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# Board leadership in a complex world- optimising value from risk and opportunity

**Sean McGing and Andrew Brown**

# What we'll cover

## Part 1 - Board leadership & risk culture

1. Board role
2. Risk & risk culture
3. Board leadership
4. Interviews & case studies
5. Obstacles to a mature risk culture
6. Conclusions & recommendations

## Part 2 - Opportunities for actuaries

## Q & A

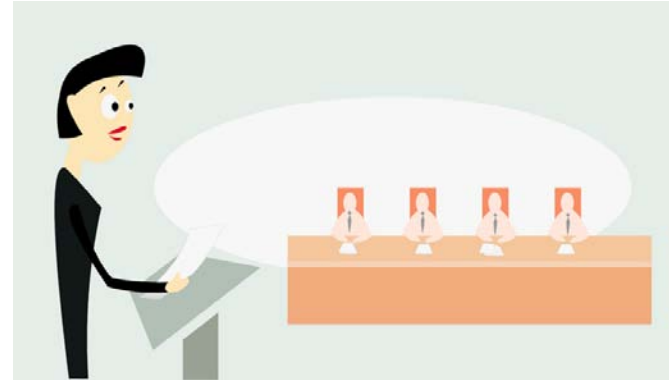
For the full paper see:

<http://www.actuaries.asn.au/Library/Events/SUM/2013/Sum2013PaperAndrew%20Brown%20Sean%20McGing.pdf>



# Board role

- Setting the organisation's strategy
- Setting its policies
- Hiring the CEO
- Continuously assessing performance
- Setting risk appetite
- Setting the culture





# What do we mean by Enterprise Risk Management?

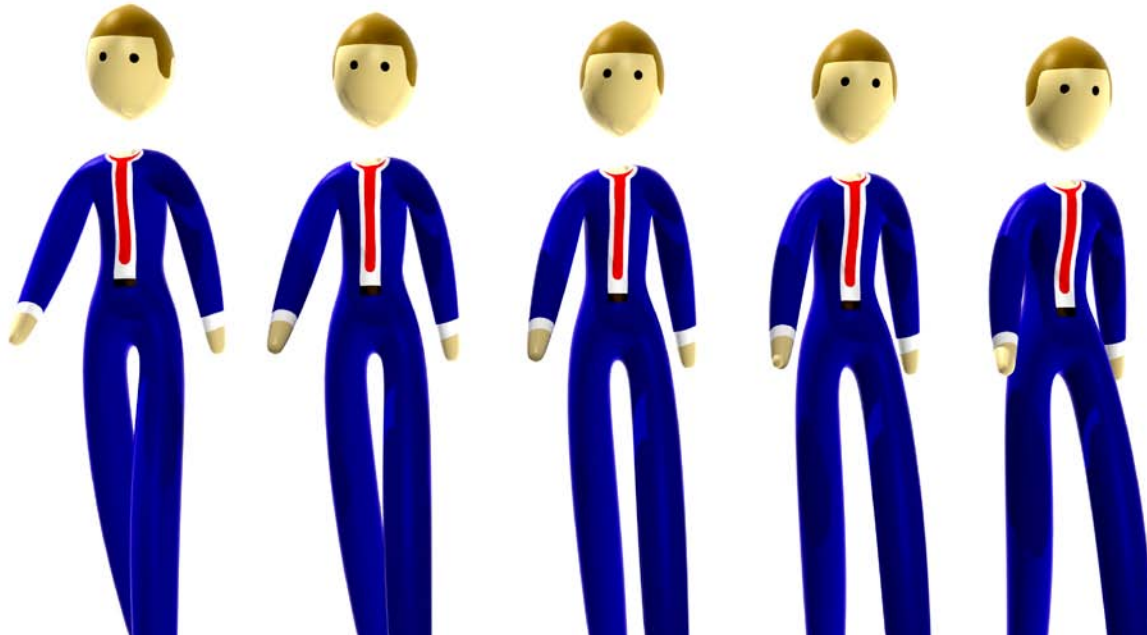




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# What do we mean by culture?





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# Artefacts





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# Espoused values

The screenshot shows a corporate website for 'Your Company'. The header includes navigation links for 'MISSION', 'NEWS & EVENTS', 'RESOURCES', and 'CONTACT US'. A search bar is also present. The main content area features a section titled 'WHEN EXCELLENCE MATTERS' with a silhouette image of people walking. Below this is an 'ABOUT US' section with a 'View Video' button and a video player. The footer contains copyright information and navigation links.

**your company**

MISSION | NEWS & EVENTS | RESOURCES | CONTACT US

Global Excellence

### WHEN EXCELLENCE MATTERS

ABOUT US

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# Tacit assumptions







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# Evolution of Risk Culture

|                    | Intuitive | Reactive    | Mechanical  | Proactive           | Mature             |
|--------------------|-----------|-------------|-------------|---------------------|--------------------|
| Individual mindset | unaware   | cynical     | aware       | integrated          | risk = opportunity |
| Group mindset      | low trust | risk averse | committed   | owned at work group | distributed        |
| Behaviour          | reckless  | compliant   | efficient   | effective           | strategic          |
| Systems            | none      | compliance  | performance | feedback            | growth             |
| Risk function      | none      | compliance  | improvement | partner             | empower            |

Source: A. Brown and material provided by S. Bennett (Enhance Solutions). Adapted from a method by P. Hudson applied to safety cultures.



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# How do you shape a culture?

“If you set out to change the culture, you end up in fog.”

If you set out to change behaviours, then you’ll change the culture.”  
– Ed Schein



# What shapes culture?

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 design and structure.

# Board Leadership

- Lead by example
- Leading people
- Leading strategy

# Interviews with Directors – Responses #1

- *Board leadership in a complex world*
  - Risks - not as documented
  - Scenario planning
  - Get external perspective
- *Governance and Operational risk management*
  - Which risks?
  - Most material risks
  - Risk management and leadership
  - What *should* be on the risk agenda?

## Interviews with Directors – Responses #2

- *The evolving nature of leadership*
  - Share and challenge
  - Chair set the tone
  - Trust – CEO, Execs, Chair and Board
  - Assess CEO & executive team
- *Our interconnected world*
  - Boards be able to change direction
  - Supportive business partners

## Interviews with Directors – Responses #3

- *Integrating risk leadership into strategic leadership*
  - Focus on strategic opportunities
  - Risk inform every decision
  - Risk makes you the money –risk must be embedded in the strategy.

# Case Studies – Risk culture – the good

*Global  
Financial  
Crisis*





# Case Studies – Risk culture – the bad and ugly





## Obstacles to a mature risk culture

*"Most success springs from an  
obstacle or failure.  
I became a cartoonist largely  
because I failed in my goal of  
becoming a successful executive."*

Scott Adams (Creator of Dilbert)



# Obstacles to a mature risk culture – (1)

- Death by regulation
- Drinking the kool-aid
- Rubber bands
- Sterility

## Obstacles to a mature risk culture – (2)

- The Great Dictator
- Starving child
- Modelomania
- Night blindness

# Conclusions

*To optimise return vs risk from a risk culture perspective:*

1. Risk integral to every decision
2. Board sets tone
3. Invest in mature leadership
4. Diverse and team best
5. Catastrophe requires resilience – mature risk culture best for this
6. Best practice corporate governance
7. Transparency enhances brand
8. Have organisation “humming”

# Recommendations

*Apply the conclusions to (a)improve governance (b)add to resilience (c)achieve objectives via ACTIONS:*

1. Coaching board & senior mgt
2. External experts on culture change
3. Board diversification
4. Open team Board dynamics
5. "For real" scenario planning
6. Promote speaking out
7. Chair & Board in charge – not the CEO
8. Board do annual risk analysis of decision making processes & abilities (Susan Oliver suggestion via AICD)

# Opportunities for Actuaries

Incept Lab's surveys of professional groups (June 2010):

Figure 1: Operational managers' enacted theory

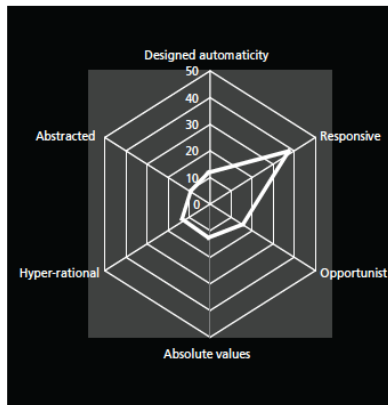


Figure 2: Emergency managers' enacted theory

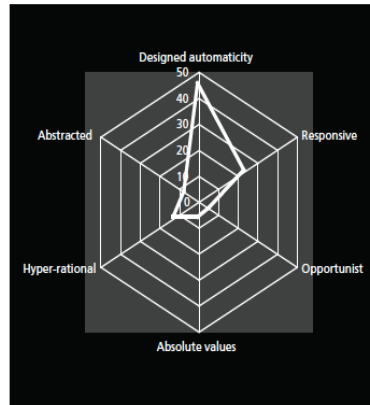


Figure 3: Auditors' enacted theory

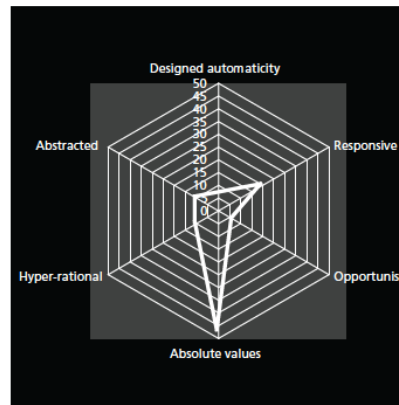
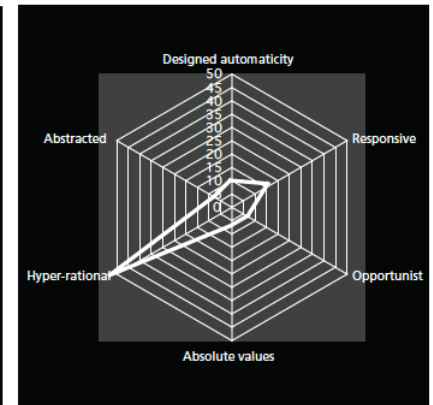


Figure 4: Actuaries' enacted theory





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# Incept Labs findings - actuaries

Actuaries more likely to:

- Be risk averse
- Deal with uncertainty - seek more data - analyse historical data
- Not take an experiential approach



# Strengths of actuaries in ERM – directors' views

- Interpreter of issues relating to the future
- Relevant questions and assumptions about the future
- Can stand back from the models
- Broad commercial understanding, and deep understanding of their businesses
- Risk is in the actuarial blood stream
- Appreciation of what can go wrong

# Development opportunities for actuaries in ERM – directors views

- Being clear about how to navigate through the uncertainties
- Speaking our minds
- More emphasis on the human aspects of risk

# Actuarial / professional stages of development

- Stage 1- Specific, narrow context – principles and practices
- Stage 2 - Industry, holistic view- understanding and appreciation
- Stage 3 – Environment, holistic with business acumen, non-actuarial perspectives

*Full actuarial / professional maturity → Trust → Leadership → Board leadership  
- Combining a deep analytical mind with applied wider world experience -*



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# Questions & Discussion





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## Contact details



Sean McGing

0411 229 641

[sean.mcging@mcging.com.au](mailto:sean.mcging@mcging.com.au)



Andrew Brown

0401 874 579

[andrew@leadfirst.com.au](mailto:andrew@leadfirst.com.au)