



# Risk Culture Leadership, Measurement & Management – A Comparison across Industries

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## Agenda

1. What is risk culture?
2. Taking a maturity approach
3. Measuring cultural maturity
4. A comparison across industries
5. Our findings (measurement)
6. Our insights (ERM)
7. CRO attributes and actuaries
8. Recommendations & Take-aways



# 1. What is risk culture?

An organisation's risk culture describes the degree to which its culture encourages or limits the taking of risks and the opportunities that arise from those risks.

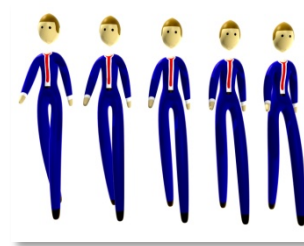
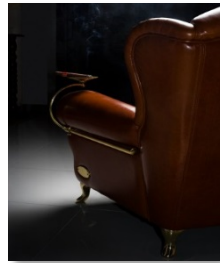
*“What marks out a good board is its activism in embedding a strong risk culture throughout the institution. Behaviours, not structure.”*

*Dr John Laker, Chairman APRA*



## Aspects of Culture

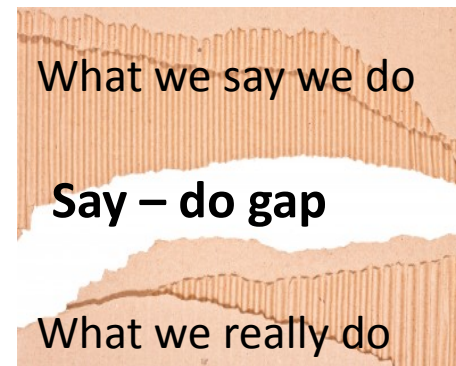
Culture - artefacts



Culture - espoused values



Culture - tacit assumptions





## Culture – top 7 influences

1. What a leader attends to, measures, rewards and controls
2. How leaders react to critical incidents
3. Leader role modeling
4. Criteria for recruitment, promotion and retirement
5. Formal and informal socialising
6. Recurring systems and procedures
7. Organisational structure and hierarchy

Source: Schein



## Something to think about.....

An organisation's culture is dynamic

*“When the interior of an organisation is changing more slowly than the external environment, the organisation is dying” – Jack Welsh*



## 2. Taking a maturity approach

# Financial Services Forum



## Integral Approach to risk management

*internal/hidden*

*external/visible*

**personal**

**behavioural**

*motivations  
beliefs, values  
intentions  
attitudes*

*skills (IQ)  
knowledge  
actions  
language*

**culture focus**

*sociological  
Connectivity  
environment  
teamwork*

*policies  
strategies  
processes  
governance*

**relational**

**structural**

*individual*

*collective*

SELF -  
ACTUALISATION

ESTEEM

SOCIAL

SAFETY

SURVIVAL





What are the observable stages of risk maturity?



# Evolution of Risk Culture

	Unaware	Reactive	Mechanical	Proactive	Mature
<b>Individual mindset</b>	unaware	cynical	aware	integrated	risk = opportunity
<b>Group mindset</b>	blame	risk averse	committed	owned at work group	distributed
<b>Behaviour</b>	reckless	compliant	efficient	effective	strategic
<b>Systems</b>	none	compliance	performance	feedback	growth
<b>Risk function</b>	none	compliance	improvement	partner	Forward looking





## 3. Measuring Cultural Maturity



## Why measure?

“What gets measured gets managed.”



# Methods of Measurement

Surveys

Staff interviews

Focus groups

External stakeholder interviews

Social media reviews

Review of operational processes / procedures

Training

**Quantitative + Qualitative = deeper insight**



# But.....Measurement is not separate from the culture

Culture neutral measurement

Messages sent through measurement

What's done with the measurement



## Measurement is stage dependent

- Methods of measurement should co-evolve with the culture.

## Manage the underlying construct, not the measure!

- End of month unprocessed claims
- Customer calls time constraints
- Rewards for “Good” Culture survey results



## 4. Comparison by industry

### *Risk category relative importance by industry*

1 – most important, 6 = least important

<i>Industry →</i>	<i>Financial Services</i>	<i>Energy</i>	<i>Education</i>
<i>Risk Category</i>			
Health & Safety	5	1	1
Strategic	1	2	5
Financial	2	3	4
Operational	4	4	6
Reputation	3	5	3
Learning outcomes	n/a	n/a	2





## Regulatory environment by industry

<i>Industry</i>	<i>Area regulated</i>	<i>Main regulators</i>	<i>Main risks regulated</i>
<i>Financial Services</i>	Prudential supervision / capital strength	APRA	Customer losses, Provider failure
	Consumer protection	ASIC	Consumers misled / losses
<i>Energy</i>	Energy markets & networks	AER	Rules, markets, pricing
	Health & safety	State based OH&S Acts & related oversight bodies	Employee & public safety
	Consumer protection	ACCC	Competition
<i>Education</i>	Learning standards, licensing	State based Dept. of Education	Access to and quality of learning
	Health & safety	State based OH&S Acts & related oversight bodies	Student and staff safety



# Risk Culture maturity across industries

<i>Industry</i>	<i>Financial Services</i>	<i>Financial Services</i>	<i>Financial Services</i>	<i>Financial Services</i>
<i>Industry variation</i>	<i>Banking</i>	<i>Life Insurance</i>	<i>General Insurance</i>	<i>Super-annuation</i>
<b>Level of risk culture maturity</b>	<b>Proactive</b>	<b>Mechanical to Proactive</b>	<b>Mechanical to Proactive</b>	<b>Reactive to Mechanical</b>

<i>Industry</i>	<i>Energy</i>	<i>Education</i>	<i>Education</i>	<i>Education</i>
<i>Industry variation</i>	<i>Combinations of Generation, Distribution and Retail</i>	<i>Primary schools</i>	<i>Secondary schools</i>	<i>Tertiary (Universities, TAFE)</i>
<b>Level of risk culture maturity</b>	<b>Mechanical</b>	<b>Reactive</b>	<b>Reactive to Mechanical</b>	<b>Mechanical</b>



## 5. Our findings (measurement)

### *Questionnaire*

Perceptions of behaviour and standing of ERM

7 sections x 7 questions

- Me
- My Manager
- My Team
- My Department
- Senior Management
- The Organisation
- Risk Function



## Survey results – quantitative

1. Risk functions need to shift focus to less compliance and more forward looking .
2. Opportunity for greater partnering with business units to manage their own risks.
3. In financial services, risk appetite is not as clear as the vision for the organisation.
4. Organisations are too siloed..
5. Organisation are not tuned in sufficiently to emerging risk.



## Survey results - Strengths

1. Demonstrated support from CEO and executive leadership team
2. Interactive risk management support at the ground level and upwards
3. Appropriate risk governance – fully supported by leadership team

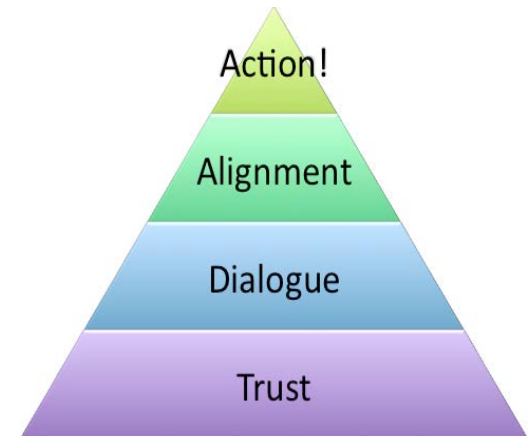


## Survey results – Areas for improvement

1. Organisations are struggling to deal with unrelenting regulatory change and volume.

2. Silos exist across organisations.

3. Organisations are grappling with managing time in the face of competing priorities in a changing environment.





## Survey results – Most important aspects of an effective risk culture

1. Tone from the top.
2. Open and effective communication in a safe environment.
3. Awareness, understanding and ownership of risk at all levels.



## Influence on ERM

1. Rate the influence these different stakeholders *currently* have on ERM in a financial services organisation

(1 high, 6 low): Regulator, Board, Exec team, CRO, Managers, Staff

2. Rate the influence these different stakeholders ideally *should* have have on ERM in a financial service organisation





# Biggest influence on ERM in financial Services

(Sean & Andrew's view)

<i>Influencer</i>	<i>Current Ranking</i>	<i>Comment (Current)</i>	<i>Mature Ranking</i>	<i>Comment (Mature)</i>
<i>Regulator</i>	1	Keeps raising the bar. New requirements. Targeting Boards.	6	Organisations continuously identifying, mitigating and profiting from risk. Surpasses regulator levels.
<i>Board</i>	3	Reliance on executive for response to regulators.	1	Board sets risk appetite which sets expectations, boundaries for risk and opportunity.
<i>Executive leadership</i>	2	Treats regulatory requirements as high priority.	4	Understands, trusts and communicates effectively with CRO.
<i>CRO</i>	4	Still on the journey to gaining full support of executive and board.	2	Risk frameworks incl. support and monitoring in place. Strong influence and trust with executive and Board.
<i>Managers</i>	5	Risk priorities not sufficiently integrated.	5	Assess and support staff on agreed KPIs and KRIs.
<i>Staff</i>	6	Risk and opportunity not sufficiently core day to day.	3	Risk and opportunity owned and well handled at the frontline as per risk appetite.



## 6. Our Insights (ERM)



# The driving force behind best practice risk management across an enterprise is the evolving culture

Risk ownership

Social coherence

Adapting to ongoing change

*“A sound risk culture is a substantial determinant of whether an institution is able to successfully execute its agreed strategy within its defined risk appetite.”*

*Financial Stability Board (UK)*



# There are more similarities than differences across industries / areas

Behaviour – key driver of culture

Culture – key driver of risk effectiveness

Culture is about how global messages (tone from the top) are enacted in local groups (tone from the middle) – Ralph Stacey



# Cycles are essential for learning

*“Human beings, who are almost unique in having the ability to learn from the experience of others, are also remarkable for their apparent disinclination to do so.”*

*Douglas Adams*

*“The seeds of the next crisis are sown in the solution to the previous crisis”*



## Three lines of Defence

What does the term “defence” imply about risk?

If there are many lines of defence, how seriously do I take my role?

Paradox – Can more resource at second line of defence increase cost AND reduce effectiveness?



## 7. Attributes of a CRO

Reading the play

Passionate about building capability

Commercial

Systemic

Influence – communicates, manages stakeholders

Persistent

Pragmatic



## 8. Recommendations

Take the time to think ... how these findings and insights into risk culture across industries might apply to your organisation

1. Incorporate the objective of having a sound, mature risk culture embedded in your ERM policy
2. Set the desired risk appetite levels relating to risk culture against which measurements need to be compared
3. Conduct a risk culture audit annually - focus on trends, identify actions
4. Get external independent objective assessments
5. Have KPIs/KRIs related to risk culture in performance assessments
6. If can't match risk culture to risks, consider changing risk processes to work with the culture you have





## Take-aways

1. Measuring risk cultures will help to navigate the course towards choosing the road we wish to walk down.
2. Three key areas to measure and manage in a risk culture are:
  - Risk ownership
  - Social coherence
  - Adapting to ongoing change – forward looking

"We shall not cease from exploration, and the end of all our exploring will be to arrive where we started and know the place for the first time."

*T.S. Eliot*