ERM Forum

Assessing and managing risk culture – what can you do as a Risk Manager?
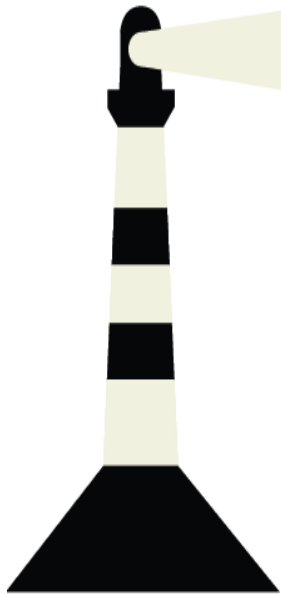
10th November
2016

airmic
ERM
enterprise risk management
FORUM

Alasdair Wood, Willis Towers Watson

Oliver Davidson, Willis Towers Watson

Fiona Davidge, Enterprise Risk Manager, Wellcome Trust

The mistakes made by BP, Halliburton and Transocean "reveal such systematic failures in risk management that they place in doubt the… culture of the entire industry".

Wells' Risk Management Tools Should Have Caught This Sooner

"What's interesting about Wells Fargo is that they have historically managed risk well. But unlike credit or market risk, which both can be measured and monitored fairly well, the bank clearly was <u>unable</u> to identify the degree to which employee business practices were creating extensive operational, reputational and regulatory risk for the firm."

*Clifford Rossi, September 2016*

What is risk culture?

On the surface
Policies
Strategy documents
HR and pay structures
Values statements
Governance procedures

Hidden beneath the surface
Attitudes and beliefs
Assumptions
Understanding
Habits
Trust
Confidence
Openness to challenge
Fears
Motivations
Relationships
Personal values

WillisTowers Watson

Risk culture underpins an effective enterprise risk management framework

- Alignment of risk with business strategy

- Engagement of the board on ERM

- Improved risk outcomes (fewer incidents)

- Improved financial outcomes - lower total cost of risk (lower premiums, claims frequency / severity, lower retentions, fewer uninsurable losses)

- Building a business case for risk management investment

- Better outcomes from talent selection / development

- Financial reporting compliance

- Regulatory compliance (e.g. SMR, SIMR, FRC Corporate Governance Code, Financial Stability Board)
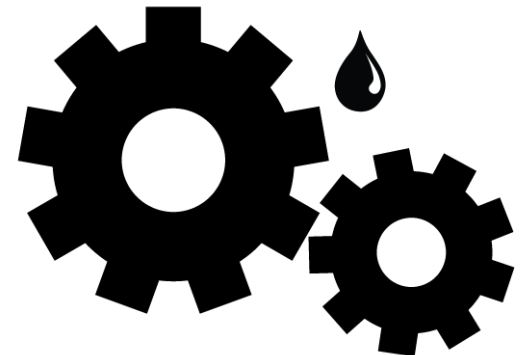
There is increasing pressure from regulators to measure and assess risk culture

The boards of UK listed companies are required to take responsibility for risk culture – FRC Corporate Governance Code

Financial Stability Board (FSB) - guidance for regulators on assessing risk culture

The Chartered Institute of Internal Auditors - identified risk culture as a key priority for audits

Senior Managers Regime and Senior Insurance Managers Regime (SMR and SIMR) - prescribe specific responsibility for culture

What characteristics would you see in a positive risk culture?

- **Consistent tone from the top**

- **Commitment to ethical principles**

- **Clear accountability and ownership of specific risks and risk areas**

- **Risk information flowing up and down without fear of blame**

- **Encouragement of reporting and actively learning from mistakes**

- **No process/activity too large, complex or obscure for the risks to be adequately understood**

- **Risk skills and knowledge valued and developed**

- **Diversity of perspective, values and beliefs. The status quo challenged**

- **People supportive socially but also strongly focused on the task in hand**

From AIRMIC Roads to Ruin Study 2011

Understanding current risk culture can help shape interventions and drive board sponsorship
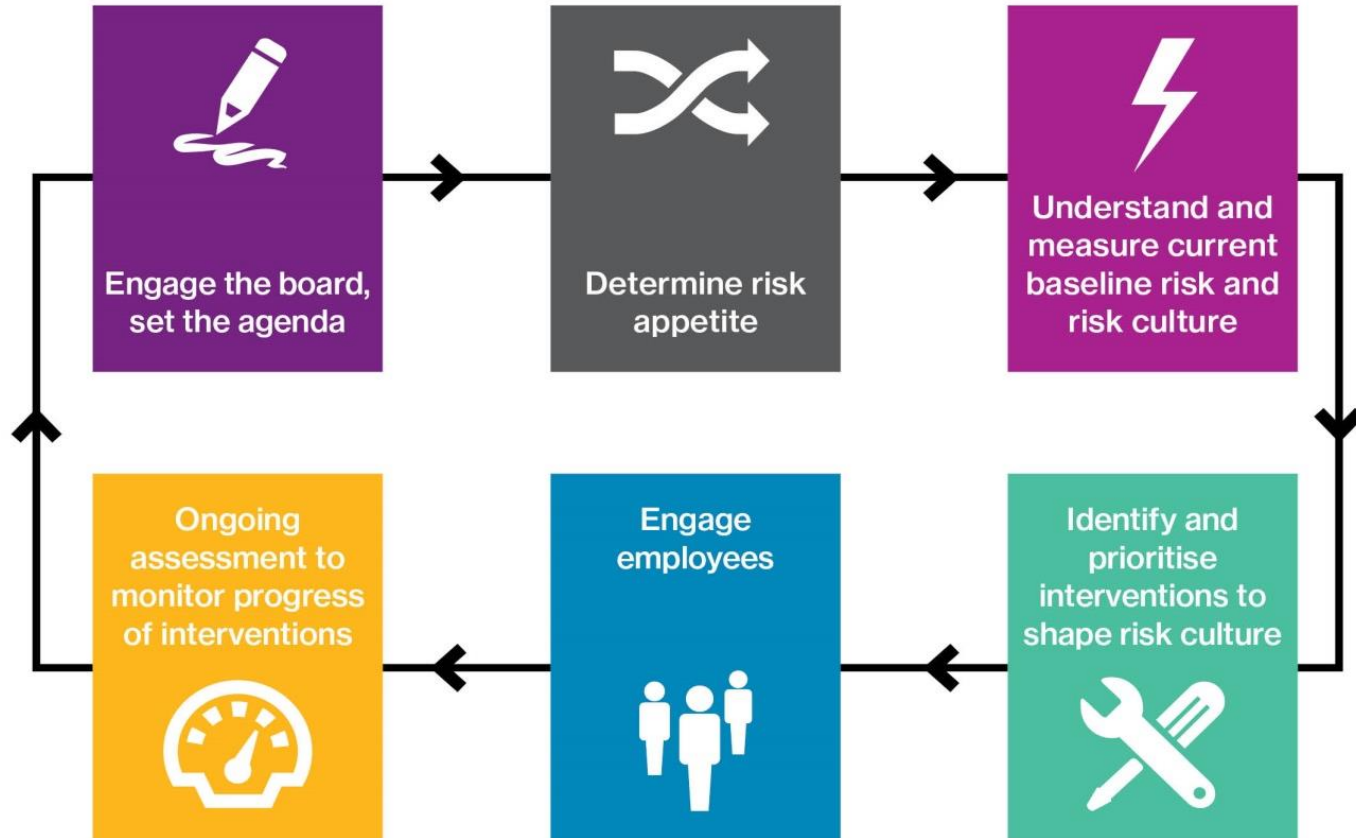
Common reasons companies do not address risk culture

"Risk culture is often considered too amorphous to manage"

"There is no 'one size fits all' definition of risk"

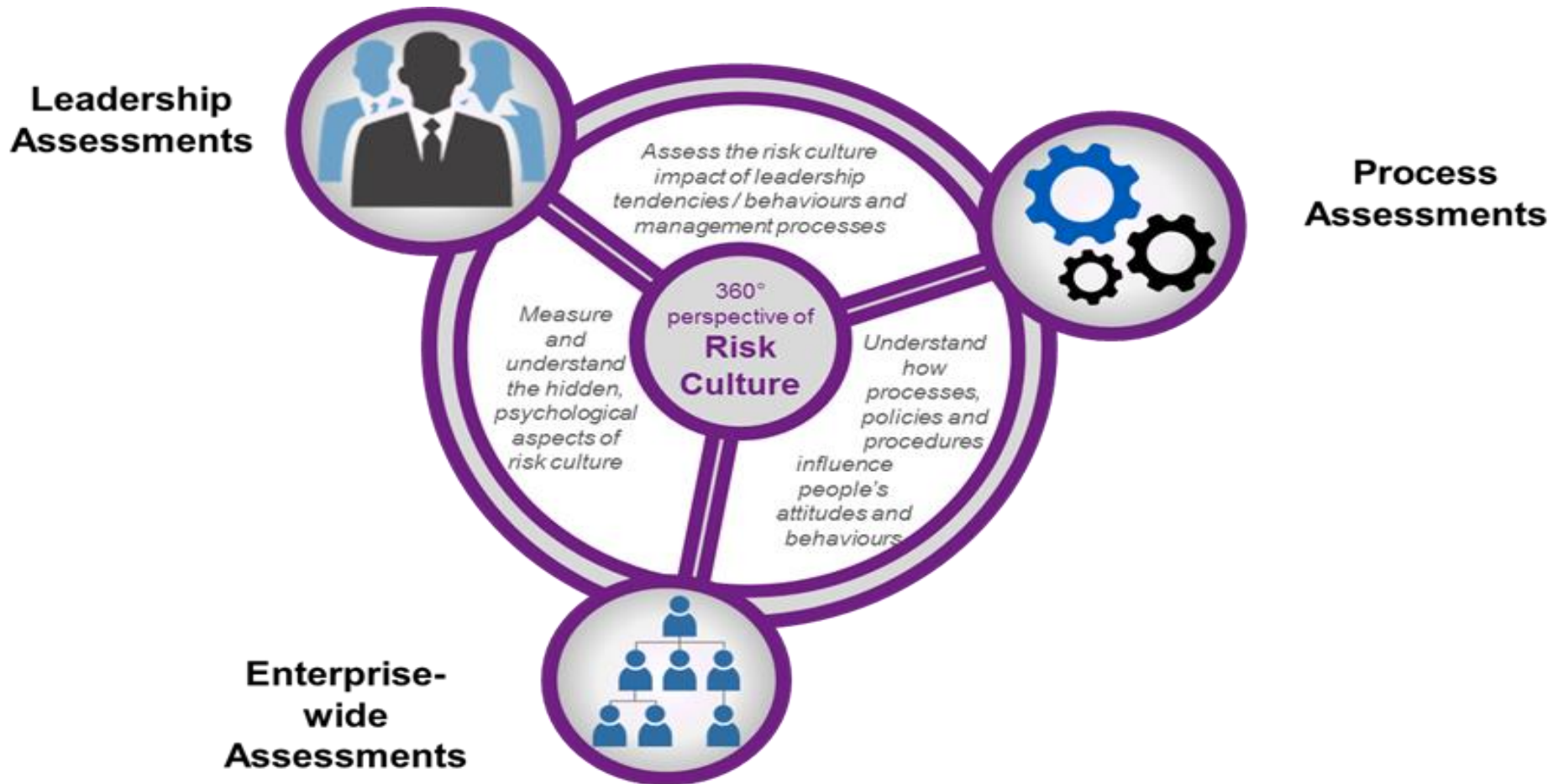"Risk appetites and cultures vary across different parts of an organisation"

"Culture is intangible and cannot be measured"

" This is HR's problem"

"Risk culture regulation is a tick box exercise"

Common perception

In fact risk culture can be measured and managed

Risk culture interventions fall into four areas

HR

- **Talent acquisition / sourcing**
- **Leadership and capability development**
- **Performance management systems**
- **Succession planning**
- **Rewards and incentives**

GOVERNANCE

- **Organisational structure**
- **Individual responsibilities and supervision**
- **Decision-making and authority**
- **Staffing and workload**
- **Contractor / temp control**

COMPLIANCE & CONTROLS

- **Regulatory reporting – varies by sector**
- **FRC / corporate governance code reporting**
- **Controls process improvement – policies and management (risk maturity framework)**
- **Benchmarking the business**

TARGETED PROCESSES

- **Safety - behavioural safety programme**
- **Claims data – correlation with employee survey and other HR data, to reduce incident frequency / severity**
- **Procedures and systems maintenance programmes**
- **Employee communications**

Case study: Construction Industry

Team culture significantly impacts on injury rates

My manager is fair & consistent

My manager supports me day to day

Freedom to experiment with new ideas

Better *Interpersonal Management Style* is associated with lower injuries

Have people with skills who know how to do the job

Better *Training* is associated with lower injuries still

My work is challenging & varied

Focus on performance & deliver results

Better *Work Organisation* is associated with **much** lower injuries

My work is meaningful

Team survey results

■ highest ■ lowest

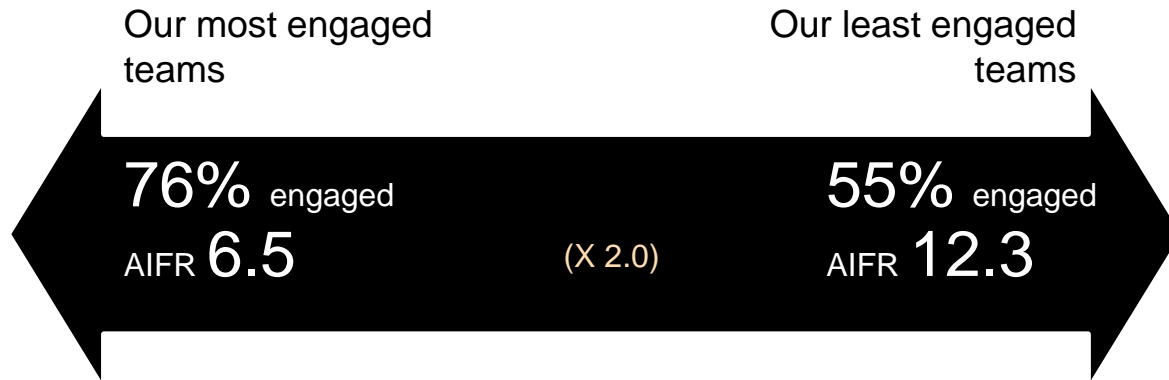0   2   4   6   8   10   12   14

Number of injuries per team

Strong statistically significant relationships were observed between these survey measures and injury frequency rates across 67 teams.

Case study: Construction Industry

When employees are more engaged, the unit tends to experience fewer injuries

Strong connections between engagement and safety

Our most engaged teams

Our least engaged teams

INJURY

76% engaged

AIFR 6.5

(X 2.0)

55% engaged

AIFR 12.3

To be engaged, an employee must respond positively to all four items

| I feel motivated to perform well in my job | I am proud to work for my branch/ department | I would recommend people to come and work here | I would recommend my business's products & services to people outside of work |

A risk manager perspective

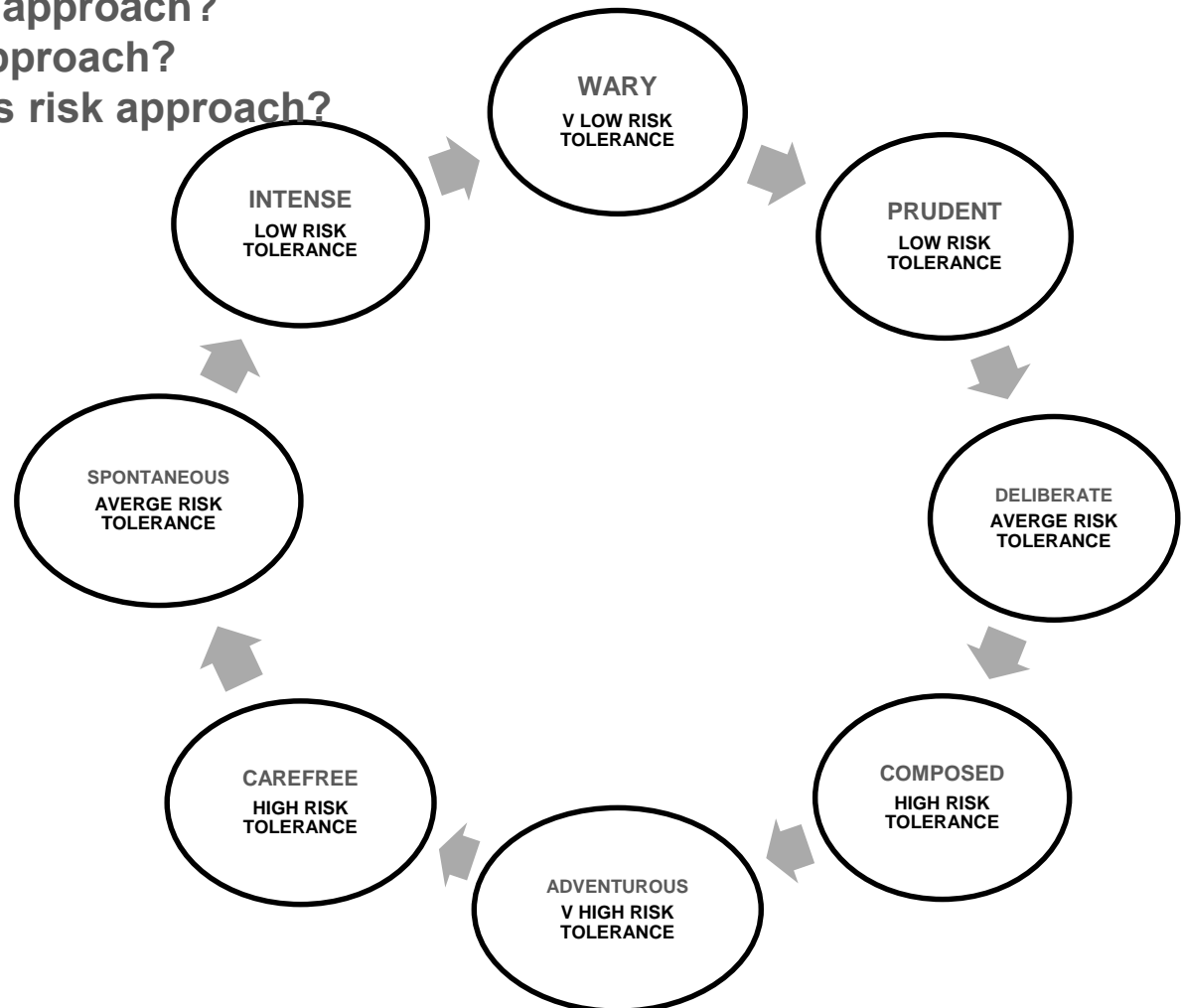*Over 85% of organisations believe that culture is fundamental or very important to overall strategy and performance.* **FT survey of FTSE 350 Board members, 2016**

But note – any risk culture is merely one facet of your organisation's business culture

The question is whether that culture is effectively supporting or undermining your long-term success

Differing parts of the organisation will have a differing culture – for perfectly valid reasons

What is your personal risk approach?
What is your team's risk approach?
What is your organisation's risk approach?
Does it stay the same?
What changes it?

WARY
V LOW RISK TOLERANCE

PRUDENT
LOW RISK TOLERANCE

INTENSE
LOW RISK TOLERANCE

DELIBERATE
AVERGE RISK TOLERANCE

SPONTANEOUS
AVERGE RISK TOLERANCE

COMPOSED
HIGH RISK TOLERANCE

CAREFREE
HIGH RISK TOLERANCE

ADVENTUROUS
V HIGH RISK TOLERANCE

Risk manager's role in all of this

Designing and implementing a risk management framework that meets and supports the culture of the organisation

Supports and encourages people (staff and 3rd parties) to own and manage their risks based upon objectives and priorities

Enables risk and risk management to be <u>discussed</u> freely and openly in a mature manner

Assists in the understanding that risk is a necessary component of running the organisation successfully and that risk needs to be embraced and then managed to an appropriate degree

Concluding thoughts….

Everyone manages risk

It is an integral part of the day job

It should be proportionally carried out based upon the required business outcome and potential consequence(s)

The organisation needs risk management to be consistent and visible

Questions and Discussion

Questions for Discussion

**Can you measure aspects of risk culture?
If so, how have you gone about it?**

How have you engaged with the Board on the topic of Risk Culture?

Has anyone tried to introduce a risk culture programme?

If so, how did you go about it and what were the main challenges, benefits and learning points?

The topic of risk culture is inherently cross-functional. How have you worked across the business to improve risk culture, and what have been the main challenges of doing so?

What can we learn?

How have you managed risk culture through a change of ownership / leadership?

What is your experience of the role of Regulators in the context of risk culture? Positive? Negative? What role should regulators have in this area?

Do you have experience of a culture being too risk averse, and who have you sought to address that?