



Behavioural Science in Practice – Applications for Financial Services Compliance

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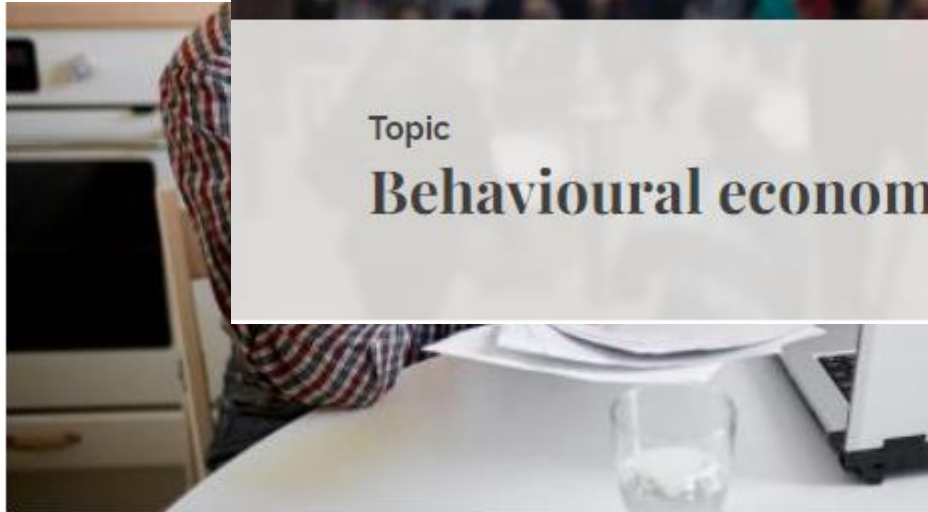
THE INSTITUTE

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Topic

Behavioural economics



Financial Wellbeing - can we spot the signs

What does it mean to be 'financially well'? Is it having a large bank balance or is it not about how much money you have but rather how comfortable

Sustainable investing: objective gradings, greenwashing and...



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The EAST™ framework

Make it Timely

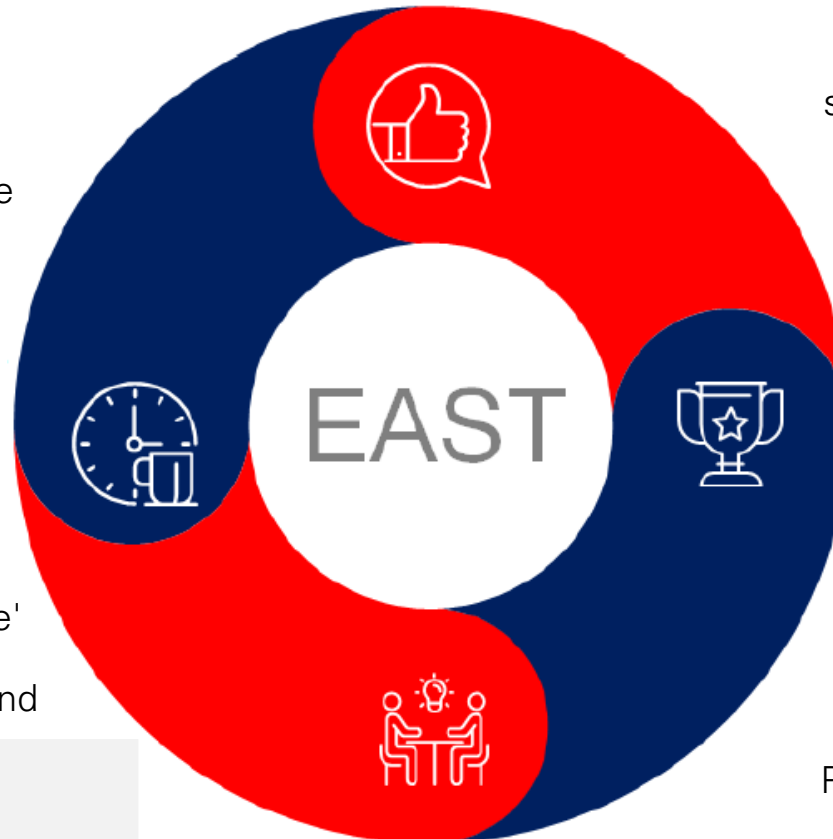
Prompting when people are likely to be most receptive and structuring or phrasing benefits to make them more immediate.

Present bias, Key decision moments, Help people plan, Give feedback

Make it Social

Harnessing social and/or peer 'pressure' by showing desired behaviours are supported by others in a social group and encouraging shared commitments.

Choose the right messenger, Herding and normative behaviour, Use existing social networks



Make it Easy

Allowing people to go with the flow by removing or reducing effort, steps, choices to make action simple and effortless.

Simplify messages, direct calls to action, Reduce the 'hassle' - effort puts people off, Break down complexity

Make it Attractive

Presenting benefits in a way that maximises perceived value. This includes increasing the salience of your offer.

Personalise, Catch attention, Cater to emotion, Optimise incentives, Scarcity and optimism

Application examples

Make it Timely

Timely and focussed decision making (e.g., short ad-hoc and high-frequency meetings).

High frequency Assurance & Testing with almost **immediate feedback**.

Training & Awareness-raises on **FCA Conduct Rules** (top-down and bottom-up on Reasonable Steps)

Make it Attractive

Senior management buy-in (very clear message from the top, supported by the right actions).

Gamify (present training as a game, reward participants with acknowledgement and prizes).

Make non-compliant behaviour un-attractive (show disappointment, *"It's as if you are you are the odd one out"*. *"We can give you special / simpler training"*)

Application examples – cont.

Make it Social

Present compliance behaviour as the norm (**everyone does / other teams can do it**)

High levels of interaction and communication (relationships of trust and mutual appreciation, acknowledgement of compatible competencies).

Be approachable (making it social can be as simple as being social)

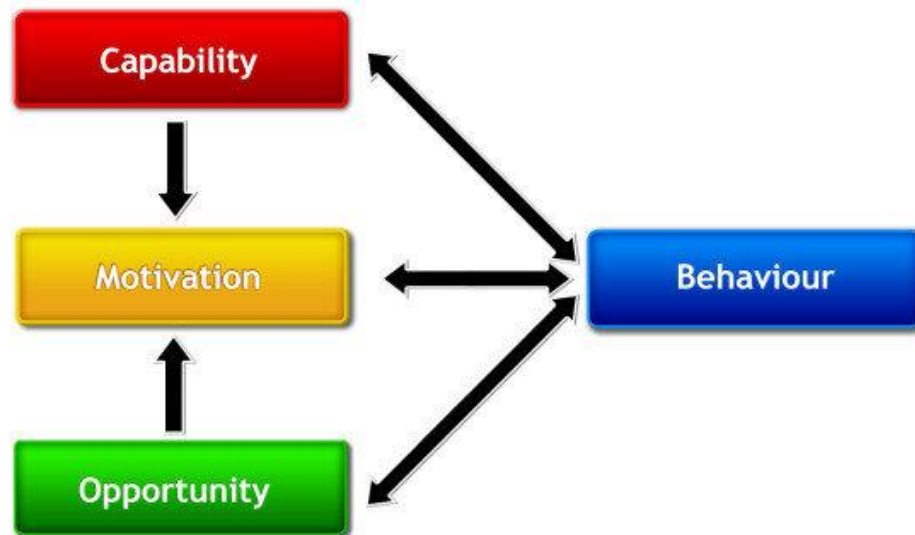
Make it Easy

Simplified policies and procedures (some policies could be retired, key messages amalgamated into other documents. Limit duplication to support long-term maintenance, Use mind-maps. Simplify the language -> [Plain Language Commission's Clear English Standard](#))

Clearly articulated roles and responsibilities with Compliance as a Support and Advice Function (e.g., what does "sign-off / approval mean"?)

What drives behaviour?

EAST can provide front-end solutions, but what about the back-end? **What drives underlying behaviours?**



Behaviour is driven by three essential components. To be able to do something, people must have:

- Capability
- Opportunity
- Motivation

Capability

This refers to an individual's **physical** or **psychological** ability to engage in the activity concerned. It encompasses having the necessary **knowledge** and **skills**.

- **Physical Capability:** the physical skills or strength needed to comply with certain regulations.
- **Psychological Capability:** the cognitive and emotional aspects that enable employees to comprehend and engage with compliance requirements.

Capability

Physical Capability

Document Retrieval: Physically accessing files, cabinets, or rooms where documents are kept, especially in institutions that still rely on paper records.

Endurance: In jobs requiring prolonged attention, like monitoring financial transactions, physical stamina is needed to maintain focus and adhere to protocols.

Data Entry: Being able to accurately input data into systems where accurate record-keeping is part of compliance.

Psychological Capability

Understanding of Rules: Recognising the importance of, and the reasons behind, specific compliance regulations.

Training Recall: Retaining and applying information from compliance training sessions to daily job tasks.

Emotional Regulation: Managing stress or pressure, especially in high-stakes environments where non-compliance can have significant repercussions.

Opportunity

All the factors that lie outside the individual that prompt or encourage behaviour or make it possible.

- **Physical Opportunity:** the environment (e.g., external factors and tangible resources that enable or promote compliance).
- **Social Opportunity:** the social factors, including cultural norms, peer behaviours, and interpersonal influences, that can encourage or discourage compliance.

Opportunity

Physical Opportunity

Tools & Technology: Providing employees with the necessary software or equipment to ensure compliance.

Accessible Training Material: Availability of handbooks, online modules, or videos that explain compliance requirements.

Audit & Feedback Mechanisms: Systems in place that regularly check for compliance and provide feedback, ensuring that employees have regular opportunities to correct behaviours.

Social Opportunity

Positive Peer Influence: If colleagues regularly follow compliance protocols and encourage others to do so, it can foster a culture of adherence.

Open Communication: Creating an environment where employees feel they can voice concerns or report non-compliance without fear of retaliation.

Leadership Emphasis: Leaders who emphasise the importance of compliance can influence the behaviour of their teams.

Motivation

This relates to the mental processes that energise and direct behaviour.

- **Reflective Motivation:** Involves conscious decision-making and evaluations (e.g., beliefs about consequences, self-identity).
- **Automatic Motivation:** Involves emotions, desires, habits, and reflex responses that might occur without conscious thought.

Motivation

Reflective Motivation

Awareness of Consequences: Understanding the repercussions of non-compliance, such as penalties, fines, or damage to reputation.

Belief in the System: Trusting that the compliance protocols are there for valid reasons and that adhering to them contributes to the greater good.

Personal Responsibility: Feeling a sense of ownership and responsibility towards one's role and the company.

Automatic Motivation

Habitual Behaviour: Over time, always following a certain protocol becomes a habit.

Inherent Trust: An innate trust in the system or protocols, leading to automatic adherence without constant reflection on the reasons.

Reward-driven Actions: If an employee has been conditioned to expect rewards (like bonuses or recognitions) for compliant behaviour, they might automatically act compliantly in anticipation of those rewards.

Building Capability

Physical Capability

Training: Conduct hands-on sessions to build skills.

Demonstrations: Show how a task should be performed.

Equipment/Tool Provision: Provide aids or tools that make the task easier.

Adjustment of Tasks: Modify or simplify tasks to match the physical capability of the person.

Psychological Capability

Educational Sessions: Enhance knowledge about the behaviour.

Cognitive Behavioural Strategies: Address cognitive barriers or misconceptions.

Modelling: Offer role models to demonstrate desired behaviours.

Feedback: Provide feedback on performance to help individuals understand and rectify mistakes.

Building Opportunity

Physical Opportunity

Environmental Restructuring: Change the physical environment to encourage the behaviour

Providing Resources: Make necessary materials or tools readily available.

Automation: Use technology to automate certain behaviours, reducing reliance on memory or effort.

Scheduling/Reminders: Implement reminders or prompts to encourage the desired behaviour at the right time.

Social Opportunity

Social Support: Create support groups or buddy systems.

Influential Figures: Engage role models or leaders to advocate for the behaviour.

Cultural Norms: Try to shift societal or organisational norms towards the desired behaviour.

Community Engagement: Involve the larger community in promoting the behaviour, fostering a collective identity.

Building Motivation

Reflective Motivation

Persuasion: Use logical arguments, compelling narratives, or data to persuade.

Incentivisation: Offer rewards for desired behaviours.

Goal Setting: Encourage individuals to set specific, measurable goals.

Information about Others' Approval: Let people know that their peers or figures they respect approve of the desired behaviour.

Automatic Motivation

Positive Reinforcement: Reinforce desired behaviour with immediate positive feedback or rewards.

Punishments or Sanctions: Introduce consequences for undesired behaviours.

Habit Formation: Encourage repetition until the behaviour becomes habitual.

Emotionally Resonant Messaging: Use emotional appeals or stories to create a connection with the behaviour.

Example 1

- **WAIVER & EXCEPTION REQUESTS**
 - **Waivers & Exceptions trend analysis**
 - > what is the main reason for W&Es?
 - **Review waiver & exceptions process**
 - > What prevents RMs from obtaining the requirement (**cultural / educational issues**)?
 - > Is it easier to request a waiver / exception than to fulfil the requirement (**process issue**)?
 - **Review requirements in the CDD Procedure**
 - > Is **the requirement** in the CDD Procedure relevant, given customer, product and deliver-channel risks?

Example 1 – cont.

- What can be done?

CDD Procedures often apply a blanket approach to risk management. Requirements are assigned to customer types without knowing which risks a requirement is trying to address (*“ we used to do this when I worked at x, so it must be right ”*)

There might be cultural issues preventing RMs from asking for some information / documents. In other instances, customers simply may not understand what the organisation is asking for.

- ➔ CDD Procedure can be updated (made more risk-based), RMs provided with additional training on document requirements, and the **Waivers & Exceptions Process made more arduous**. When requesting waivers and exceptions, RMs and / or Onboarding would have to:
 - a) articulate which risk(s) a requirement aims to address; and
 - b) how the risk can be managed / mitigated otherwise.

Example 2

- RISK OWNERSHIP

- Lack of Senior Management sign-off

- > Is there something preventing Senior Management from signing off?

- There may be a lack of risk ownership. Compliance can be seen as policy owner, risk owners and risk managers.

- (" I don't know all the risks. Compliance are the expects, they need to sign off" .)*

Example 2 – cont.

- What can you do?
 - **Compliance Charter** – Compliance provides advice and guidance to other functions on how to manage risk.
 - **Roles & Responsibilities** – Dedicated Section in policies and procedures
 - **FCA Conduct Rules**
 - SC1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively
 - **SM&CR Training**
 - **How to evidence** reasonable steps.

Example 3

- COMMITTEE ENGAGEMENT

- Discussion and debate at governance committees lack depth
 - > Is there something preventing committee members from engaging?
- There could be issues around the time of the committee meeting, the committee composition and / or the information provided to the committee

Example 3 – cont.

- What can you do?
 - **Committee pack**– Information overload / not enough information? Can we limit the presentation time?
 - **Committee timing** – mornings, lunch time, afternoons / early evenings? (People process information differently depending in the time of day)
 - **Committee composition** – do we always the same person(s) taking charge? Can we mix up the agenda / presenters?

Final Thoughts

- What can you do?
 - **Be credible.** Theory has shown that trust is the most powerful factor influencing risk-related decision-making. People are more likely to show the desired behaviour if they trust the messenger.
 - **Don't be discouraged by failure or disagreement.** (New Taipei City in Taiwan example).
 - **Be consistent.** Inconsistency can undermine credibility. If you have set a course of action, see it through. If you have formulated a short, clear and concise message, don't explain it, repeat it!
 - **Don't overdo it.** Behavioural science often uses special stimuli to direct attention. People are already overstimulated by social and public media as well as meetings, calls and interpersonal demands. If you add 10 more stimuli, people may not know which to prioritise.

Any questions?

