



## Risk Management: A Cultural Challenge

A presentation to The 17th East Asian Actuarial Conference

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### In today's session we will cover

- How culture influences organisational behaviour and what is meant by a 'risk culture'
- Who is responsible for risk culture within an organisation
- Steps to develop a risk culture



**“Culture, more than rule books, determines how an organisation behaves.”**

## What happens when someone “misbehaves”?

**the guardian**  
News | Sport | Comment | Culture | Business | Money  
Business > UBS  
Banks under new pressure as 'rogue trader' loses \$2bn  
Kwaku Adoboli, a UBS investment bank trader remains

**BBC NEWS**  
LIVE BBC NEWS CHANNEL  
Last Updated: Wednesday, 24 October 2007, 11:05 GMT  
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A former insurance chief has

**J.P. Morgan's \$2 Billion Blunder**  
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**Lloyds caught up in ANOTHER scandal: Call centre workers told to 'play the system' and mislead customers who were complaining about PPI mis-selling**  
Workers told to ignore potential fraud and fake information on loan sales  
Secret document reveals that customer evidence has been lost  
Call centre operated on the basis that PPI was never mis-sold

**ABC NEWS**  
Watch One: Minute World News  
Last Updated: Friday, 15 April, 2005, 06:26 GMT 07:26 UK  
E-mail this to a friend | Printable version  
**Boss of 'Australian Enron' jailed**  
Raymond Williams, the former boss of insurance firm HIH, has been jailed for four and-a-half years for his part in Australia's biggest corporate collapse.  
Dubbed Australia's Enron, HIH went bust in 2001 with debts of A\$5.3bn (£2.1bn; \$4.1bn).  
Nine former executives were charged over the scandal and Williams, known for big spending, admitted misleading and reckless corporate behaviour.  
Williams's lawyers will appeal against the "manifestly excessive" sentence.

## Company Values

People, Customer Focus,  
Performance, Integrity,  
Respect and  
Entrepreneurship (AIA)

Integrity, Team spirit,  
Professionalism,  
Innovation, Pragmatism  
(AXA)

Achieve, Challenge,  
Connect and Inspire  
(Prudential)

Clients first, Collaboration,  
Professional excellence,  
Integrity and Respect  
(Towers Watson)

“Risk culture can be defined as individual and group **behaviour** within an organisation that determines the way in which the company **identifies, understands, discusses and acts** on the risks the organisation confronts and takes.”

Source: Reform in the Financial Services Industry: Strengthening practices for a more stable system – Institute of International Finance, 2009

“Risk-management culture is the **degree to which risk and risk management are important considerations** in all aspects of corporate decision making.”

Standard&Poor’s, 2005

1. Senior management defining **key values and principles**, and **demonstrating** these through their actions

2. Clear **risk policies and procedures** that support the **understanding** of expected attitudes and behaviours

### 3. *Open communication* across the company

### 4. Issues are *openly escalated*

5. Principles that ***promote and encourage*** effective and transparent ***risk-based decision making***

6. ***Performance management, employee development and reward programmes*** that promote and reinforce the ***right values and behaviours***

7. ***Everyone*** in the organisation has ownership and ***responsibility for doing the “right thing”***

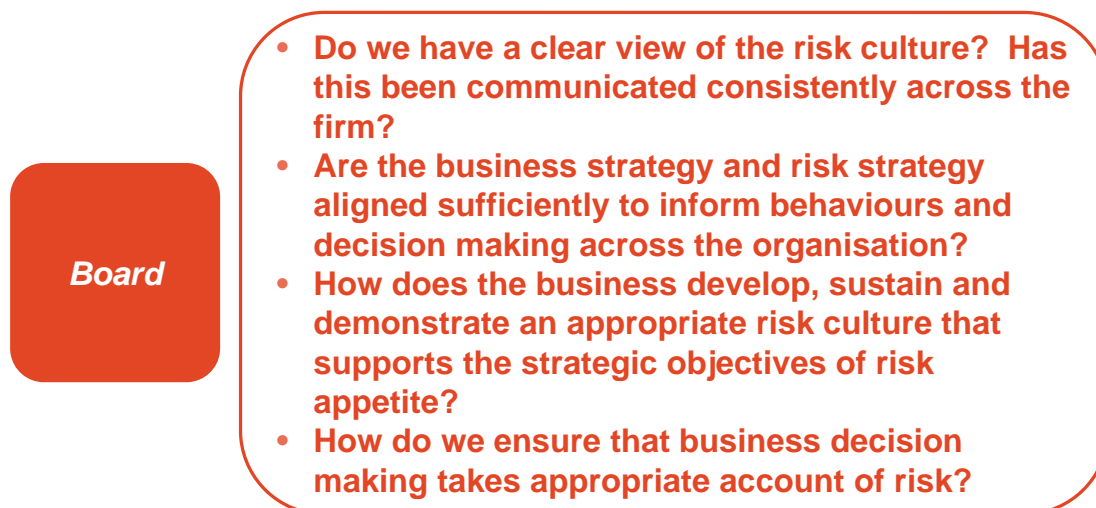
The company's risk culture is owned by...

**Every  
employee!!!**

## Let's break that down



## And what should the Board be thinking about?





## And the Risk Function?

### *Risk Function*

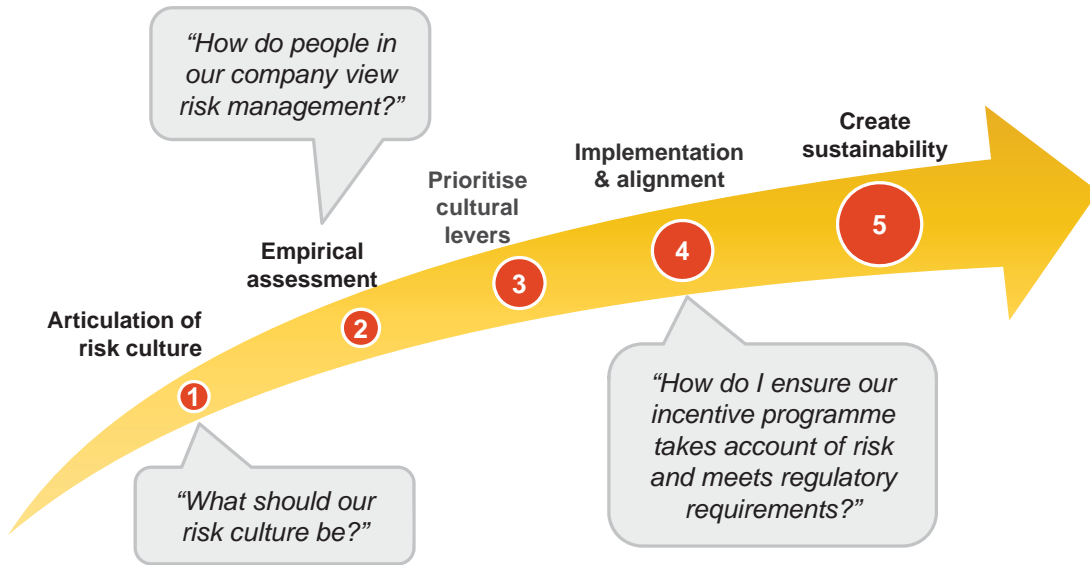
- How are we perceived by the Board, management and rest of the business? Is our role understood and appreciated?
- How well do others in the business understand their own responsibilities around risk?
- How can we make sure risk and risk metrics are understood and acted upon across the business?
- Do we need to make changes to the risk management framework to ensure it promotes and reinforces desired attitudes and behaviours?

## And how about our friends in HR?

### *Human Resources*

- Do risk management objectives form part of the performance management process? And how is this measured and monitored?
- Is there alignment between personal objectives and corporate risk objectives?
- How do we ensure that our pay and incentive programmes take account of risk and emerging regulatory requirements?
- How well does our learning and development programme promote and support our risk culture objectives?
- How do we create the right conditions to make and sustain a required change in risk culture?

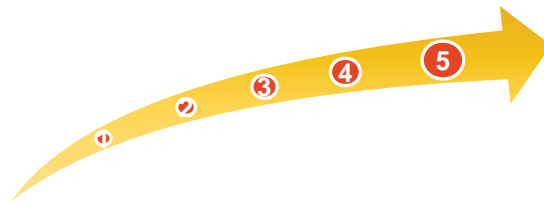
**Developing a risk culture: Different companies will have different entry points into the process — the steps do not necessarily need to be consecutive**



**Step 1: Articulation of risk culture**



## Step 1: Articulation of risk culture



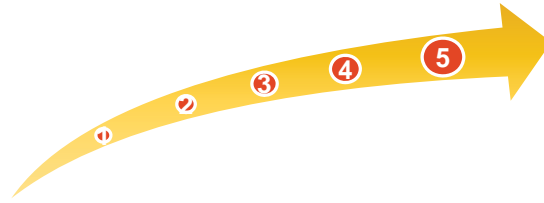
- Articulate target risk culture, key principles and messages
- Ensure alignment of Board, senior management and business units
- Set context and framework for risk culture development and management programme

## Step 2: Empirical assessment



- Risk culture assessment to baseline existing risk culture
- Analyse results to identify key areas where intervention is required

### Step 3: Implementation, planning & prioritisation



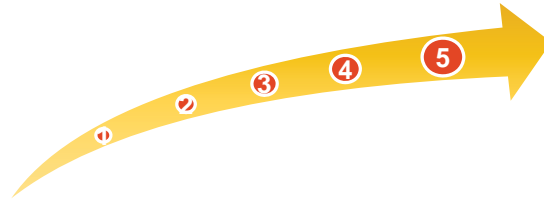
- Prioritise according to importance, urgency and implementation timescale
- Develop a roadmap and establish links with other relevant risk initiatives
- Define change management approach

### Step 4: Implementation & alignment



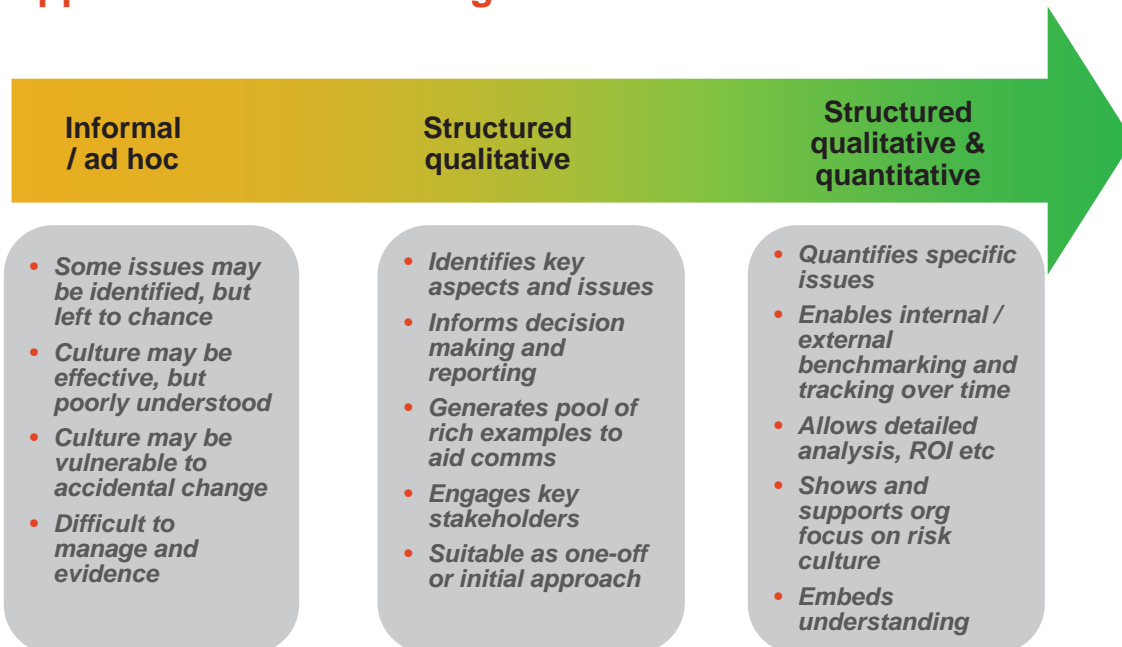
- Alignment of:
  - Education and communication programme
  - Incentive design
  - Performance management system
  - Leadership effectiveness and coaching
  - Risk governance and responsibilities
  - Risk policies, processes & evidencing
  - MI and risk communications

## Step 5: Create sustainability



- Monitor effectiveness through monitoring risk culture indicators and repeating empirical assessments
- Continue risk education and an appropriate level of change management throughout
- On-going performance management

## Approaches to measuring risk culture



## Understanding what drives individual's attitude to risk is key to developing a strong risk culture



## Measuring risk culture – some questions to ask yourself

- Who is responsible for the risk culture in your organisation?
- Do they have appropriate ways of understanding, measuring and managing the risk culture?
- Are people within your company able to describe the current risk culture in a meaningful way (internally and externally)?
- Are you thinking of linking risk culture to rewards?

## Some concluding thoughts...

- Risk management is about controlling risks, but it should equally be about ensuring opportunities are not missed
- Each company's risk culture is individual to the specific business
- Risk culture can and should be articulated, measured and actively managed
- Take account of both directly observable and psychological factors
- Many organisations have held back from this, but are now making progress, and some others may be left behind
- Changing any aspect of culture is a "journey" (long term) – "a journey of a thousand miles begins with a single step...."
- A key challenge in managing risk culture is that it's inherently "multi-functional", so working across the business is key

# Questions

## Contact



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