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FINANCIAL SERVICES



The moment of truth

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Your World is our World

And so we introduce the human factor...



- **Act with integrity**
 - **Demonstrate independence**
 - **Avoid conflicts of interest**
- *Values and ethical principles*
 - **UTMOST good faith**
- Trust each other and be worthy of trust
 - **Take all *reasonable steps***
- **Act with due care, diligence and good faith**
- **FIT AND PROPER REQUIREMENTS**
 - *Codes of conduct*
- ***Render Financial Services Honestly***

Governance of the service providers – THE BEDAZZLER EFFECT



Governance of the service providers – PERCEPTION and BEDAZZLEMENT



- Tendency to focus on:
 - Expert systems
 - Flashy presentations
 - Volumes of communications whether meaningful or not
 - Ability to influence and lead
 - Returns
 - Speed of processing
 - The more complex and intricate a product or an offering is the better **BECAUSE IT MUST BE RIGHT**
- Tendency to think that automation is king
- Tendency is to **FOCUS** on the **OUTPUT** and not **GOVERNANCE**
- Excellent **OUTPUT** is good, but is not sustainable **IF** there is **POOR GOVERNANCE**
- **POOR GOVERNANCE = FRAUD**

GOVERNANCE AT THE SERVICE PROVIDERS



- Legislation such as FAIS and Pension Funds Acts
- Circulars and regulations such as PF 130
- Risk based questionnaires and returns such as
 - Benefit administrators complete a new return – focuses on:
 - Systems
 - Reporting
 - Safeguarding of assets
 - Financial well being
 - Risk management
 - Fit and proper requirements of key management
- But what about common sense and the warm fuzzy feeling?

GOVERNANCE AT THE SERVICE PROVIDERS – Some tools to assess

- Checklists:
 - Code of conduct
 - Gift registers
 - Risk registers
 - Investment policies
- We enjoy completing a checklist, but is there substance? – ONE MORE ITEM TO TICK OFF!!!
- Service providers present on control environment – representation letter?
- Independent reviews of control environment
- Self assessments of trustees

GOVERNANCE AT THE SERVICE PROVIDERS – Some tools to assess



- Trustees rarely **visit** a service provider and ask (to name a few)
 - Trustees/Board of directors/ key management as to whether they have been convicted of criminal offences; (fit and proper requirements)
 - Trustees/Board of directors/ key management about their experience;
 - The staff about the company's code of conduct and values
 - About HR policies
 - About the completion of gift registers
 - About fraud reporting and whistle blowing
 - About training and knowledge
- It is NOT about having a policy but actually ***practicing*** the policy
- Effective governance begins at the TOP and filters down

GOVERNANCE AT THE SERVICE PROVIDERS – Some tools to assess

- It is about time we looked at the MORAL FIBRE of the service providers

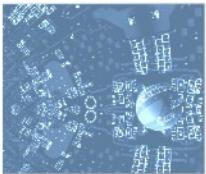


GOVERNANCE AT THE SERVICE PROVIDERS – Consequences of good governance

- Improved tools to achieve good governance such as:
 - Evaluation of committees and setting up thereof
 - Internal audit departments
 - Legal departments
 - Compliance departments
 - Robust procedures
 - Efficient, accurate, complete and effective systems and reporting
 - Transparency
 - A good demonstration of commitment to do things RIGHT
 - In other words, ethical output bedazzlement must be consequence of good governance NOT the other way round
- BUT do you accept that the above is there or do you probe further?
 - In other words if the server room filled with empty silver boxes and flashing LED lights and not actual servers?

GOVERNANCE AT THE SERVICE PROVIDERS – If you are not happy, think like a child...

- Ask why, why, why, why, why until you get an answer and proof



GOVERNANCE AT THE SERVICE PROVIDERS – Are you indirectly assisting a fraud?



- The slowdown in the economy adds fuel to the fire:
 - Retrenchments and chasing profit under severe pressure means:
 - More work being done by less people
 - Scaling down of areas that do not demonstrate profit such as internal audit
 - Potentially more disgruntled people
 - Weakening of the control environment
- In a nutshell if a potential fraudster sees a weakness in governance by top management then this will be exploited

GOVERNANCE AT THE SERVICE PROVIDERS – Are you indirectly assisting a fraud?



- And at protecting assets:
 - Would you leave member/client information lying around?
 - Ask yourself would you leave your banking details for all to see.
 - Would you disclose information to unauthorised people?
 - Ask yourself if you allow anybody into your house without identification
 - Would you use unauthorised service providers?
 - Ask yourself if you would blindly hand your child to someone unqualified
 - Would you continue to enter into complex transactions that you are unsure of?
 - Ask yourself if you would rather purchase a toaster that is easy to use over one that is exceptionally complex
- Preventing fraud and ensuring effective governance means making it personal
- Be a fraud preventer and not a fraud enabler!!!

GOVERNANCE AT THE SERVICE PROVIDERS



- Problems with fraud prevention:
 - It costs money
 - There is often a huge outcry at a fraud and then life goes on
 - Lessons are not learnt, but just paid away
- A survey on fraud estimates that companies lose up to 7% of their turnover to fraud
- Surely this justifies a fraud prevention program?

EXAMPLES OF FRAUDS

- Some people treat funds as a....



FAMILY TIES...



- Financial planner was signatory on bank account
- Financial planner produced fraudulent statements
- And the family connection....
- Lessons to be learnt
 - Separate signatories
 - Independent review of information going out

X Files – two cases



- Creation of fictitious claim forms
- Lessons to be learnt
 - Logical access controls
 - Original claim forms
 - Independent checks
 - Monitor dormant records
- Employer sending in claim forms and amending banking details
 - Member must sign and check details
 - Proof of banking details

BUT WHAT HAPPENS IN MOST CASES

- **Fraud is primarily driven by greed**
 - Fraudsters become too sure of themselves and are eventually caught
- The timeframe between the act of fraud and the apprehending of the fraudster must be shortened



Questions?

