EARNING THE TRUST

Ethical Standards and Practices in the Malaysian Financial Services Industry
Baseline Assessment
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FOREWORD

The global financial services landscape is changing rapidly. Questions of ethics have become leading concerns for regulators and industry alike in the wake of the 2008 Global Financial Crisis. While the general economic and investment climate is recovering, the future remains uncertain. Policies adopted by governments and central banks in response to the crisis have averted a catastrophe, but their longer term impacts on economies, the financial services industry and consumers remain unknown.

Meanwhile, the public’s trust in the industry has been shaken by widespread evidence of questionable business practices and breaches of professional ethics leading to the 2008 crisis. It is not being helped by recurring incidents of misconduct involving prominent industry names at the international level. The general perception is more needs to be done to restore confidence in the sector.

Two ongoing developments add to the urgency of restoring faith in the industry’s ability to act responsibly in keeping with government policy priorities and consumer expectations. One is the shift in the balance of economic power from the West to the East, with developing and emerging economies in Asia now assuming a greater share of future global growth. For a trading nation like Malaysia, this implies increased financial activity, more intense interaction with foreign markets and financial institutions, and greater exposure to global events and risks. The other is the accelerating trend towards digitalisation and FinTech. This covers a broad spectrum of financial products and services aided by digital technology, ranging from remote banking and cashless transactions to sophisticated tools that come with a different set of risks and rewards that are yet to be fully understood. These developments call for a higher level of confidence in the industry.

The Financial Services Professional Board (FSPB), an industry initiative, was launched in Malaysia in September 2014 against this background. Its focus is on setting elevated standards of professionalism and ethics in the industry to regain public confidence and achieve sustainable growth. Its first initiative was a Code of Ethics launched in January 2016.

The Asian Institute of Finance (AIF), in its role as the secretariat for FSPB, commissioned a survey of Malaysian industry practitioners to gauge the industry’s ethical health and to get a baseline reading of FSPB’s impact on the industry. The survey has identified a number of gaps in professionalism and ethics, and a significant role for FSPB to support the industry’s own initiatives to address these gaps. In presenting this report to the industry, AIF would like to convey its readiness to assist the industry leaders and professionals in their efforts to harmonise their existing codes of ethics and professional conduct, and to bring them on par with international norms.

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EXECUTIVE SUMMARY
Public trust and confidence in the financial services industry have suffered worldwide in recent years, triggered by factors ranging from imprudent business practices to wilful wrongdoing. Analyses of these events consistently point to gaps in or questions about ethical standards and practices at both individual and institutional levels. The ethics deficit in the industry has to be addressed urgently for the industry to regain the trust and confidence it once enjoyed.

An AIF survey of Malaysian financial services industry practitioners in May-August 2016 indicates numerous gaps in ethical values and practices within the profession in spite of the fact many financial institutions have guidelines for the purpose. These gaps range from ethics standards not being upheld at all times to tolerance of less than ethical means of meeting business targets to slack concerns about receiving ‘gifts’ to favouritism towards family and friends in recruitment and awarding of contracts. Although such gaps are observed among a minority, they carry the risk of contaminating decision-making processes among peers in the same organisation, and possibly across the industry over time.

The survey also shows inconsistencies between the ethical behaviour of individuals and the institutional philosophy under which they function. While managers in the industry generally stress the importance of ethics, this is not always reflected in the corporate reward systems. Employees are rewarded according to results achieved even if these have been achieved through questionable means. Most worryingly, there are practitioners who admit to being disposed to act unethically if ‘favourable’ circumstances present themselves. This attitude is more prevalent among those in their 20s, a disturbing phenomenon that can potentially entrench unethical practices from an early stage in people’s careers.

Overall, the survey results underline the urgency to set clear and consistent standards of professionalism and ethical conduct across the industry as a whole. While the Malaysian financial services industry has been able to avoid the kind of major systemic scandals affecting Western economies, complacency can invite problems. Following the 2008 Global Financial Crisis, the responsibility for global economic growth has shifted from the West to the East. The Malaysian financial services industry will, therefore, be more exposed to world financial markets and risks. Prudent pre-emptive measures can bridge existing gaps and better prepare the industry for a more elevated role in the coming years.

The Financial Services Professional Board (FSPB) was launched against this backdrop in September 2014 by Bank Negara Malaysia and the Securities Commission Malaysia as a voluntary industry initiative. Its Code of Ethics, introduced in January 2016, is the primary focus of this report.
Given its relatively short presence, awareness and knowledge of FSPB are still at an early stage in Malaysia. Many industry practitioners are not familiar with the body’s voluntary advocacy framework and its underlying principles. However, the general perception is FSPB can help promote a more robust culture of professionalism in the industry by guiding and supporting the implementation of its standards.

Knowledge of FSPB’s Code of Ethics is similarly low. Although its relevance and usefulness are acknowledged, there are concerns over its implementation. The Code of Ethics is seen as being broad and lacking in details to guide day-to-day work. Harmonising it with the more comprehensive and specific internal codes and guidelines of individual institutions is considered challenging. Some question the need for the FSPB code since they feel their internal ones are adequate. A nagging concern with the adoption of the code is that it is not mandatory for all financial institutions. There is a perception those who adopt it fully could lose their competitive edge in the market.

FSPB’s proposed follow-up with the Code of Conduct* can play a significant role in addressing these concerns. By engaging more closely with the industry in the process of helping it to adopt the code, FSPB can raise its profile, better explain its advocacy approach and clarify the rationale and mechanics of voluntary adoption of its standards. A ‘value proposition’ for the Code of Ethics can be useful to help the industry appreciate the added value of the code, along with a set of guidance notes to facilitate its adoption. Where necessary, FSPB may consider working with individual institutions to overcome their specific challenges in implementing the code.

Lessons from the launch of the Code of Ethics offer a valuable feedback in drafting and launching the Code of Conduct, which is a critical link connecting the Code of Ethics with corporate cultures. Translating the latter’s values and principles into easier to grasp details at the working level will help harmonise various internal codes prevailing within the industry and bring them under a consistent unified framework.

The conclusion of this report is the Malaysian financial services industry has much to gain from adopting the FSPB Code of Ethics and Code of Conduct under a ‘Professional Code’. While the transition comes with certain challenges, these are outweighed by potential longer term benefits to the industry. Subscribing to these transparent standards which are on par with international norms can better equip the industry for an expanded global role, and enhance the trust and confidence of the public and investors in it. Establishing a close partnership between FSPB and industry players will be a major step forward.

Keywords: Ethics, Financial Services Industry, Trust, Malaysia, Financial Services Professional Board, Code of Ethics, Code of Conduct, Banking, Islamic Finance, Insurance, Capital markets

*The FSPB Code of Conduct has been renamed as the FSPB Professional Code for the Financial Services Industry. The document contains two parts: (a) the five principles of ethics as found in the FSPB Code of Ethics, and (b) the standards of professional conduct expected of organisations and individuals across the financial services industry.
INTRODUCTION
The financial services industry plays a critical role in all modern economies. As a financial intermediary, it facilitates the efficient flow of funds and manages risk in an economy at all levels – individuals, businesses, public institutions and government. The industry acts as an indispensable vehicle of international trade and commerce in today's interconnected world. Managed properly, it caters for economic and social development consistent with national priorities. Although not legally bound to fulfil a fiduciary duty, the industry's existence is, nonetheless, made possible by the trust society places in it with high expectations of it to act responsibly and ethically.

Sadly, the general public's confidence and trust in the industry have been severely eroded in recent years especially in the developed economies where there are more complex financial products on offer. The general consensus is this trust deficit is the natural reaction to a series of questionable business practices and scandals that have rocked the industry, with worldwide repercussions.

The decline could be traced back to the subprime mortgage debacle in the US which set off a series of severe financial events following the collapse of the US housing market, triggering the Global Financial Crisis of 2008. The subprime mortgage failure was driven by greed and recklessness in the eagerness to claim a bigger share of the highly competitive mortgage market at the peak of the housing boom in the US. Many lenders adopted less stringent underwriting standards for mortgages offered to borrowers who were not creditworthy. This was compounded by high-risk mortgages being creatively packaged as low-risk securities and sold to institutions and investors outside of the US who wanted to cash in on seemingly lucrative investments. When the US housing bubble collapsed, the wave of huge losses it unleashed resulted in the demise of several high profile financial institutions around the world, beginning with the bankruptcy of Lehman Brothers Holdings, the fourth largest investment bank in the US. Trillions of dollars of consumer wealth were wiped out. Governments and central banks were forced to step in to bail out several important ‘too big to fail’ banks and financial institutions.

The Financial Crisis Inquiry Commission set up by the US to investigate the causes of the crisis attributed it to a combination of factors, notably the ‘systemic breaches in accountability and ethics at all levels’. The ramifications of the event were severe, not only plunging the US economy into the Great Recession for four years, but also triggering the European sovereign debt crisis. In the aftermath of the crisis, the International Monetary Fund reported that the developed economies accounted for only 31% of the global GDP with emerging and developing economies contributing the balance 69% from 2007-2014.


This was a complete reversal of the situation prior to the crisis.\(^3\) It would be a mistake though for countries like Malaysia to see this as a cause for celebration. Quite the contrary, the shift in burden for global economic revival to emerging developing economies comes with a higher responsibility to learn from the crisis and avoid the pitfalls it has so glaringly revealed.

Many measures and actions have been adopted across the world since to prevent a recurrence of the crisis. However, the financial services industry continues to be shaken by scandals. Prominent global players like Deutsche Bank and, more recently, Wells Fargo Bank, have made headline news for the wrong reasons.

Deutsche Bank, Germany's largest bank, has been implicated in a series of unethical activities ranging from creating USD32 billion worth of collateralised debt obligations (CDOs) which helped inflate the US housing prices ahead of the 2008 crisis to covering up losses of USD12 billion from mirror trading. According to a former employee of the bank, these recurring contraventions of the law are symptomatic of a corporate culture predisposed towards unethical behaviour, “There was cultural criminality... Deutsche Bank was structurally designed by management to allow corrupt individuals to commit fraud”.\(^4\)

The Wells Fargo Bank case similarly points to a corporate culture which appears to condone fraudulent activities. Over a period spanning 2011 to 2015, employees tried to deliver on ambitious sales targets by opening an estimated two million bank and credit card accounts without the knowledge and consent of customers, and by imposing fees and charges on the same unknowing customers as a means to generate revenue for the bank. The fallouts from this on the bank include a USD185 million fine, a USD5 million refund to customers, the dismissal of 5,300 employees and eventually, the resignation of the CEO. Along with these consequences, the bank lost something more invaluable, the trust and confidence of both its retail and commercial customers.\(^5\)

The erosion of trust experienced by the industry is a direct consequence of unethical conduct at both individual and corporate levels, with the latter, more often than not, influencing the former. It is a pervasive institutional issue rather than a case of ‘a few rotten apples’ as some industry leaders would like the general public to believe. Until they are addressed at the institutional level, misconduct, fraud and scandals are likely to plague the industry, further depleting its trust reserves.

The 2008 Global Financial Crisis has revealed the interconnected nature of the global financial system, and the potential for rapid escalation of seemingly isolated events in any parts of the system. It is in the interest of the financial services industry in every country to ensure all its members shoulder the responsibility for addressing issues of ethics to regain the public’s trust and confidence in the industry. Gaps in ethics in an organisation can have far-reaching consequences beyond the organisation, even beyond the country. To ensure that each is working towards the same standard of ethical conduct and behaviour, it is important that this is undertaken by using a globally recognised ethics framework.

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ETHICAL LANDSCAPE IN MALAYSIA
Against this backdrop of global developments, AIF conducted a survey of the Malaysian financial services industry to assess its current climate of professional ethics and its readiness to adopt a standard Code of Ethics proposed by the Financial Services Professional Board (FSPB), a voluntary international industry initiative. The survey covered 530 practitioners in the local financial services industry. They were drawn from the conventional banking, Islamic banking, investment banking, conventional insurance, Takaful and capital markets segments. The key findings of the survey on the prevailing ethical climate in the industry are presented here.

Perceptions of ethical behaviour

On the face of it, ethical shortcomings are not perceived as a serious issue by Malaysian industry practitioners. An overwhelming majority (90%) maintain ethical values are embraced frequently, if not, always (Figure 1). The sentiment is consistent across all industry segments represented in the survey. The minority of professionals (11%) who feel ethics are either infrequently, or not practised at all by their organisations are more likely to be from the capital market segments.

Figure 1: Frequency of ethical values being upheld in organisations
This seemingly reassuring picture may conceal the true ethical health of the industry. First, four out of ten respondents acknowledge that embracing ethical values in the organisation is not the pervasive norm. Second, the 11% who expressed an adverse sentiment is high considering the potential effects on the rest. Third, as described later in this section, understanding among practitioners as to what is ethical or not is itself subject to considerable ambiguity.

Observations of past ethical failures in the industry show that both structural and sociocultural factors in a corporate environment have a strong influence – consciously or unconsciously – on the ethical decision-making process of an individual. In a survey of 705 professionals in the financial services industry across Australia, New Zealand, the United Kingdom, Singapore, Hong Kong and Malaysia, respondents strongly acknowledged the influence of these factors on ethical decisions over and above personal standards and values (Figure 2).6

Figure 2: Key factors influencing ethical decisions

2. Legal/Regulatory Requirements: 64%
3. Professional Codes of Conduct: 57%
4. Moral Obligations: 49%
5. Personal Values: 44%
6. Company Values: 42%
7. Strong Leadership: 39%

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6 Chartered Accountants Australia and New Zealand and Centre for Ethical Leadership, "A Question of Ethics: Navigating Ethical Failure in the Banking and Financial Services Industry" (August 2016).
With corporate policies and codes of conduct ranking at the top as key influencers of ethical conduct among practitioners, results from the AIF survey signal a need to strengthen this factor. Although the majority of organisations and managers in the Malaysian industry is giving the right cues, there is a mismatch between what managers ‘preach’ and how they actually behave. The most glaring disconnect is with the rewards system. While managers typically emphasise the importance of ethics in the workplace, they also at the same time reward employees for achieving desired business results even if the means are less than ethical. Business objectives and targets tend to override questions of ethics with more than a third of the cases (Figure 3).

Figure 3: Ethical practices in organisations

![Proportion of respondents who agree with these statements](image)

- **93%** My supervisor stresses the importance of ethics in our work
- **89%** My supervisor sets a good example of ethical behaviour
- **87%** My organisation takes disciplinary actions against employees who act unethically
- **37%** My supervisor rewards employees who get good results via less ethical means

*Managers typically emphasise the importance of ethics in the workplace...“*

*...they also at the same time reward employees for achieving desired business results even if the means are less than ethical.”*
There appears to be a prevalent tacit acceptance of ‘the end justifies the means’ culture. This is most apparent in the insurance segment where as many as 56% confirm that rewards are linked to good business results irrespective of the ethical nature of the means employed (Figure 4). As lessons from the global scandals show, corporate cultures that subscribe to such a philosophy are fertile breeding grounds for unethical behaviour and practices, with potentially serious consequences for organisations and individuals alike.

Figure 4: Trade-off between ethics and results by segment

Apart from institutional and sociocultural factors, individual values play an important role in ethical decision-making. Unfortunately, they do not appear to be a strong point among professionals in the local industry. About a quarter of those surveyed admit to acting ethically only in ‘public’, when their conduct is exposed to others. They are less concerned about ethics in situations or circumstances where they feel they are not being observed (‘we take advantage where we can’). Such double standards are a clear demonstration of the ethics deficit affecting the industry worldwide.
Earning the trust: ethical standards and practices in the Malaysian financial services industry

Even more alarmingly, this trait is more common among younger professionals in their 20s, especially in the Islamic banking, capital markets and insurance segments (Figures 5a & 5b). These individuals will progress and eventually assume senior industry positions in the future. For them to slip into a culture of slack ethics at an early stage in their careers should raise a red flag among industry leaders.

Figure 5a: Public and private faces of ethics by age group

We act ethically unless someone is not aware (We take advantage where we can)”
(% who agree or are ambivalent)

- Agree
- Ambivalent

FSI: 15% Agree, 9% Ambivalent, 24% Total

20-29 years: 21% Agree, 7% Ambivalent, 28% Total

30-39 years: 14% Agree, 7% Ambivalent, 21% Total

40-49 years: 13% Agree, 7% Ambivalent, 20% Total

50+ years: 9% Agree, 4% Ambivalent, 13% Total
This finding of the survey calls for urgent attention to recruitment criteria, orientation and discipline at the lower strata of the profession. While it was beyond the survey’s scope to compare the views of a similar age group in other industries, it does raise the intriguing question if the current reputation of the financial services industry tends to attract young graduates with a particular slant in values.

Figure 5b: Public and private faces of ethics by segment

We act ethically unless someone is not aware (We take advantage where we can)”
(% who agree or are ambivalent)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Agree</th>
<th>Ambivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSI</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>Conventional Banks</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>Islamic Banks</td>
<td>16%</td>
<td>13%</td>
</tr>
<tr>
<td>Insurance</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Capital Markets</td>
<td>18%</td>
<td>5%</td>
</tr>
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On a more positive note, the following unethical practices or conduct are unambiguously rejected as unacceptable by the vast majority of practitioners:

- Receiving bribes
- Not being honest or transparent in dealings
- Sharing confidential or sensitive information with third parties
- Allowing personal interest to take priority over business and professional judgment
- Not treating colleagues and customers professionally, fairly and with respect

Any optimism over these findings is, however, offset by certain practices which are considered ‘grey areas’ in which a sizable proportion of professionals hold an ambivalent or even a permissive stance (Figure 6). One glaring example is the contradiction between rejecting bribes while being receptive to gifts that may or may not come with an expectation of favours.

Figure 6: Ethical acceptability and tolerance

Practices that fall into such grey areas could be socially and culturally driven. This further reinforces the view that sociocultural factors can colour an individual’s judgment of what is deemed ethical or not. It also suggests guidelines on ethical conduct and practices should conspicuously eliminate justifying influences that help rationalise behaviour that is clearly unacceptable.
Workplace mechanisms to promote ethical behaviour

Many organisations in the industry do offer the necessary support to guide employees on issues of ethics. The mechanisms available include training sessions on ethics, a hotline or centre for employees to seek consultation on ethical matters at work, and whistleblowing policies and procedures for employees to report any unethical behaviour confidentially. Such mechanisms are somewhat less prominent in the insurance and capital markets segments (Table 1).

Table 1: Organisational support to guide and promote ethical conduct

<table>
<thead>
<tr>
<th></th>
<th>FSI (%)</th>
<th>Conventional Banks (%)</th>
<th>Islamic Banks (%)</th>
<th>Insurance (%)</th>
<th>Capital Markets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal code of ethics</td>
<td>97</td>
<td>99</td>
<td>98</td>
<td>94</td>
<td>97</td>
</tr>
<tr>
<td>Whistleblowing policy &amp; procedure</td>
<td>86</td>
<td>89</td>
<td>93</td>
<td>80</td>
<td>82</td>
</tr>
<tr>
<td>Training on ethics</td>
<td>82</td>
<td>85</td>
<td>88</td>
<td>79</td>
<td>77</td>
</tr>
<tr>
<td>Hotline or centre to advise on ethical matters at work</td>
<td>80</td>
<td>83</td>
<td>87</td>
<td>74</td>
<td>76</td>
</tr>
</tbody>
</table>

The survey results show most professionals (97%) would take advantage of whistleblowing mechanisms and other safeguards to report any behaviour or practice not in compliance with their organisation’s standards or policies on ethics. However, as many as 40% are concerned about the negative repercussions of reporting the unethical behaviour of colleagues and co-workers. This suggests the presence of organisational mechanisms is not enough. It has to be accompanied by employees’ faith in the confidentiality of the implementation process. While the low level of faith could be based on real or perceived concerns, the onus is upon the organisations to demonstrate an uncompromising and consistent stand on their policies and deployed mechanisms.
THE FINANCIAL SERVICES PROFESSIONAL BOARD (FSPB)
Impetus for and formation of FSPB

It is clear from the survey that the prevailing ethics climate in the Malaysian financial services industry has room for improvement on several fronts. Standards and policies on ethics are not consistent between organisations and industry segments. They are open to interpretation, at times in ways that make unethical practices acceptable to some. While mechanisms to deter unethical behaviour are available in many instances, their implementation does not inspire confidence among employees.

It is against this backdrop the Financial Services Professional Board (FSPB) was launched jointly by Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC) in September 2014. Its mandate is to ‘develop clear, internationally recognised standards of professional conduct and ethical behaviour across the financial services industry, spanning key areas of banking, capital markets, insurance and Islamic finance’. FSPB seeks to harmonise the standards of professional and ethical behaviour of professionals in the industry globally. Its approach to the adoption of these standards is through an advocacy framework involving active engagement with and participation of the industry. It is an industry-led body consisting of members from the financial services industry and related professional services at both national and international levels.

In the second part of the survey, AIF focused on the awareness of FSPB, its work and its relevance to existing guidelines on ethics and professional conduct within the industry. Specifically, it sought to assess the industry’s readiness to adopt a common Code of Ethics proposed by FSPB, one that is set as a minimum international standard.

Awareness and perceptions of FSPB

Awareness of FSPB and the depth of understanding about its work are generally low among Malaysian industry professionals. Only 38% are aware of the body, and among them, only one in ten claims to know FSPB very well. For the rest, awareness stops at having heard of its name, with little knowledge of what it does.

However, this is offset by a broadly favourable perception of FSPB among an overwhelming majority of those aware of it:

- Three-quarters (75%) believe that FSPB promotes a strong culture of professionalism in the industry by developing relevant standards
- FSPB is seen to be committed to ensuring the credibility and sustainability of the industry by holding practitioners to high professional and ethical standards (71%)
- Two-thirds (68%) feel FSPB is helpful in providing guidance and support in the implementation of professional standards

These views are more wholeheartedly embraced by those familiar with the body and its institutional focus. The overall finding of the survey is a more intimate knowledge of FSPB’s work can significantly enhance the industry’s general perception of the body. This will facilitate the speedier adoption and implementation of its initiatives.
FSPB CODE OF ETHICS

FAIRNESS

CONFIDENTIALITY
Essence of the code

One of the key initiatives of FSPB has been the development of an industry Code of Ethics (CoE), which was officially launched in January 2016. The code rests on five broad principles – competence, integrity, fairness, confidentiality and objectivity. It was developed in consultation with relevant industry organisations from various countries in Asia and the Western hemisphere and reviewed by a working group comprising industry leaders in Malaysia, and local and international subject-matter experts.

Awareness and reaction

Knowledge of the code is low among industry professionals, with only one in five (21%) aware of it. Different channels have been adopted by organisations to inform their employees about the code. Direct and individualised communications – either an internal memo or circular, or briefings by personnel in charge within organisations – appear to be the more common and effective channels in creating awareness of the code (Figure 7).

Figure 7: Communication channels for FSPB Code of Ethics within organisations

- Given an official memo about FSPB Code of Ethics: 30%
- Briefed by personnel in charge from own organisation: 20%
- Notified about FSPB Code of Ethics at a town hall/department meeting: 12%
- Heads of department attended briefing to explain FSPB Code of Ethics: 10%
Almost three-quarters (73%) of those aware of the CoE view it as something new or quite similar to, but not duplicative of, their organisations’ existing guidelines or codes on ethical conduct. As such, there is a high level of endorsement of the relevance of the code to organisations and its usefulness in dealing with difficult ethical situations (85%).

Most practitioners feel the CoE benefits the industry by:

- Strengthening the work ethics and conduct of individuals and organisations in the industry (89%)
- Helping individuals and organisations in the industry to conduct themselves with a higher degree of professionalism and ethics (81%).

The majority also shares the view that the CoE can help the general public to perceive individuals and organisations in the industry as being more professional (74%). However, they feel this is best assessed among the public to gauge the impact of the code on its perceptions of the industry and its professionals over time. In their opinion, this will serve as the true measure of the effectiveness of FSPB and its initiatives, including the CoE.

On the other hand, a sizable proportion of respondents question the need for the CoE. Almost four out of ten consider their existing code of ethics adequate. This view is more prominent among conventional banks where such codes are likely to be well established and integrated into the processes and structures of the organisations (Figure 8).

**Figure 8: Resistance to FSPB Code of Ethics**

<table>
<thead>
<tr>
<th>Organisation</th>
<th>% Who Agree</th>
</tr>
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<tbody>
<tr>
<td>FSI</td>
<td>39%</td>
</tr>
<tr>
<td>Conventional Banks</td>
<td>45%</td>
</tr>
<tr>
<td>Islamic Banks</td>
<td>37%</td>
</tr>
<tr>
<td>Insurance</td>
<td>38%</td>
</tr>
<tr>
<td>Capital Markets</td>
<td>36%</td>
</tr>
</tbody>
</table>
Adoption and implementation

The industry’s perception of the code as being redundant can adversely affect the pace of adopting and implementing it. In fact, the implementation process attracts a higher degree of doubt. As many as half of the respondents do not agree with or are ambivalent about the ease of implementing the code. Since most organisations already have their internal codes on ethics, effort is required to review the CoE and determine how best to harmonise its principles with existing codes which are more comprehensive and customised.

Further concerns are raised about the CoE being too broad and lacking in specifics on the desired behaviour and conduct. This poses a challenge to the harmonisation process. As a result, the idea of a Code of Conduct being introduced by FSPB in the near future is welcomed by most respondents (81%). The expectation is the Code of Conduct will more clearly spell out the specific standards of conduct under the overarching ethical principles of the CoE. Those who are aware of the CoE feel it should have been introduced together with a Code of Conduct as the two complement one another. The following quotation is typical of the sentiments expressed:

“... the Code of Ethics and Code of Conduct should be one document... must be read together as one document versus separate documents... CoE outlines the principles and CoC outlines how the principles are to be implemented... the CoE is very brief; if it is for financial institutions to appreciate the spirit of the principles, then it is ok. If it is expected of financial institutions to use the Code document, then it is not enough.”
In light of the above, implementation of the CoE is still at a nascent stage across the industry. As shown in Figure 9, the actual work of reviewing the FSPB code against existing codes has not commenced for the majority (71%), with more than one-quarter indicating details of the code have yet to be communicated to internal staff.

**Figure 9: Progress with implementing FSPB Code of Ethics**

**Implementation journey for FSPB Code of Ethics**

1. Inactive
   Yet to communicate to employees

2. Announcement
   Communicated with organisation

3. Start-up
   Working team created

4. Finalisation
   Internal process, systems finalised for code

5. Completion
   Implementation of the code

<table>
<thead>
<tr>
<th>Stage</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Inactive</td>
<td>26%</td>
</tr>
<tr>
<td>Announcement</td>
<td>20%</td>
</tr>
<tr>
<td>Start-up</td>
<td>25%</td>
</tr>
<tr>
<td>Finalisation</td>
<td>16%</td>
</tr>
<tr>
<td>Completion</td>
<td>13%</td>
</tr>
</tbody>
</table>
Among those who are not aware of the code, four out of ten are uncertain or not inclined to adopt it (Figure 10). Much of the uncertainty and resistance is attributed to the same concerns expressed by those familiar with the CoE. Too many codes can overwhelm and confuse employees unless they are harmonised; yet, harmonisation is difficult when the code lacks specifics.

Figure 10: Likelihood of adopting FSPB Code of Ethics

A more fundamental reason for the slow pace of adoption and resistance to it, although not explicitly stated by all respondents, could be the fact adoption of the CoE is voluntary and is not overseen by any regulatory body. This could mean an uneven playing field for those who adopt it if others choose not to play by the same rules. In general, understanding of FSPB’s advocacy approach is weak, and the rationale and philosophy behind it unclear.

“...losing business because we follow all the rules... those that (sic) don’t follow the rules get the business and they get away with it”
CONCLUSION
Key learnings

The Malaysian financial services industry operates within a fairly conservative and sound regulatory environment. As a result, many financial institutions have guidelines and codes to govern the ethical and professional conduct of their business and employees, in addition to those developed by industry associations.

In spite of this, the survey has identified a number of inconsistencies in translating these guidelines and codes into daily professional life across different industry segments. The ethical judgment of professional practices is not always clear nor uniform. While certain practices – receiving bribes, not being honest and transparent in dealings – are firmly rejected, others draw a more ambivalent response in situations permitting a subjective interpretation of questions of ethics.

A disconcerting finding of the survey is young professionals in the industry, mostly in their 20s, across all industry segments except conventional banking, admit to acting ethically only if they have to. Their attitude is to ‘take advantage where we can’. The spread of such a mindset will move the industry farther away from regaining the public trust which has been damaged by global developments.

There is also a mismatch between the principles underlying existing codes of ethics and industry practitioners’ actual conduct under business pressures. Although many managers stress the importance of professional ethics, reward systems are often based on the achievement of business results even if less than ethical means were used.

The formation of FSPB in September 2014 is timely to address these inconsistencies and gaps, both in principle and in practice. Response to the body and its overall mission is largely favourable. However, familiarity with the body is low and knowledge of its purpose vague. Not surprisingly, awareness of FSPB's Code of Ethics, which was launched only in January 2016, is even lower.

While the code is considered relevant and useful, there are reservations over its adoption and implementation. The key barriers are:

a) most organisations have their own codes which are considered to be more comprehensive and customised;

b) harmonising these with the CoE is challenging because it is too general and brief;

c) there are no clear implementation guidelines on how to translate the values of the CoE into the work situations and embed them into corporate cultures; and

d) since adoption and implementation of the CoE is voluntary, the perception is it could tilt the playing field in favour of those who choose to not adopt it.

FSPB’s proposed Code of Conduct will be an important next step to overcome these obstacles. It is welcomed by many for the specifics and details it will provide for translating the values of the CoE. Many practitioners feel it should have been launched together with the CoE to facilitate implementation.
Recommendations

FSPB is a voluntary industry initiative, not a regulatory body. The impact it creates on the Malaysian financial services industry and the success of its initiatives depend on persuasion and industry engagement. Its members and secretariat need to work more closely with the industry to (a) raise FSPB’s profile and (b) better explain its advocacy approach framework and the principles of peer-induced adoption of voluntary standards. On their part, industry players need to develop a keener understanding of the benefits of adopting and implementing FSPB’s initiatives as a matter of corporate self-interest and a key step in equipping the industry for a more elevated international role in the coming years.

FSPB should consider crafting a ‘value proposition’ for the CoE to help financial institutions appreciate the importance of the code in aligning them to a set of consistent and internationally accepted norms. The proposition can frame FSPB’s communications on the CoE, stressing its unique added value to the industry in winning the trust and confidence of investors and the public by overcoming present ethics gaps. This can be followed up by engagement sessions with individual financial institutions to identify paths of least resistance to harmonising the CoE with prevailing internal codes and embedding it into corporate cultures.

Engagements with individual institutions on the CoE should address specific barriers to its implementation in order to accelerate its adoption. Where possible, coaching and guidance sessions might be undertaken concurrent with the launch of the Code of Conduct, which is viewed as a critical complement to the CoE.

In developing the Code of Conduct, FSPB should draw upon the lessons learned so far and industry feedback on the development and launch of the Code of Ethics. The Code of Conduct should be specific and sufficiently detailed to guide daily practice and conduct. It could be supplemented by case studies for greater clarity and appreciation of the principles. Where necessary, FSPB may consider customising it to some extent to match the unique characteristics of individual industry segments without distorting the overall principles. A consultative rather than prescriptive approach is likely to yield better results.

Regular engagement with the industry is integral to the FSPB advocacy model. Additionally, it offers the benefit of being more in touch with current realities and challenges faced by the industry. This is invaluable to the development and implementation of future initiatives for the industry.

At the same time, the Malaysian financial services industry needs to see FSPB as one of its own, set up to benefit the industry itself. This requires the industry to take a keener interest in FSPB’s initiatives and lend them its active support. Specifically, the industry should appreciate the value of the FSPB Code of Ethics and the Code of Conduct extends beyond their role in harmonising existing corporate codes to catalysing transformational changes in corporate cultures across the industry.

Support and collaboration from the industry are required at all levels. In particular, the endorsement of FSPB initiatives at corporate policy levels would lend them the seal of official approval and, thus, motivate professionals across the industry. For example, a decision to adopt the codes at the Board of Directors level and the designation of implementation teams headed by senior executives to champion and drive the initiatives internally can provide a critical impetus. Such teams could act as the points of interaction with FSPB to identify and pursue other practical steps in the implementation process.
PROFILE OF RESPONDENTS
Insights are based on responses gathered from industry leaders and practitioners in the Malaysian financial services industry through a qualitative and a quantitative survey.

**Qualitative survey**

<table>
<thead>
<tr>
<th>Sample size of 17 C-suite level professionals</th>
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<tbody>
<tr>
<td>Conventional Banks</td>
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<tr>
<td>Islamic Banks</td>
</tr>
<tr>
<td>Insurance</td>
</tr>
<tr>
<td>Capital Markets</td>
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Fieldwork period: 1 June to 16 August 2016
Quantitative survey

Sample size of n=530

<table>
<thead>
<tr>
<th>Segment</th>
<th>Respondents</th>
<th>%</th>
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<tbody>
<tr>
<td>Conventional Banks</td>
<td>150</td>
<td>28</td>
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<tr>
<td>Islamic Banks</td>
<td>101</td>
<td>19</td>
</tr>
<tr>
<td>Insurance</td>
<td>119</td>
<td>23</td>
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<tr>
<td>Capital Markets</td>
<td>160</td>
<td>30</td>
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</table>

<table>
<thead>
<tr>
<th>Position/Title</th>
<th>Respondents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>C-Suite (President/CEO/Director)</td>
<td>35</td>
<td>7</td>
</tr>
<tr>
<td>Head of Department</td>
<td>103</td>
<td>19</td>
</tr>
<tr>
<td>Manager/Assistant Manager</td>
<td>221</td>
<td>42</td>
</tr>
<tr>
<td>Executive/Senior Executive</td>
<td>168</td>
<td>32</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age</th>
<th>Respondents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-29 years</td>
<td>115</td>
<td>22</td>
</tr>
<tr>
<td>30-39 years</td>
<td>183</td>
<td>35</td>
</tr>
<tr>
<td>40-49 years</td>
<td>175</td>
<td>33</td>
</tr>
<tr>
<td>50-59 years</td>
<td>51</td>
<td>10</td>
</tr>
<tr>
<td>60+ years</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: Certain % may add up to more than 100% due to rounding off error
Fieldwork period: 23 May to 13 July 2016
CODE OF ETHICS FOR THE FINANCIAL SERVICES INDUSTRY

Organisations and individuals across the financial services industry shall continuously uphold and abide by the following ethical principles that are vital to the achievement of a high standard of professionalism and ethics across the industry:

**PRINCIPLE 1: COMPETENCE**

Individuals across the financial services industry shall develop and maintain the relevant knowledge, skills and behaviour to ensure that their activities are conducted professionally and proficiently. This includes acting with diligence, as well as obtaining, and regularly updating, the appropriate qualifications, training, expertise and practical experience.

**PRINCIPLE 2: INTEGRITY**

Organisations and individuals across the financial services industry shall be honest and open in all their dealings. This includes behaving in an accountable and trustworthy manner, and avoiding any acts that might damage the reputation of, or bring discredit to the industry at any time.

**PRINCIPLE 3: FAIRNESS**

Organisations and individuals across the financial services industry shall act responsibly and embrace a culture of fairness and transparency. This includes treating those with whom they have professional relationships with respect and ensuring that they consider the impact of their decisions and actions towards all stakeholders.

**PRINCIPLE 4: CONFIDENTIALITY**

Organisations and individuals across the financial services industry shall protect the confidentiality and sensitivity of information provided to them. This includes using it for its intended purposes only and not divulging information to any unauthorised persons, including third parties, without the necessary consent from those involved unless disclosure is required by law or regulation.

**PRINCIPLE 5: OBJECTIVITY**

Organisations and individuals across the financial services industry shall not allow any conflict of interest, bias or undue influence of others to override their business and professional judgment. They shall declare, to those concerned, all matters that could impair their objectivity.