

## Quarterly Bulletin – July 2020



### Ethics Deployed TOM AI - Embedding ethics within business decisions

Much has been written in the past couple of months about the characteristics that will define organizations that thrive post the pandemic. A recurring theme is **ethical business conduct and practice**. Most organizations subscribe to a culture of ethical conduct.

The challenge however lies in the practical day-to-day enforcement of a single value system amongst a diverse workforce.



Ethical standards mean different things to different people. For organizations to successfully meet their business ideals and compliance obligations they will need to look beyond conventional methodologies and controls.

TOM™ AI provides organizations with an innovative approach to ensuring that ethics are incorporated into business decisions.

“ Too often ethics in business is viewed as exclusively a moral or philosophical endeavour. It is also frequently considered separate from the core economic and organizational factors underlying business analysis. In fact, failing to integrate ethics into business decisions can lead to catastrophic business results ”

-The Huffington Post 2014



## CONVENTIONAL CONTROLS – ETHICS FAILURE

When it comes to ethical conduct the financial services sector ranks as one of the most highly regulated industries. Organizations and executives, acutely aware of their obligations and personal liability, insist employees and agents attend extensive compliance training, codes of conduct, fit and proper certification, the list goes on. Investment in compliance is extensive. According to the International Banker 2018, banks alone “spend **\$270 billion per year** on compliance. Some 10 percent or more of most bank operating costs can be attributed to compliance, and estimates have financial services **regulatory costs doubling** by 2022”.

Yet one of the **most catastrophic ethics and conduct failures** in recent history is found in the midst of this highly regulated environment.

In 2017 The Royal Commission of inquiry into misconduct in the Banking, Superannuation and Financial Services Industry, in Australia commenced. The findings were catastrophic to say the least.

In Oct 2019 the Guardian reported that “...across the industry the cost to banks of compensating customers, estimated by the Reserve Bank ... is likely to climb **beyond the \$10bn mark**. The impact of more intangible factors,

like broken trust, are yet to be quantified. Misconduct suggests an intentional rather than a negligent act. When the opportunity presented itself many advisors and institutions, ‘turned a blind eye’ and chose the option that benefitted them.

Despite onerous regulatory scrutiny, world class organisational controls and potential criminal sanctions the misconduct continued for more than ten years.



## THE CHALLENGE

The Australian example illustrates the potential severity that conduct risk represents to financial services organizations. It also highlights a disconnect between ethical policies adopted at board level and how these are interpreted and lived at individual transaction level.

The challenge of monitoring and controlling individual behaviour is complex. Most of these institutions have exhaustively implemented all conventional control mechanisms. The challenge is **how these organizations will further enhance conduct risk management to prevent a reoccurrence of this behavioural problem?**

A simplistic approach would look to remove the human element. Artificial Intelligence (AI), decision technologies, are set to replace 80%-90% of decisioning within the financial services sector in the next couple of years. However, high risk and highly nuanced environments will continue to remain reliant on human expertise and consumers will continue to seek advice from trusted investment advisors when making highly consequential financial decisions.



## THE SOLUTION - DEPLOYING AI TO ENSURE ETHICAL DECISIONING

**A more sustainable solution is to ensure that both the machine generated solutions and those requiring human expertise have considered and included business ethics.**



TOM™ Virtual Expertise provides a practical solution to ensure that ethics are incorporated into decisions at transactional level – out in the field, in call centres, by robo-advisors, RPA, and related applications.

TOM (Tacit Object Modeler) is the first technology able to replicate tacit knowledge (judgement and ethics) and install these into business decisions. The TOM Virtual Expert enables organizations to embed opinion and advice from the organizations best ethics experts into each and every business transaction in real-time.

Embedded ethics reduces compliance risk and ensures organizational values are upheld throughout the organization.

**As technology advances and consumer preference becomes more discerning, organizational integrity and ethical conduct will not only be non-negotiable, it will define the organizations that thrive.**

For more information and use cases visit  
[www.merlynn-ai.com/compliance](http://www.merlynn-ai.com/compliance)

