



**ASIC**

Australian Securities & Investments Commission

# Trust and confidence, culture and ethics: The right nudge in shaping communities globally and locally

*A speech by Greg Medcraft, Chairman,  
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## **CHECK AGAINST DELIVERY**

### **Introduction**

Ladies and gentleman, it is great to be in Paddington this evening.

I want to recognise the members of the Paddington Society and applaud the society's vision of community and heritage.

I want to particularly acknowledge the society's committee who, over the past 50 years, have shown themselves to be a passionate and determined group with a common vision committed to the special environment that is our great, heritage area of Paddington.

Indeed, I know that many people in elected office recognise this group as one of the most talented and formidable community organisations in Australia – and as a former councillor and mayor, I speak from experience.

I am especially delighted to be addressing the society's annual dinner in the group's 51st year.

Unlike past speakers to the Paddington Society, I am not a soldier or an actor. I am not a painter or a journalist, and I am certainly no satirist. But I am someone who knows a bit about public service and I am someone who definitely loves Paddington.

Many of this audience might also know me from my day job as Chairman of the financial services and markets regulator, ASIC.

I was a 30-year investment banker, which means now at ASIC I am the classic poacher-turned-gamekeeper.

And while I am a gamekeeper, tonight is not the place for a speech on the intricacies of game keeping – or, in this case, financial services and market regulation.

But I do want to talk about something on which I am passionate. It is a topic that is relevant to anyone with a house or some superannuation or a nest egg – the issue of culture and, particularly, culture in financial services and markets.

## **Culture**

Culture is an issue that has been on my mind for a while now.

This is because, since the global financial crisis, we have seen example after example of financial institutions behaving in a way where customers come off second best. And that behaviour is often linked to the culture of those organisations.

This behaviour has often led to an erosion of trust and confidence in our financial institutions.

You expect trust and confidence in your doctor. You expect trust and confidence in your lawyer. And you should expect it from your bank, or financial adviser or other trusted gatekeepers in our financial system, whether they are directors or brokers.

With Australia's pool of superannuation growing – Treasury is estimating that by 2030 super assets will increase to \$5.1 trillion – trust and confidence is more important than ever.

That means we need to regulate for real people and their behaviour. People like you and me and everyone here. In fact, people everywhere.

And that means looking at culture, looking at incentives and making sure that for those who want to break the law there is a credible deterrence – that there are tough penalties and a high likelihood of getting caught.

Often it is not just an organisation's few bad apples driving bad outcomes for consumers. Often, it is the culture itself, starting at the top.

But it is no good simply always pursuing the bad apples if the fundamental problem is the tree itself.

### **Stick and carrot**

Cleaning up culture can be looked at as a stick versus carrot issue.

First, the carrot. Many organisations have a solid culture and for those who fall short, ASIC wants to work with those groups to help them create the right culture; including sharing with boards and management when ASIC's surveillance identifies cultural problems.

In other words, we are providing the right ‘nudge’ to business, and making sure the dots are connected from the top to all levels of an organisation.

We encourage boards and management to think about the 3 Cs of good conduct – that is:

- communicating from the top on what is expected
- challenging whether the culture is achieving the desired outcome, and
- complacency – ensuring there is no complacency.

Conduct should be continually reviewed, enforced and validated.

We also support the initiative by a number of firms working with groups such as the St James Ethics Centre to develop an ethical framework for how they will run their business.

My position is pretty simple: good culture should not mean mountains of red tape and armies of compliance staff.

Good culture is simply about doing the right thing by your customers.

Now the stick. When we find organisations that do not care that their delinquent culture is hurting consumers, then we must be firm and take action to deter this behaviour.

To this end, we have suggested broadening the culture provisions of the Crimes Act and applying them to parts of the Corporations Act. And that means extending those provisions not just to companies but responsible management too.

In workplace health and safety and environmental regulation, management can be held responsible for poor culture resulting in a breach of law.

If senior management can be held responsible for our physical health and safety, then why should they not be held responsible for our financial health and safety?

I believe that the most senior people in the financial sector should be held personally accountable for the behaviour of those at the front line.

## **The value of the crowd**

Now, while tough law can bring people into line, I also think using the ‘value of the crowd’ is a great way to shape culture.

With social media and technology at our fingertips, the world is changing.

With unprecedented access to information, many companies are now held responsible by the crowd. And if they are not behaving in the right way, the crowd will let them know, if not the headlines.

The significance of this cannot be underestimated – being judged by the crowd and by your peers has major reputational consequences above and beyond any monetary impact.

Think about it in the context of your society. If someone gets out of line, you have a word and pull them into line. The good opinion from this cohort is valuable. That is the power of the crowd.

## Conclusion

Ladies and gentlemen, culture is not about arcane concepts and academic arguments. It is about real people.

And when I talk about poor culture leaving investors and financial consumers coming off second best, this is a polite way of saying people often get fleeced.

And sadly, those who get fleeced are usually not only the wealthy.

But this is the thing – markets might recover, but often people do not. People are often left with a loss they cannot afford.

And that is why cleaning up culture is crucial. That is why trust and confidence is crucial in the financial services sector.

However, trust and confidence is not just important in financial services. Trust and confidence is at the heart of everything we do as a member of any group.

It is at the heart of our relationships with our partners and families; it is at the heart of government, and especially at the heart of the local community.

Put simply, trust and confidence is the cornerstone of every society.

Thank you for listening.