CONTENTS

List of Figures xii
List of Tables xiii
About the author xiv
Acknowledgements xv

01 TIME FOR A FRESH APPROACH 1

Introduction and overview 1

An era-defining change 4

The focus of this book 6

Major driving forces: overview 8

What needed fixing and why: a brief preview 10

How behavioural science took on outmoded

regulatory design 12 Chapter structure 19

Conduct risk: the hottest topic? 21

Notes 21

02 BEHAVIOURAL SCIENCE SETS REGULATORS THINKING... 23

Introduction 23

A new resource for regulators 24

Looking afresh at the human factor 26

How to model what real people do 27

Causes, effects, reliable predictors and unreliable

indicators 30

Cultural indicators 31

The cognitive challenge: dynamic risk-sensing 33

Conclusion 36

Notes 37

03	THE ONSET OF FINANCIAL CONDUCT REGULATION 39
	Introduction: a real-world shock 39
	The new control challenges 40
	The 'invention' of conduct risk: wider antecedents 41
	Direct antecedents: 'TCF' and friends 42
	A conduct-specific regulator 44
	The conduct link to operational risk 47
	The FCA's 'drivers' of conduct risk 48
	Biases driving conduct problems 49
	The Senior Managers Regime: principles, plus a pointy stick 51
	After the crisis, further crises 53
	Grasping the 'conduct problem': here's a fresh approach 55
	Revealing the costs of 'lawful but awful' conduct 57
	Looking ahead 59
	Notes 60
04	WHY REGULATORS HAD TO CHANGE DIRECTION 63
	Introduction 63
	Starting to understand the 'regulatory problem' 69
	Regulators' 'inherent problems' (1): Well-meaning experts 71
	Overcoming the 'expert problem' in rule-making 74
	Regulators' 'inherent problems' (2): Facing backwards 78
	Regulators' 'inherent problems' (3): Lack of resources 78
	Regulators' 'inherent problems' (4): Asymmetry of engagement 80
	Regulators' 'inherent problems' (5): Regulatees' bargain- seeking 81
	Conclusion: The way ahead 85
	Notes 87
05	THE ROOTS OF MISCONDILCT 89
	-
	to fail' 90
05	THE ROOTS OF MISCONDUCT 89 Introduction: mission creep and research comfort 89 Challenges to financial providers' orthodoxy of 'too big

When bold new research shatters old beliefs 91

Conduct cost shocks and 'social value' questions 92 Origins of misbehaviour (1): Formal v informal groups Origins (2): Human tractability 97 Origins (3): Macro structural factors enabling bad behaviour 100 Origins (4): Team-level risk culture 105 Conclusion 107

Notes 107

06 THE POLITICS OF PROSECUTION: CONDUCT RULES GO GLOBAL 109

Introduction 109

Is this science at work, or something simpler? The place where all regulation comes from 113 Meanwhile, on campus... 114 Boom times for publishers, too 115 Where next: Trends in enforcement 116 Science or populism? 118 Conduct enforcement, an exportable asset 119 Conclusion: Getting worse before it gets better 121

07 ESTABLISHING WHAT YOUR 'GOOD BEHAVIOUR LOOKS LIKE' 127

Introduction 127

Notes 124

Differing conceptions of risk-taking 129

Why it's useful to study 'gamers' 133

Framing the gaming 135

Types of gaming behaviour

Positive resetting towards 'good'

What the regulator really wants 142

Patterns to avoid... 144

Patterns to aspire to... 145

Learning to see and respond

Conclusion 150

Notes 151

08 THE 'BEHAVIOURAL LENS', PART 1: WIDE VIEW 153

Introduction: Normal and not-normal 153

Tolerating isn't the same as accepting 157

Two forms of licence 158

From bystander to aggressive challenger: Noting the tipping point 159

The behavioural lens 162

Understanding how your behaviour turns tolerant people against you 165

Viewing real-world behaviour through the lens 174

Reification: When a half-imagined risk 'turns real' 178

Conclusion 181

Notes 182

OF THE REGULATOR 185

Introduction 185

Bank your goodwill, build your trust 186

Reading the 'tells' 190

Points of view: The behavioural lens, second aspect 192

Applying the three levels 195

A behavioural take on Senior Managers Regime and 'grey areas' 200

Applying the lens to 'grey areas' 203

Conclusion: Personal and organizational conduct 209

Appendix 212

Notes 213

10 LOOKING BACK, LOOKING AHEAD 215

Introduction 215

Future-facing (1): Other new approaches to being 'conduct compliant' 218

'Hot topics': Using the lens to inform a wider corporate view 222

Future disruptions 225

Before and after the 'conduct project' 226

Questions for board members 229

The value of the behavioural approach 230 Seven steps to conduct risk happiness 233 Is the future behavioural – or something else? 234 Notes 236

Glossary 237 Recommended reading – with author's comments 271 Index 281