agreement in respect of a financial product or financial service are fair, reasonable and transparent."	FSCA, 2018
General confidentiality obligations of financial institutions	"A financial institution may not disclose or use any personal or confidential information acquired or obtained from a financial customer, except in accordance with the Protection of Personal Information Act."	FSCA, 2018

Appendix B

Deloitte UK's Conduct Risk Reporting Principles

Codes	Description	Source
Linked to strategy, culture and risk management framework	"Conduct risk reporting is considered when the business discusses its strategy and puts in place a process to review the conduct risk reporting it collects if the strategy or business environment should change (e.g. due to the economy, developments in policy and regulation or technology)."	Deloitte UK, 2017
Outcome-focused	"As part of the product governance process, businesses articulate what a good outcome would be for the target end client, as well as the inherent risks of the product or service and identify reports they need to monitor this."	Deloitte UK, 2017
Holistic and used to support analysis of trends	"Businesses use a suite of reports, based on an assessment of what is needed, rather than what is readily available through existing systems and processes, so that a combination of indicators are measured and used to identify potential problems to be investigated further."	Deloitte UK, 2017
Forward-looking	"Management reporting should contain information on potential and emerging conduct risks, in addition to crystallised risks, for example, monitoring whether a product is sold to the target market."	Deloitte UK, 2017
Efficient and proportionate	"The business takes a risk-based approach to reporting management information to avoid a deluge of information, information that would not provide value to senior management is not included in the reports."	Deloitte UK, 2017
Measure and reported on at an appropriate frequency	"To allow proactive, rather than just reactive responses conduct risk reporting is provided to senior management as part of monthly, quarterly and annual reporting and on an ad hoc basis (where risk appetite triggers are breached)."	Deloitte UK, 2017
Comprehensible and traceable	"Senior management receives clear and concise reports that highlights the key messages and risks in an easily digestible format, it is possible to drill	Deloitte UK, 2017

Codes	Description	Source
	down into the information for further detail and to trace where the information originated."	
Support open communication and challenge	"Senior management openly discusses and seeks to understand weaknesses in how reports collated and analysed."	Deloitte UK, 2017
Acted upon and recorded	"Once potential, emerging and crystallised conduct risks are identified, the root caused are investigated and actions are tracked and reviewed to ensure they addressed the risks."	Deloitte UK, 2017

Appendix C

Conduct Risk in South African Banks: Aligning Regulatory Compliance with Business Sustainability.

Code	Description	Source
Tone at the top	Is used to define management's leadership and commitment towards openness, honesty, integrity, and ethical behaviour. It is the most important component of the control environment.	Hargarter and van Vuuren (2018)
Conflict of interest	Is a situation in which a person or organisation is involved in multiple interests, financial or otherwise, and serving one interest could involve working against another.	Hargarter and van Vuuren (2018)
People risk	A risk that arises "because of decisions made, or not made, by individuals and/or groups of individuals, which are somewhat at odds with the goals/objectives of the firm and may cause losses."	Hargarter and van Vuuren (2018)
Accountability of a conduct framework in an organisation	The Compliance function with the support of the risk function and the board is responsible for the implementation of a conduct framework within an organisation	Hargarter and van Vuuren (2018)

Appendix D

Codebook of conduct risk information sourced from literature and the selected South African insurance firms' annual integrated reports

Theme category	Codes	Description	Source	Annual Integrated Reports		
				Insurance firm A	Insurance firm B	Insurance firm C
Risk management framework	Good corporate culture and governance Framework	"A financial institution must at all times conduct its business in a manner that prioritises fair outcomes for financial customers, so that there is confidence that their fair treatment is central to the corporate culture of the financial institution."	FSCA, 2018	"Conduct business with customers and suppliers in a manner that demonstrates our commitment to fair competition."	"The Board strives to act in good faith at all times and to lead the organisation with integrity, fairness and transparency."	"The Board is responsible for statutory matters across all businesses, as well as monitoring operational efficiency and risk issues throughout then Group. In respect of separately listed subsidiaries, this is done within the limitations of sound corporate governance practices."
	Linked to strategy, culture and risk management	"Conduct risk reporting is considered when the business discusses its strategy and puts in place a process to review the conduct risk reporting it collects if the strategy or business environment should change (e.g. due to the economy, developments in policy and regulation or technology)."	Deloitte UK, 2017	"Throughout 2018 we executed on our strategy to deliver long-term, profitable growth by improving underwriting capabilities, mitigating risk and volatility by repositioning reinsurance structures and risk limits, adding world-class talent and utilizing capital opportunistically to reinvest in the business.Delivering on our strategy was influenced heavily by the strength of our culture, and our employees globally."	"The Board sets the risk appetite of the organisation and the tolerable level of risk that the organisation is willing to accept in the achievement of its strategic goals. The implementation of effective risk management is delegated to management."	"The governance structures ensure that an appropriate culture and environment are maintained, such that no transactions are concluded outside areas of competence, or without following normal procedures. This business culture is the product of a formal credit risk strategy and credit risk policy."
	Efficient and proportionate	"The business takes a risk-based approach to reporting management information to avoid a deluge of information, information that would not provide value to senior management is not included in the reports."	Deloitte UK, 2017	"Risk reporting and active risk management which includes meetings and collaboration between ERM and the business."	"The segmental results are reported on a basis consistent with the practice that the chief operating decision-maker (executive committee) assesses performance of the underlying businesses and allocated resources. The group has identified its reportable segments based on a combination of products and services offered to customers and the location of the markets served."	"A formalised, risk-based approach is followed for the management of major projects to ensure that projects are effectively implemented and the project hurdle rate is achieved. Key deliverables, progress and risks are monitored on a continuous basis throughout the project life cycle."

Theme category	Codes	Description	Source	Annual Integrated Reports		
				Insurance firm A	Insurance firm B	Insurance firm C
Risk leadership: tone	Obligations of governing body (The Board)	"The governing body of a financial institution must endorse and be ultimately responsible for the establishment, implementation, subsequent reviews of, and continued internal compliance with, governance arrangements within the financial institution, to reasonably ensure compliance with regulation."	FSCA, 2018	"Our Board of Directors has oversight responsibility for the management of risk. Through the Risk and Capital Committee (RCC) and Audit Committee, the board is accountable for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit."	"The Board has overall responsibility for the group's systems of internal control and risk management. The executive management is responsible for the management and implementation of the group enterprise risk management framework and governance frameworks"	"The Board is responsible for the Group's risk management framework and policies, as well as monitoring the effectiveness and disclosure thereof, in accordance with best practice."
	Tone at the top	"Is used to define management's leadership and commitment towards openness, honesty, integrity, and ethical behaviour. It is the most important component of the control environment."	Hargarter and van Vuuren (2018)	"Governance committees support efforts and promote transparency to enable improved management decision making."	"The Board acts in good faith at all times and leads the company with integrity, fairness and transparency. The Chairman, who is a non-executive director, is principally responsible for the effective operation of the Board. To this end, we have appointed a lead independent director to meet its regulatory requirements and internal governance rules."	"In terms of the Group's overall governance structure, the meetings of the Boards accountable are conducted to improve the flow of information and to increase the efficiency of the Boards."
	Accountability of a conduct framework in an organisation	"The Compliance function with the support of the Risk function and the Board is responsible for the implementation of a conduct framework within an organisation."	Hargarter and van Vuuren (2018)	"Compliance function under ERM is responsible for monitoring compliance with limits and providing regular, timely reporting to our senior management and risk committees."	"The Board of directors and management are actively monitoring the changes in the regulatory and compliance business landscape. The possible implications for the business plans and governance structures going forward are analysed on a continuous basis and the necessary changes are implemented where deemed reasonable. The group seeks	"Group Risk Management develops Group risk management framework, policies and guidelines for approval by the Board, coordinates reporting responsibilities and improves risk management across the Group."

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Risk communication					constructive engagement with the various regulators and policymakers. Conduct risk is the risk that a firm's behaviour may result in unfair treatment of its clients. To this end the regulator has introduced the Treating Customers Fairly (TCF) initiative as a precursor to conduct risk. Structures are in place to report on TCF initiatives to the Risk Committee."	
	Holistic and used to support analysis of trends	"Businesses use a suite of reports, based on an assessment of what is needed, rather than what is readily available through existing systems and processes, so that a combination of indicators are measured and used to identify potential problems to be investigated further."	Deloitte UK, 2017		"The risk identification process is used to build an aggregated view of all significant risks faced by the group. The risk appetite framework governs how the risks should be managed within the group. It is within this risk appetite framework that the group has selected its asset allocation and reinsurance programme which are among the most important determinants of risk and capital requirements within the group."	"The risk appetite reflects the Group's overall philosophy to risk taking, thus reflecting how it balances its goals of efficiency, growth and return from a risk taking perspective. It reflects the setting of targets for risk taking across the Group as a whole, plus the breakdown of these high-level statements into more detailed risk tolerances."
	Forward-looking	"Management reporting should contain information on potential and emerging conduct risks, in addition to crystallised risks, for example, monitoring whether a product is sold to the target market."	Deloitte UK, 2017	"Our risk management identification process includes ongoing capturing and monitoring of all existing, contingent, potential and emerging risk exposures, whether funded or unfunded."	"The group manages its insurance risk through the underwriting strategy, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues."	"The risk administration and reporting department is in place to implement risk control measures and maintain ongoing review of the risk reports and conditions, and to ensure overall compliance with the risk management policy."
	Measure and reported on at an appropriate frequency	"To allow proactive, rather than just reactive responses conduct risk reporting is provided to senior management as part of monthly, quarterly and	Deloitte UK, 2017		"The Risk Committee provides an independent and objective oversight and view of the information presented by management on corporate accountability and specifically	"The internal model allows for the measurement of organisations's expected performance relative to the risk appetite assessment criteria agreed to by the Board. The risk appetite process also includes the

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		annual reporting and on an ad hoc basis (where risk appetite triggers are breached)."			associated risk, also taking account of reports by management and the group Audit Committee to the Board on all categories of identified risks"	assessment of non-financial measures in determining the overall capital requirements. These assessments are presented to the risk and investment committees as well as the Board on a quarterly basis for consideration."
	Comprehensible and traceable	"Senior management receives clear and concise reports that highlights the key messages and risks in an easily digestible format, it is possible to drill down into the information for further detail and to trace where the information originated."	Deloitte UK, 2017	"Disclosed controls and procedures are designed to ensure that information required to be disclosed in reports is recorded, processed, summarized and reported within the time periods specified by management."	"We subscribe to a philosophy of providing meaningful, timely and accurate communication to its key stakeholders, based on transparency, accountability and integrity."	"The Board endorses the principle of transparency in financial reporting."
	Support open communication and challenge	"Senior management openly discusses and seeks to understand weaknesses in how reports are collated and analysed."	Deloitte UK, 2017	"During the FY 2017, management uncovered many issues and challenges that were deeper and more pervasive than anticipated, and management worked aggressively across multiple fronts to address what we found."	"A consolidated view of the risks facing the organisation is presented to the Risk and Compliance Committee, with the presented risks being considered and discussed at each quarterly meeting."	"A key benefit of the framework from a risk management perspective is that it facilitates enhanced oversight and collaboration between business units and significantly improves the understanding and management of risk concentrations that arise from time to time and that extend over several business unit portfolios in most instances."
	Acted upon and recorded	"Once potential, emerging and crystallised conduct risks are identified, the root caused are investigated and actions are tracked and reviewed to ensure they addressed the risks."	Deloitte UK, 2017	"Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns."	"Where weaknesses were identified in the internal controls, corrective action has been taken to eliminate or reduce the concomitant risks."	"The risk assessment process used consists of risk identification, risk analysis, risk evaluation, risk treatment/management and risk reporting of those risks that are relevant to strategic objectives."

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Risk accountability	Unfair contract terms in contracts with retail financial customers	"A financial institution that provides financial products or financial services to retail financial customers must ensure that the terms, and conditions of a contract or agreement in respect of a financial product or financial service are fair, reasonable and transparent."	FSCA, 2018		"We believe that the integrity of our brand image and reputation is paramount. Therefore, we actively drive Treating Customers Fairly (TCF) initiatives, embedding an organisational customer-led culture. Customer-centricity is the best way to drive growth. This requires critical self-assessment to identify how we can make it easier for our intermediary business partners and customers to do business with us"	
	General confidentiality obligations of financial institutions	"A financial institution may not disclose or use any personal or confidential information acquired or obtained from a financial customer, except in accordance with the Protection of Personal Information Act."	FSCA, 2018	"Our customers expect us to carefully handle and safeguard the business and personal information they share with us. Never compromise a customer's trust by disclosing private information other than to those with a legitimate business need to know."	"Major sources of operational risk can include operational process reliability, information security, outsourcing of operations, integration of acquisitions, fraud, human error, etc., however the group and company manage operational risk by a comprehensive system of internal controls."	"Market conduct comprises market discipline (including transparency and corporate governance) and consumer protection (including treating clients fairly)."
Risk challenge	Support open communication and challenge	"Senior management openly discusses and seeks to understand weaknesses in how reports are collated and analysed."	Deloitte UK, 2017	"During the FY 2017, management uncovered many issues and challenges that were deeper and more pervasive than anticipated, and management worked aggressively across multiple fronts to address what we found."	"A consolidated view of the risks facing the organisation is presented to the Risk and Compliance Committee, with the presented risks being considered and discussed at each quarterly meeting."	"A key benefit of the framework from a risk management perspective is that it facilitates enhanced oversight and collaboration between business units and significantly improves the understanding and management of risk concentrations that arise from time to time and that extend over several business unit portfolios in most instances."
Risk understanding	Prohibited practices in relation to financial customers	"A financial institution must not request or induce in any manner a financial customer to waive any right or benefit conferred on a financial customer. Any waiver of any	FSCA, 2018	"The Financial Stability Oversight Council may also recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for	"We believe that the integrity of our brand image and reputation is paramount. Therefore, we actively drive Treating Customers Fairly (TCF) initiatives, embedding an	"Financial Director office ensures that sound financial practices are followed, adequate and accurate reporting occurs, and financial statement risk is minimised."

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		right or benefit conferred on a financial customer by or in terms of any provision of regulation is void."		activities or practices that we and other insurers or other nonbank financial services companies, including insurers, engage in."	organisational customer-led culture. Customer-centricity is the best way to drive growth. This requires critical self-assessment to identify how we can make it easier for our intermediary business partners and customers to do business with us"	
	Forward-looking	"Management reporting should contain information on potential and emerging conduct risks, in addition to crystallised risks, for example, monitoring whether a product is sold to the target market."	Deloitte UK, 2017	"Our risk management identification process includes ongoing capturing and monitoring of all existing, contingent, potential and emerging risk exposures, whether funded or unfunded."	"Forward-looking assessments are performed on an individual or collective basis. Forward-looking factors are aligned with risk factors used in risk assessments, stress testing, budgeting as well as strategy and pricing decisions. Relevant factors include factors intrinsic to the entity and its business or derived from external conditions."	"The risk administration and reporting department is in place to implement risk control measures and maintain ongoing review of the risk reports and conditions, and to ensure overall compliance with the risk management policy."
	Comprehensible and traceable	"Senior management receives clear and concise reports that highlights the key messages and risks in an easily digestible format, it is possible to drill down into the information for further detail and to trace where the information originated."	Deloitte UK, 2017	"Disclosed controls and procedures are designed to ensure that information required to be disclosed in reports is recorded, processed, summarized and reported within the time periods specified by management."	"We subscribe to a philosophy of providing meaningful, timely and accurate communication to its key stakeholders, based on transparency, accountability and integrity."	"The Board endorses the principle of transparency in financial reporting."
	Support open communication and challenge	"Senior management openly discusses and seeks to understand weaknesses in how reports are collated and analysed."	Deloitte UK, 2017	"During the FY 2017, management uncovered many issues and challenges that were deeper and more pervasive than anticipated, and management worked aggressively across multiple fronts to address what we found."	"A consolidated view of the risks facing the organisation is presented to the Risk and Compliance Committee, with the presented risks being considered and discussed at each quarterly meeting."	"A key benefit of the framework from a risk management perspective is that it facilitates enhanced oversight and collaboration between business units and significantly improves the understanding and management of risk concentrations that arise from time to time and that extend over several business unit portfolios in most instances."

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Risk related information	Measure and reported on at an appropriate frequency	"To allow proactive, rather than just reactive responses conduct risk reporting is provided to senior management as part of monthly, quarterly and annual reporting and on an ad hoc basis (where risk appetite triggers are breached)."	Deloitte UK, 2017		"The Risk Committee provides an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk, also taking account of reports by management and the group Audit Committee to the Board on all categories of identified risks"	"The internal model allows for the measurement of organisations's expected performance relative to the risk appetite assessment criteria agreed to by the Board. The risk appetite process also includes the assessment of non-financial measures in determining the overall capital requirements. These assessments are presented to the risk and investment committees as well as the Board on a quarterly basis for consideration."
Risk based incentives	Outcome-focused	"As part of the product governance process, businesses articulate what a good outcome would be for the target end client, as well as the inherent risks of the product or service and identify reports they need to monitor this."	Deloitte UK, 2017	"The process of establishing loss reserves is complex and imprecise because it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments about our ultimate exposure to losses are an integral component of our loss reserving process. Because reserve estimates are subject to the outcome of future events, changes in prior year estimates are unavoidable in the insurance industry."	"The Board plays a leadership role by providing strategic direction and ensuring that it enhances the long-term positive outcomes of the business, society and the environment."	"Any new type of business or product is subjected to a comprehensive review process before initiation to ensure that all of the risks associated with new businesses or products have been identified and can be appropriately managed."
Group dynamics	People risk	"A risk that arises "because of decisions made, or not made, by individuals and/or groups of individuals, which are somewhat at odds with the goals/objectives of the firm and may cause losses."	Hargarter and van Vuuren (2018)	"There have been a number of cases involving fraud or other misconduct by employees in the financial services industry in recent years and we run the risk that employee misconduct could occur. Instances of fraud, illegal acts, errors, failure to document transactions properly or to obtain proper internal authorization,	"The Audit Committee reviewed significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by the company or its employees as reported by management."	"The failure to deliver fair client outcomes or the failure to uphold integrity within the market. It also refers to the failure to uphold the Group's core values and code of ethical conduct."

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				misuse of customer or proprietary information, or failure to comply with regulatory requirements or our internal policies may result in losses and/or reputational damage. It is not always possible to deter or prevent employee misconduct, and the controls that we have in place to prevent and detect this activity may not be effective in all cases."		
Risk role	Obligations of governing body (The Board)	"The governing body of a financial institution must endorse and be ultimately responsible for the establishment, implementation, subsequent reviews of, and continued internal compliance with, governance arrangements within the financial institution, to reasonably ensure compliance with regulation."	FSCA, 2018	"Our Board of Directors has oversight responsibility for the management of risk. Through the Risk and Capital Committee (RCC) and Audit Committee, the board is accountable for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit."	"The Board has overall responsibility for the group's systems of internal control and risk management. The executive management is responsible for the management and implementation of the group enterprise risk management framework and governance frameworks"	"The Board is responsible for the Group's risk management framework and policies, as well as monitoring the effectiveness and disclosure thereof, in accordance with best practice."
	Tone at the top	"Is used to define management's leadership and commitment towards openness, honesty, integrity, and ethical behaviour. It is the most important component of the control environment."	Hargarter and van Vuuren (2018)	"Governance committees support efforts and promote transparency to enable improved management decision making."	"The Board is ultimately responsible for the adoption of policies and procedure which supports the establishment of an ethical culture within the organisation. We have therefore adopted the group's Code of Conduct which sets the tone for the ethics of the organisation."	"In terms of the Group's overall governance structure, the meetings of the Board accountable are conducted to improve the flow of information and to increase the efficiency of the Boards."
	Accountability of a conduct	"The Compliance function with the support of the risk function and the board is responsible for the	Hargarter and van Vuuren (2018)	"Compliance function under ERM is responsible for monitoring compliance with limits and providing regular,	"The Board is assisted by senior management, enabling the business to comply with the regulatory landscape to ensure	"Group Risk Management develops Group risk management framework, policies and guidelines for approval by the Board, coordinates reporting

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	framework in an organisation	implementation of a conduct framework within an organisation."		timely reporting to our senior management and risk committees"	its sustainability. Governance processes are reviewed on a regular basis to reflect best practice."	responsibilities and improves risk management across the Group."
External societal cultures	Conflict of interest	"A situation in which a person or organisation is involved in multiple interests, financial or otherwise, and serving one interest could involve working against another."	Hargarter and van Vuuren (2018)		"As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors."	"As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control."