



ASIC

Australian Securities & Investments Commission

Culture shock

*A speech by Greg Medcraft, Chairman,
Australian Securities and Investments Commission*

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CHECK AGAINST DELIVERY

Welcome

Thank you, Minister O'Dwyer for opening our Forum today and for setting the scene for what we are about to talk about over the next two days.

I am very excited about the theme of our conference this year, which is 'Culture Shock'.

I am looking forward to the journey we will go on together in exploring the ideas around culture and what this means for individuals, for business, and for regulators.

This year we have a line-up of fantastic speakers who will contribute to what will definitely be an engaging and thought-provoking two days.

Introduction

I would like to start off today by giving you my thoughts on 'Culture Shock' and what this means to me.

I want to consider the pace of technological change – the 'shock' factor – and what this means for culture.

Five years ago we generally weren't thinking about digital disruption.

While innovation is not a new phenomenon, its scale, breadth and potential – now underpinned by technology – has certainly increased dramatically.

Technology is traveling at a faster pace than ever.

Technological innovation is rewriting almost every industry including, of course, the financial services industry.

We are seeing innovative business models in financial services including marketplace lending, crowd funding, robo-advice, payments and the potential of blockchain technology.

Technology and innovation is disrupting and reshaping the world we live in.

So in particular today, I would like to talk about three things:

- what innovation and digital disruption means for ASIC
- some examples of how ASIC is responding to digital disruption, and
- why culture matters – not only for regulators, but for business – and why it is especially important when we consider the impact of digital disruption.

What digital disruption means for ASIC

Turning to my first point, what does innovation and digital disruption mean for ASIC?

Digital disruption brings opportunity. By its nature, it is not change by evolution. Rather, it is radical in the way it changes the landscape.

What is fundamentally important for regulators is thinking critically about the implications of digital disruption.

Often disruptive businesses have innovative business models that may not fit neatly within existing regulatory frameworks or policy.

And, over recent years, there has been significant growth in the number and severity of cyber-attacks around the world.

How ASIC is responding to digital disruption

So how is ASIC responding?

In our four-year Corporate Plan,¹ released in August last year, we set out how we are responding to our key challenges, including digital disruption and cyber risk.

I would like to talk about two particular ways that ASIC is responding:

- through our Innovation Hub, and
- our work on cyber resilience.

¹ [ASIC, Corporate Plan 2015–16 to 2018–19: Focus for 2015–16.](#)

ASIC's Innovation Hub

At last year's Annual Forum I announced ASIC's Innovation Hub, which is designed to foster digital innovation and help innovators navigate our regulatory system.

Since the Innovation Hub was established, we have:

- held 59 external meetings with fintech businesses, industry organisations and other agencies
- started work on matters relating to 52 entities, including licence applications and requests for guidance, and
- established three internal taskforces – digital financial advice (robo-advice), digital marketplace lending, and a blockchain technology working group.

We are also exploring how a regulatory 'sandbox' might work to make it easier for start-ups to test new business models.

Cyber resilience

Cyber threats are no longer an abstract notion, or just an IT issue. From the attack on Sony in 2014 where hackers seized thousands of files – including personal details of around 6,000 Sony employees and the salary details of top executives – to the recent US Government cyber-attacks, we are seeing more frequent and more sophisticated attacks around the world.

These attacks often compromise individual data. Everyday people's privacy and security can be affected.

With the risk and sophistication of cyber-attacks growing faster than traditional firewall and antivirus technology can keep up, businesses need strategies to prevent, detect and respond to cyber risks.

ASIC is seeking to assist our regulated population in their efforts to improve their cyber resilience.

In March 2015, we published our Cyber Resilience Health Check,² which encouraged organisations to use the [US NIST Framework](#).

This month we also released our Cyber Resilience Assessment Report,³ which sets out 11 important practices for good cyber resilience and identifies questions boards and management should ask themselves to evaluate their cyber resilience.

² [Report 429](#) *Cyber resilience: Health check* (REP 429).

³ [Report 468](#) *Cyber resilience assessment report: ASX Group and Chi-X Australia Pty Ltd* (REP 468).

Why culture matters

So, finally, having set the scene in the real world we live in – of innovation, digital disruption and cyber risk – I want to come back to talk about something very important that needs to underscore how we interact in this world. And that thing is culture.

Culture matters to ASIC, to business and to customers.

Culture matters to ASIC because culture is a key driver of conduct. Good conduct leads to good outcomes for investors and consumers. This supports ASIC's strategic priorities of:

- investor and financial consumer trust and confidence, and
- fair, orderly, transparent and efficient markets.

The converse is also true.

Inevitably, it is the stories of poor culture and poor conduct in the financial industry which are splashed across the front page of the newspaper, which pop up in our newsfeeds, and which are the subjects of heated discussion on social media sites.

This is particularly so in recent times – with financial advice, and now Bank Bill Swap Rate (BBSW) and life insurance, on everybody's minds.

Culture also matters to business.

Fundamentally, good culture is good for the bottom line and it is critical for businesses that want to be around for the long term.

Let me explain. A good culture enhances brand loyalty and bolsters reputation, which has a very real financial impact.

We now live in a world with technology and social media at our fingertips. This has seen the advent of what I call 'customer regulation'.

If a business does not have the right culture, they will see the effect of this as customers vote with their feet, or make their views known (sometimes very loudly) through social media.

Individuals now have unprecedented access to information and, as a result, companies are held responsible by the crowd.

If they are not behaving in the right way, the crowd will let them know – if not the headlines.

Businesses that want to capture the next generation of customers, businesses that want to be around in the long term, are putting customers at the heart of everything that they do.

They understand that it is important to repair and to continually improve their overall culture – that this is better for business than constantly having to remove bad apples – and that cultural change will have a more enduring and positive impact than simply addressing isolated instances of misconduct.

They take responsibility if things do go wrong.

Time and time again, we have seen firms blaming it on a few bad apples driving bad outcomes for consumers, rather than taking responsibility by looking more closely at their organisation and implementing the necessary changes to address the root cause of the problem.

But most importantly of all, they aspire to building and maintaining a culture that their customers can believe in. In setting this culture, actions speak louder than words.

What is ASIC doing about culture?

So now to the question that is on the lips of many in the audience: what is ASIC doing about culture?

We are incorporating culture into our risk based surveillance reviews.

To be clear, we have always looked at the individual elements of culture in our surveillances – for example, remuneration, breach reporting, whistle-blower policies, and complaints handling.

ASIC has today released a report outlining its findings of a review of conflicts management practices in vertically integrated businesses in the funds management industry.⁴

Our report emphasises the role that remuneration and incentives play as a driver of the behaviour of firms.

For example, conflicts can arise or be exacerbated where incentives reward high-risk, short term business strategies.

From our review, we found that some firms take conflicts management seriously. We found some good practices such as separate boards for subsidiaries which may help to manage conflicts.

However, we remain concerned that some policies may have been adopted without sufficient attention to genuinely addressing the underlying conflicts.

We encourage all firms to assess their approach to conflicts management.

So what we are now doing is bringing the elements of culture together and considering whether they indicate a cultural problem. Where we think there may be a problem, we will ask questions and do a ‘deeper dive’.

This helps us to not only identify instances of misconduct, but also broader, more pervasive conduct problems. We want to uncover these problems early – and to disrupt and address them.

⁴ Report 474 *Culture, conduct and conflicts of interest in vertically integrated businesses in the funds-management industry* (REP 474).

I want to emphasise, however, that culture is not something that can be regulated with black letter law.

We won't be looking over everyone's shoulder to test their culture or dictating how a business should be run. Culture is at the heart of how an organisation and its staff think and behave. It is an issue that companies themselves must address.

For firms, this means that it is important to have a culture that:

- seeks and acts on customer feedback
- promotes effective communication
- encourages challenge
- guards against complacency, and
- is genuine in putting customer outcomes at the centre of what they do. And the customer must believe it. It is not enough to talk the talk; firms must truly embed this in their business.

Conclusion

In conclusion, I want to say that if you don't have the right culture that genuinely puts the customer-first, or if this isn't heard or felt by your customer, you will see the very real impacts of this on your bottom line or the value of your business.

These impacts are heightened by the technological world in which we live. Social media and the 24 hour news cycle have changed everything.

It is the responsibility of each organisation to look at what steps they can take to improve their culture and sustain a 'customer first' culture over the long term.

At the end of the day, you need to have a culture that your customers can believe in.

And as we all know, actions speak louder than words.

Introduction to first plenary session

I'd now like to take a couple of minutes to say a few words about our first plenary session.

The topic of the session is: *The bottom line – does culture matter?*

Joining us on our distinguished panel are:

- David Thodey, Chairman, CSIRO
- Commissioner Andrew Scipione APM, New South Wales Police Force
- Fiona Guthrie, Chief Executive Officer, Financial Counselling Australia, and
- Marilouise Hughes, Executive Director, APAC Head of Conduct Risk, UBS AG.

I'm sure, like me, you're all looking forward to hearing their different perspectives about culture and the insights they will be sharing with us from their extensive business and enforcement experience.

To that end I will now hand over to our distinguished moderator, Ms Ticky Fullerton.

I hope you all enjoy our 21st ASIC Annual Forum.