Integrity Survey 2008 – 2009
Banking & Finance Results
Speakers

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Objectives

- Provide a behind-the-scenes look at corporate fraud and misconduct in the post-Sarbanes-Oxley era

- Offer organizations insights as they consider:
  - Their exposures to fraud and misconduct risks
  - The effectiveness of programs and controls relied on to mitigate fraud and misconduct risks
Methodology

- Overall results include responses from 5,065 employees in the U.S. spanning:
  - All levels of responsibility
  - 16 job functions
  - 13 industry sectors
  - 4 thresholds of organizational size

- Total Banking & Finance respondents: 330
  - Survey conducted July-September, 2008

- Margin of error: +/- 1.4% overall; +/- 5.4%

Banking & Finance
Key Findings

◆ Prevalence of misconduct remains high
  - 74% report that they have observed misconduct in the previous 12 months

◆ The nature of observed misconduct remains serious
  - 46% reported that what they observed could cause “a significant loss of public trust if discovered.” On par with previous years at the national level
  - By industry, employees working in banking and finance reported the highest prevalence of violations that could cause “a significant loss of public trust if discovered.” (60%)
Key Findings

“Pressure to do ‘whatever it takes’ to meet business targets” continues to be most commonly cited driver of misconduct

- Over half of respondents reported that managers and employees feel pressure to do whatever it takes to meet business targets (59%)
- 52% believe they will be rewarded for results, not the means used to achieve them

Whistleblower mechanisms are gaining traction

- Over half (57%) of respondents reported that they would feel comfortable using a hotline to report misconduct, which is up from 40% from 2000
Key Findings

- Continuing risk that boards and senior management may not learn about fraud and misconduct risk from distrustful employees
  - Only half (53%) of respondents believed they would be protected from retaliation

- Ethics and compliance programs continue to have a favorable impact on employee perceptions and behaviors across the board
  - The percentage of respondents who report working in an environment in which people feel motivated and empowered to do the right thing doubles (from 43% to 90%) among employees who work in companies with comprehensive ethics and compliance programs versus those who do not
Prevalence Of Misconduct
Prevalence Of Misconduct During The Prior 12 Months

NA responses not included in calculations

2000: 76%
2005: 74%
2008: 74%
Prevalence Of Misconduct During The Prior 12 Months By Industry

- Automotive: 80%
- Government & Public Sector: 80%
- Consumer Markets: 78%
- Chemicals and Diversified Industrials: 77%
- Media and Communications: 76%
- Real Estate and Construction: 75%
- Aerospace and Defense: 74%
- Healthcare: 73%
- Pharmaceuticals & Life Sciences: 70%
- Energy & Natural Resources: 69%
- Electronics, Software and Services: 68%
- Insurance: 67%
- Banking and Finance: 65%

NA responses not included in calculations
Prevalence Of Violations That Could Cause A “Significant Loss Of Public Trust If Discovered”

- 2000: 49%
- 2005: 50%
- 2008: 46%

NA responses not included in calculations
Prevalence Of Violations That Could Cause A “Significant Loss Of Public Trust If Discovered” By Industry

Rating “Agree” And “Strongly Agree”

- Banking and Finance: 60%
- Healthcare: 57%
- Government & Public Sector: 56%
- Insurance: 52%
- Pharmaceuticals & Life Sciences: 51%
- Media and Communications: 48%
- Energy and Natural Resources: 48%
- Aerospace and Defense: 40%
- Real Estate and Construction: 39%
- Automotive: 38%
- Electronics, Software and Services: 37%
- Consumer Markets: 36%
- Chemicals and Diversified Industrials: 34%

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Prevalence And Nature Of Misconduct

Employees reporting that they had observed misconduct in the prior 12 months:
- Banking & Finance: 65%
- All Industries: 74%

Employees reporting that what they observed could cause a significant loss of public trust if discovered:
- Banking & Finance: 60%
- All Industries: 46%
Illustrative Observations

Specific observations reported by employees in the Banking & Finance industry included:

- Engaging in anti-competitive trade practices (e.g., market rigging)
- Mishandling confidential or proprietary information
- Violating environmental standards
- Violating workplace health and safety rules
- Violating or circumventing supplier selection rules
- Stealing or misappropriating assets
- Falsifying or manipulating financial reporting information
Nature Of Misconduct
By Job Function
## Select Observations By Employees In Sales / Marketing Functions

<table>
<thead>
<tr>
<th>Observations Of Misconduct</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engaging in false or deceptive sales practices</td>
<td>27%</td>
</tr>
<tr>
<td>Improperly gathering competitors’ confidential information</td>
<td>20%</td>
</tr>
<tr>
<td>Violating contract terms with customers</td>
<td>14%</td>
</tr>
<tr>
<td>Engaging in anti-competitive practices</td>
<td>12%</td>
</tr>
<tr>
<td>Submitting false or misleading invoices to customers</td>
<td>9%</td>
</tr>
</tbody>
</table>

NA responses not included in calculations
## Select Observations By Employees In Accounting And Finance Functions

<table>
<thead>
<tr>
<th>Observations Of Misconduct</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breaching computer, network, or database controls</td>
<td>22%</td>
</tr>
<tr>
<td>Entering into customer contract relationships without proper terms, contracts, or approvals</td>
<td>18%</td>
</tr>
<tr>
<td>Stealing or misappropriating assets</td>
<td>17%</td>
</tr>
<tr>
<td>Falsifying or manipulating financial reporting information</td>
<td>13%</td>
</tr>
</tbody>
</table>

NA responses not included in calculations.
## Select Observations By Employees In Technology Functions

<table>
<thead>
<tr>
<th>Observations Of Misconduct</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breaching employee privacy</td>
<td>25%</td>
</tr>
<tr>
<td>Breaching computer, network, or database controls</td>
<td>23%</td>
</tr>
<tr>
<td>Mishandling confidential or proprietary information</td>
<td>22%</td>
</tr>
<tr>
<td>Breaching customer or consumer privacy</td>
<td>16%</td>
</tr>
<tr>
<td>Falsifying or manipulating financial reporting information</td>
<td>9%</td>
</tr>
</tbody>
</table>

NA responses not included in calculations
Preventing Misconduct
### Root Causes Of Misconduct

<table>
<thead>
<tr>
<th>Reason</th>
<th>Banking &amp; Finance</th>
<th>All Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feel pressure to do “whatever it takes” to meet business targets</td>
<td>56%</td>
<td>59%</td>
</tr>
<tr>
<td>Do not understand or are not familiar with the standards that apply to their jobs</td>
<td>56%</td>
<td>51%</td>
</tr>
<tr>
<td>Believe they will be rewarded for results, not the means used to achieve them</td>
<td>52%</td>
<td>52%</td>
</tr>
<tr>
<td>Lack resources to get the job done without cutting corners</td>
<td>48%</td>
<td>50%</td>
</tr>
<tr>
<td>Fear losing their jobs if they do not meet their targets otherwise</td>
<td>48%</td>
<td>49%</td>
</tr>
<tr>
<td>Believe their code of conduct is not taken seriously</td>
<td>46%</td>
<td>51%</td>
</tr>
<tr>
<td>Believe policies or procedures are easy to bypass or override</td>
<td>43%</td>
<td>47%</td>
</tr>
<tr>
<td>Are seeking to bend the rules or steal for their own personal gain</td>
<td>35%</td>
<td>34%</td>
</tr>
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Detecting Misconduct
To Whom Employees “Feel Comfortable” Reporting Misconduct

- My supervisor: 78% (Banking & Finance), 85% (All Industries)
- My organization's ethics or compliance hotline: 57% (Banking & Finance), 76% (All Industries)
- My local managers: 61% (Banking & Finance), 71% (All Industries)
- My organization's human resource department: 57% (Banking & Finance), 65% (All Industries)
- My organization's legal department: 52% (Banking & Finance), 59% (All Industries)
- My organization's internal audit department: 40% (Banking & Finance), 56% (All Industries)
- My peers/ colleagues: 32% (Banking & Finance), 43% (All Industries)
- My organization's senior executives: 42% (Banking & Finance), 50% (All Industries)
- My organization's board of directors or audit committee: 32% (Banking & Finance), 42% (All Industries)
Propensity To Report Misconduct

Rating “Agree” And “Strongly Agree”

- Notify my supervisor or another manager: 81%
- Try resolving the matter directly: 52%
- Call the ethics or compliance hotline: 44%
- Notify someone outside the organization: 10%
- Look the other way or do nothing: 6%

NA responses not included in calculations
Responding To Misconduct
Perceived Outcomes Of Reporting Misconduct

- I would be doing the right thing: 94% Banking & Finance, 89% All Industries
- Appropriate action would be taken: 78% Banking & Finance, 66% All Industries
- My report would be handled confidentially: 76% Banking & Finance, 64% All Industries
- I would be protected from retaliation: 67% Banking & Finance, 53% All Industries
- Those involved would be disciplined fairly regardless of their position: 58% Banking & Finance, 47% All Industries
- I would be satisfied with the outcome: 47% Banking & Finance, 39% All Industries
Perceived Tone And Culture
Perceptions About The CEO And Other Senior Executives

<table>
<thead>
<tr>
<th>Perception</th>
<th>Banking &amp; Finance</th>
<th>All Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Would respond appropriately if they became aware of misconduct</td>
<td>79%</td>
<td>70%</td>
</tr>
<tr>
<td>Set targets that are achievable without violating my organization’s code of conduct</td>
<td>77%</td>
<td>67%</td>
</tr>
<tr>
<td>Set the right “tone at the top” on the importance of ethics and integrity</td>
<td>77%</td>
<td>66%</td>
</tr>
<tr>
<td>Are positive role models for the organization</td>
<td>74%</td>
<td>64%</td>
</tr>
<tr>
<td>Value ethics and integrity over short-term business goals</td>
<td>68%</td>
<td>56%</td>
</tr>
<tr>
<td>Know what type of behavior really goes on inside the organization</td>
<td>57%</td>
<td>49%</td>
</tr>
<tr>
<td>Are approachable if employees have questions about ethics or need to deliver bad news</td>
<td>55%</td>
<td>54%</td>
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Perceptions Of Local Managers And Supervisors

- Are approachable if employees have questions about ethics or need to deliver bad news: 77% agree, 11% unsure, 11% disagree
- Set targets that are achievable without violating my organization’s code of conduct: 72% agree, 17% unsure, 11% disagree
- Would respond appropriately if they became aware of misconduct: 72% agree, 16% unsure, 12% disagree
- Set the right “local tone” on the importance of ethics and integrity: 71% agree, 17% unsure, 13% disagree
- Know what type of behavior really goes on inside the organization: 70% agree, 16% unsure, 15% disagree
- Are positive role models for the organization: 70% agree, 14% unsure, 16% disagree
- Value ethics and integrity over short-term business goals: 66% agree, 20% unsure, 15% disagree

May not equal 100% due to rounding. NA responses not included in calculations.
Impact Of Ethics And Compliance Programs
Correlation Between Ethics And Compliance Programs And Behaviors / Perceptions

Ethics and compliance programs continue to be correlated with:

- Reduced prevalence of misconduct in organizations
- Lower prevalence of conditions that give rise to misconduct
- Increased employee willingness to report misconduct
- More positive employee expectations regarding the outcomes of reporting misconduct
- More positive employee perceptions of the tone at the top
- More positive team culture and environment
- Better guidance and communication of policies around misconduct
- Increased level of trust and greater sense of ownership
Prevalence Of Misconduct

Ethics and Compliance Programs Are Correlated With Reduced Prevalence Of Misconduct In Organizations
Rating “Rarely”, “Sometimes”, “Often” And “Almost Always”

Observed Misconduct (All) in the Prior 12 Months

- Without Program: 72% (2008), 65% (2005)
- With Program: 55% (2008), 59% (2005)

Observed Violations of Organizational Values & Principles in the Prior 12 Months

- Without Program: 55% (2008), 55% (2005)
- With Program: 32% (2008), 43% (2005)
Root Causes Of Misconduct

Ethics and Compliance Programs Are Correlated With Lower Prevalence Of Conditions That Give Rise To Misconduct

Rating “Sometimes”, “Often” And “Almost Always”

Feel Pressure to Do Whatever It Takes to Meet Targets

<table>
<thead>
<tr>
<th>Without Program</th>
<th>With Program</th>
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</thead>
<tbody>
<tr>
<td>2005</td>
<td>2008</td>
</tr>
<tr>
<td>55%</td>
<td>60%</td>
</tr>
<tr>
<td>46%</td>
<td>50%</td>
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</tbody>
</table>

Lack Understanding of Standards That Apply to Their Jobs

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<thead>
<tr>
<th>Without Program</th>
<th>With Program</th>
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</thead>
<tbody>
<tr>
<td>2005</td>
<td>2008</td>
</tr>
<tr>
<td>54%</td>
<td>62%</td>
</tr>
<tr>
<td>48%</td>
<td>53%</td>
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Detecting Misconduct: Channels For Reporting Misconduct

Ethics and Compliance Programs Are Correlated With Increased Employee Willingness To Report Misconduct

Rating “Agree” Or “Strongly Agree”

<table>
<thead>
<tr>
<th>Without Program</th>
<th>With Program</th>
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<tbody>
<tr>
<td>2005</td>
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<tr>
<td>2008</td>
<td></td>
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<tr>
<td>51%</td>
<td>88%</td>
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<tr>
<td>48%</td>
<td>88%</td>
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Would Feel Comfortable Reporting Misconduct to Supervisor

<table>
<thead>
<tr>
<th>Without Program</th>
<th>With Program</th>
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<tbody>
<tr>
<td>2005</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td>76%</td>
</tr>
<tr>
<td>25%</td>
<td>73%</td>
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Would Feel Comfortable Reporting Misconduct to Legal Department

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Responding To Misconduct: Perceived Outcomes Of Reporting Misconduct

Ethics and Compliance Programs Are Correlated With More Positive Employee Expectations Regarding The Outcomes Of Reporting Misconduct

Rating “Agree” Or “Strongly Agree”

<table>
<thead>
<tr>
<th>Without Program</th>
<th>With Program</th>
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<tbody>
<tr>
<td>2005</td>
<td>2008</td>
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</table>

Believe Appropriate Action Would Be Taken

- 41% Without Program, 44% With Program in 2005
- 86% Without Program, 87% With Program in 2008

Believe They Would Be Protected from Retaliation

- 34% Without Program, 29% With Program in 2005
- 77% Without Program, 75% With Program in 2008

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Tone And Culture: Tone At The Top

Ethics and Compliance Programs Are Correlated With More Positive Employee Perceptions Of The Tone At The Top

Rating “Agree” Or “Strongly Agree”

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<tr>
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</thead>
<tbody>
<tr>
<td>CEO &amp; Execs Set Right Tone at the Top</td>
<td>39%</td>
<td>29%</td>
<td>85%</td>
<td>84%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approachable if Ethics Concerns</td>
<td>40%</td>
<td>33%</td>
<td>75%</td>
<td>76%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Believe CEO & Other Senior Execs Set the Right “Tone at the Top” on Ethics & Integrity

Believe CEO & Other Senior Execs are Approachable if Employees Have Ethics Concerns
Ethics and Compliance Programs Are Correlated With More Positive Team Culture And Environment

Rating “Agree” Or “Strongly Agree”

<table>
<thead>
<tr>
<th></th>
<th>Without Program</th>
<th>With Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>People Feel Motivated &amp; Empowered to “Do the Right Thing”</td>
<td>43% 51%</td>
<td>90% 90%</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>2008</td>
</tr>
<tr>
<td>People Feel Comfortable Raising &amp; Addressing Ethics Concerns</td>
<td>35% 36%</td>
<td>83% 85%</td>
</tr>
</tbody>
</table>
Discussion