The way to risk culture
Risk culture

What is risk culture
Risk culture

You can have an inspiring vision and brilliant strategy to get there. But that will never be realized if you have a culture that doesn’t support that.

“Culture eats strategy for breakfast”
Peter Drucker
Risk culture

What is risk culture

• Risk culture is a system of values and behaviors present throughout an organization that shape day-to-day risk decisions.

• Even the best designed controls are subject to the failings of people’s experience, attitude, mindset and values.

Traditional risk management approaches only focus on formal risk mechanisms and governance i.e. the “hardware”

Governance
Frameworks
Infrastructure
Policies / Controls
Systems

The majority of significant risk failings have been the result of the broader organizational climate and controls context i.e. the “software”

Instincts
Behaviours
Unconscious Bias
Diversity of Thought
Cultural Symbols

30%
70%
Risk culture
The way to assess
Assessing Risk culture
What peer organizations are doing

- Defined risk culture attributes for each stage of ERM maturity
- Embedded elements of risk culture assessment into periodic employee surveys
- Periodic formal risk culture assessment and monitor trending. Executive sponsors are assigned to those areas where scores are low
- Risk management policies are being reviewed and enhanced to reinforce the risk culture and support a common understanding of how the organization manages risk

Risk culture

1. Defining Risk
- What are the risks that could significantly affect our ability to meet the strategic goals and objectives?

2. Risk Appetite
- How do we determine the type and level of risk we are prepared to take and manage?

3. Risk Governance
- How do we govern risk management?

4. Risk Management Processes
- How do we manage the risks we take?
Assessing Risk culture
Benefits of a risk culture assessment

- Provides powerful insights into day-to-day risk management behaviors
- Demonstrates whether risk management policies and procedures are appropriately embedded throughout the organization
- Highlights parts of the organization where the risk culture is misaligned
- Demonstrates to external and internal stakeholders that the risk culture is well understood and is being proactively managed
- Identifies cultural barriers to effective risk management, enabling targeted interventions to address them
- Helps raise awareness of the importance of risk culture throughout the organization
Assessing Risk culture
The four organizational influencers and sixteen key indicators of risk culture

The collective risk management competence of the organization

- We assess and learn from risk events and mistakes when they occur
- The right people are involved in making risk decisions in our organization

The reasons why people manage risk the way that they do

- The pressure on me to meet performance targets is balanced with the need to comply with risk management policies
- Individuals in our organization seek to resolve problems even when they are outside their area of responsibility

How the environment is structured and what is valued?

- When it comes to risk management, our organization practices what it preaches
- When issues are identified, reviews are performed to correct root cause
- People know how to escalate risks

How people interact with others?

- People are expected to do what they are told, no matter what
- Risk management concerns are discussed openly and honestly
- Members of senior management role model the right risk behaviours
## Illustrative risk culture questions

<table>
<thead>
<tr>
<th>Questions</th>
<th>Answer Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>In this organization performance appraisals include adherence to risk management policies, processes and procedures</td>
<td></td>
</tr>
<tr>
<td>My risk management capabilities are assessed regularly</td>
<td></td>
</tr>
<tr>
<td>I know who to contact for support or advice or both, when I have risk-related questions</td>
<td></td>
</tr>
<tr>
<td>I take personal responsibility for the sustainability of this organization</td>
<td></td>
</tr>
<tr>
<td>Avoiding unnecessary risks is important to people in this organization</td>
<td></td>
</tr>
<tr>
<td>Our leaders and managers communicate consistent risk-related messages</td>
<td></td>
</tr>
<tr>
<td>My colleagues and I admit when making mistakes</td>
<td></td>
</tr>
<tr>
<td>Our risk management professionals have appropriate levels of influence</td>
<td></td>
</tr>
</tbody>
</table>
Granularity and indicative output

**Granularity**

Dimensions: Assessment can be calibrated and tailored in different aspects such as:

- Size of the sample population;
- Career bands and “lines of defense”;
- Length of time individuals in the population have been with the organization and in a risk related role ("heritage" views);
- Geographical and functional areas.

Aggregation: This calibrating an tailoring will dictate how well findings from individual risk culture assessments can be aggregated to give an overall assessment of risk culture.

Assessment categories: findings often fall into one of the three categories:

- Isolated;
- Thematic;
- Or systemic.

**Illustrative outputs – tangible measures for risk culture**

Cumulative results

Results by indicator

Completion rate analysis results

Results by dimension
What can be changed...
Examples of data analytics

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Illustrative Metric</th>
<th>Q1 2014</th>
<th>Q1 2015</th>
<th>Trend since last review</th>
<th>Target</th>
<th>Position off target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance feedback</td>
<td>% of feedback forms that satisfy feedback criteria; specifically frequent, appropriate, constructive, aligned to the individuals objectives and company values and containing specific examples</td>
<td>20%</td>
<td>95%</td>
<td>↑</td>
<td>100%</td>
<td>-5%</td>
</tr>
<tr>
<td>Variable pay awards</td>
<td>% employees rated “low” for their performance who received a bonus</td>
<td>75%</td>
<td>30%</td>
<td>↑</td>
<td>0%</td>
<td>30%</td>
</tr>
<tr>
<td>Disciplinary actions</td>
<td>Number of whistleblow cases (incl. non compliance with policies, processes and procedures and for taking unacceptable risks , even if the actions generate positive results)</td>
<td>0</td>
<td>1</td>
<td>↓</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Risk appetite breaches</td>
<td>Number of risk appetite breaches for material risk categories such as market risk, credit risk, liquidity risk and operational risk</td>
<td>6</td>
<td>1</td>
<td>↑</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>KRI / KPIs</td>
<td>Number of KRI and KPIs rated “red” for longer than 3 months</td>
<td>23</td>
<td>13</td>
<td>↑</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>Non mandatory trainings</td>
<td>Number of employees who attended non mandatory trainings</td>
<td>10</td>
<td>55</td>
<td>↑</td>
<td>200</td>
<td>-145</td>
</tr>
<tr>
<td>Financial crime</td>
<td>Number of KYC breaches and Money laundering incidents caused by internal control failures identified in a month</td>
<td>6</td>
<td>3</td>
<td>↑</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Operational risk events / incidents</td>
<td>Number of operational risk events / incidents and near misses reported after 5 working days of occurrence</td>
<td>130</td>
<td>12</td>
<td>↑</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Customer complaints</td>
<td>% complaints resolved first time (by the receipt of the complaint)</td>
<td>25%</td>
<td>95%</td>
<td>↑</td>
<td>75%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Risk culture
The way to improve
Implementation of effective operational risk culture

Practical steps to success

Tone from the ‘top’

- Clear, strong, repeated messages particularly from CEO are extremely powerful
- Get operational risk management mentioned in organization business plan, annual report etc.

All staff involvement

- “Everyone is a risk manager”
- Explain, how risk management helps
- Involves people at target settings, planning
- OR - part of day-to-day activities: Document risk management roles and responsibilities
- Include risk management in personal objectives
- Develop risk-based motivation system

Education and trainings

- Trainings should be tailored, on-going, not just one-off
- Develop reference sources and support desk
- Develop operational risk management pages on the local intranet
- Nominate “risk champions”, “risk experts” etc

Internal communication

- Meetings, seminars, workshops
- Include operational risk into Board agenda
- Agree and push reporting timelines
- Clear escalation procedure for risk issues
- Terminology and common operational risk language,
- Regular information letters to all staff, internal marketing materials etc.
## Implementation of effective operational risk culture

**Examples of our insights and recommendations**

<table>
<thead>
<tr>
<th>Example findings</th>
<th>Example Recommendations</th>
</tr>
</thead>
</table>
| Financial reward mechanisms are still seen by many as doing little or nothing to promote effective risk management throughout the organization. | Risk Function should collaborate with HR to review and enhance the following procedures and systems and educate staff to raise individuals’ awareness and increase transparency and ‘buy in’ across all dimensions:  
  • procedures in place for non-compliance with policies and standards; and  
  • incentives and reward systems so that the desired risk management behaviors are encouraged, recognized and rewarded (including financial and non-financial reward); and undesired risk management behaviors such as policy breaches, unacceptable risk taking or reactive escalation of risks are deterred and corrected accordingly. |
| Most employees do not readily admit to making risk related mistakes and are not keen to escalate them or even fix them. | Risk Function should reemphasize to staff across business areas, geographical locations and grades, as appropriate, the importance of risk escalation and provide a clear and simple guidance accessible to all on how to escalate risks applicable to them. |
| Junior grades do not have access to necessary information required for effective risk management in their day-to-day job | Risk Function should equip managers across the business with the tools necessary to effectively cascade risk management information to their teams; such as targeted risk MI and feedback on relevant risk related issues / actions from the Committees and the Board, budget for risk related ‘lunch and learning’ sessions or road shows or ‘town hall’ meetings. |
| Many perceive that risk function does not have appropriate levels of influence or are unaware of what the role of the Risk Function is and what benefits it brings to the business. | Risk Function should educate employees across the business on the Risk Function’s:  
  • philosophy, strategy and objectives; and  
  • value-add proposition relevant to the target audience including real life examples of success to increase a ‘buy in’ from the business;  
Risk Function should increase ‘face time’ with the business to promote their profile. |
What can be changed…
Characteristics and benefits of a strong risk culture

**Characteristics**

<table>
<thead>
<tr>
<th>C</th>
<th>Commonality of purpose, values and ethics</th>
</tr>
</thead>
<tbody>
<tr>
<td>U</td>
<td>Universal adoption and application</td>
</tr>
<tr>
<td>L</td>
<td>Learning organisation</td>
</tr>
<tr>
<td>T</td>
<td>Timely, transparent and honest communications</td>
</tr>
<tr>
<td>U</td>
<td>Understanding the value of effective risk management</td>
</tr>
<tr>
<td>R</td>
<td>Responsibility – individual and collective</td>
</tr>
<tr>
<td>E</td>
<td>Expectation of challenge</td>
</tr>
</tbody>
</table>

**Benefits**

- More effective management of risk
- Improved risk based decision making throughout the organisation
- Increased confidence of external stakeholders, including investors, analysts, rating agencies, the government and regulators
- Enhanced credit ratings
- Compliance with regulatory requirements
Appendix

Recent publications and surveys
Selected publications

Risk culture is really important theme for Deloitte. You can find a lot of our recent publications and surveys in open sources and benchmarks for our clients.
About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 225,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2016 ZAO Deloitte & Touche CIS. All rights reserved.