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Cultivating a Risk
Intelligent Culture
A fresh perspective

October 2012

Why culture?

In managing risk effectively it is important to understand what drives behaviours towards risk

As the Global Financial Crisis unfolded, it became evident that cultural misalignment played a large role in organisational failures. An organisation's culture determines how it manages risk when under stress. For some organisations, their risk culture is a liability, while for others it facilitates both stability and a competitive advantage.

Process follows culture

Organisations wishing to better manage risk should consider establishing a Risk Intelligent Culture

There is no 'one-size-fits-all' solution to risk management. How a business manages its risk should be aligned with and should support its strategy, business model, business practices, risk appetite and risk tolerance. This is especially true in the financial services industry, where significant risk-based decisions are being made by businesses every day.

Essentially, a Risk Intelligent Culture exists within an organisation when its employees' understanding, and their attitudes toward risk, lead them to consistently make appropriate risk-based decisions.

Consequently, risk culture drives the behaviours that influence day-to-day business practices, and is a significant indicator of whether the organisation embodies the characteristics of a Risk Intelligent Enterprise™.

"A robust and pervasive risk culture throughout the firm is essential. This risk culture should be embedded in the way the firm operates and should cover all areas and activities, with particular care not to limit risk management to specific business areas or to have it operate only as an audit or control function."



Understanding risk culture

Risk culture encompasses the general awareness, attitudes, and behaviours of employees towards risk and how risk is managed. Risk culture is a key indicator of how widely risk management policies and practices have been adopted

Having a Risk Intelligent Culture means that everyone understands the organisation's approach to risk, takes personal responsibility to manage risk in everything that they do, and encourages others to follow their example. Codes, management systems, and behavioural norms should be aligned to encourage people to make the right risk-related decisions, and exhibit appropriate risk management behaviours.

The first step is to understand the existing risk culture and measure how well it supports the organisation's risk strategy and risk management approach. Deloitte's Risk Culture Framework and corresponding Risk Culture Survey provide a structure and process to help clients in their efforts to achieve this measurement.

Key characteristics of a Risk Intelligent Culture

Commonality of purpose, values and ethics:	People's individual interests, values, and ethics are aligned with those of the organisation's risk strategy, appetite, tolerance, and approach.
Universal adoption and application:	Risk is considered in all activities, from strategic planning to day-to-day operations, in every part of the organisation.
A learning organisation:	The collective ability of the organisation to manage risk more effectively is continuously improving.
Timely, transparent and honest communications:	People are comfortable talking openly and honestly about risk using a common risk vocabulary that promotes shared understanding.
Understanding the value of effective risk management:	People understand, and enthusiastically articulate, the value that effective risk management brings to the organisation.
Responsibility – individual and collective:	People take personal responsibility for the management of risk and proactively seek to involve others when that is the better approach.
Expectation of challenge:	People are comfortable challenging others, including authority figures without fear of retribution. Those who are challenged respond positively.

Measuring risk culture

A focussed assessment is needed to fully understand an organisation's current risk culture and to track progress of cultural change

Deloitte's Risk Culture Framework

Deloitte has developed a broad approach to help clients assess and measure risk culture based on our Risk Culture Framework. The framework consists of sixteen Risk Culture Indicators aligned to the four Risk Culture Influencers.

A Risk Culture Survey allows us to measure an organisation's risk culture against each indicator and then analyse and gain a thorough understanding of the current maturity level of the risk culture. Once we have done so, we can then use the Risk Culture Framework to identify and recommend specific target areas in order to help strengthen the risk culture throughout the organisation.



Risk Culture Influences

Risk competence

The collective risk management competence of the organisation.

Motivation

The reasons why people manage risk the way that they do.

Relationships

How people in the organisation interact with others.

Organisation

How the organisational environment is structured and what is valued.

Strengthening risk culture

Strengthening an organisation's risk culture requires both a focussed effort and the direction of leadership

The initial focus should be on building cultural awareness, predominantly through communications and education. Cultural improvement will be likely to require meaningful changes to established ways of operating. Once the desired risk culture has been established, the organisation should continually refine it to reflect ongoing changes in business strategy.

It is important to recognise that this road map focuses on the cultural aspects of risk management. To achieve a strong, effective and intelligent risk culture, all the components of a formal risk management structure should be implemented and adopted by the organisation.

Risk culture influencers

Road map for continuous cultural improvement



Reporting risk culture

Risk culture metrics should be included in regular risk reporting to the board and management. These quantitative cultural metrics should also be linked to other traditional risk management metrics that comprise both leading and lagging organisational cultural indicators

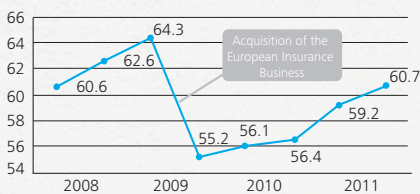
Sample Risk Culture Report

XYZ Corporation – Risk Management Metrics

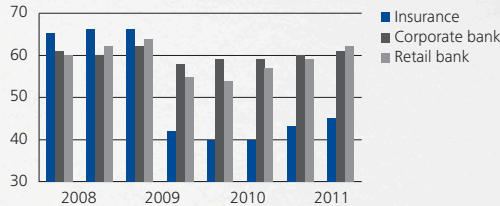
XYZ Corporation – Risk Culture Metrics

We are continuing to experience the gradual strengthening of our risk culture across the organisation as a whole. This follows the significant decline that we experienced in 2009 resulting from the insurance business acquisition in Europe that completed in late 2008. Related to this, we remain significantly below leadership's cultural expectations in our European Insurance business. We still have a number of leadership and management integration related challenges remaining (notably in France, Spain and Italy). Addressing these is one of our top priorities. In terms of cultural leading practices, Asia Pacific continues to serve as a model and we are in the process of codifying a selection of risk management practices from our Australian business and will pilot them in other geographies in late 2012.

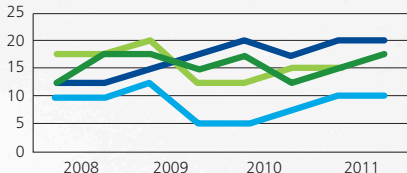
Organisational risk culture (0–100)[†]



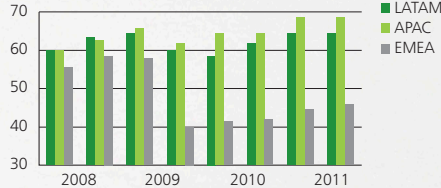
Divisions (0–100)[†]



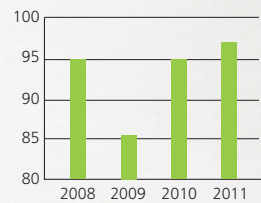
Cultural influencers (0–25)[†]



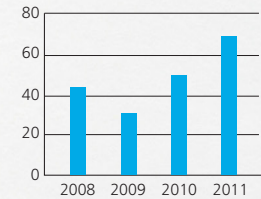
Regions (0–100)[†]



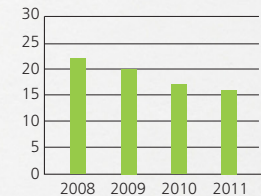
Compliance with mandatory training requirements (0–100)[‡]



Divisional managers with risk weighted performance metrics (0–100)[‡]



Limit breaches^{*}



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Strongest risk cultures

- Country 1 (79%)
- Country 2 (72%)
- Country 3 (71%)

Weakest risk cultures

- Country 4 (42%)
- Country 5 (41%)
- Country 6 (40%)

[†] Real-time cultural metric [‡] Leading cultural indicator ^{*} Lagging cultural indicator

Source: Deloitte Consulting LLP

Delivering risk culture solutions

We have helped many financial institutions across the globe to measure and strengthen their risk cultures, including in Australia, Canada, the U.S. and the U.K.

Embedding risk management ways of working

A global insurance company needed an ongoing way to measure how effectively its risk management framework was embedded in its employees' behaviours – primarily to show compliance with certain Solvency II and Pillar II requirements.

In collaboration with the client, Deloitte designed an objective assessment process with the supporting tools, surveys, and qualitative interview questions based upon Deloitte's Risk Culture Framework.

This framework and assessment identified several business units that had been more successful than others at embedding risk management into their employees' behaviours. As a result, Deloitte helped the client identify those effective practices that could be leveraged and replicated in other areas to improve the client's overall risk culture. By actively involving the client's risk team in conducting the initial assessment and analysis, Deloitte imparted the knowledge and skills the client needed to conduct this assessment in the future.

Enabling a risk transformation program

A financial services organisation was in the midst of a risk transformation program addressing its risk management governance, compliance processes, and controls. During this program, leadership identified the need for the organisation to improve its employees' risk management attitudes and behaviours. Deloitte helped the client to determine the organisation's risk culture score and engaged key leadership, including the Chief Risk Officer, in developing an action plan to improve areas of concern (notably, incentives and rewards, communications, and risk awareness and competence). By assessing its risk culture every six months, the organisation now maintains a current and objective measurement of its risk culture, and it can insightfully gauge the effectiveness of its cultural improvement efforts.

Improving risk management compliance

A review of this financial services organisation's compliance with regulations uncovered that it needed to improve how its employees understood, respected, and followed its risk management policies and procedures. Through an overall risk culture assessment, Deloitte provided leadership with an objective measure of its risk culture in its Credit Risk and Market Risk units. With this information, Deloitte helped the client in its efforts to develop specific action plans for Credit Risk to improve its communications and training efforts, and to review its governance model against its trading volume. Within its Market Risk division, recommendations focused on employing technology to better and more quickly share risk information at both the granular and aggregate levels.

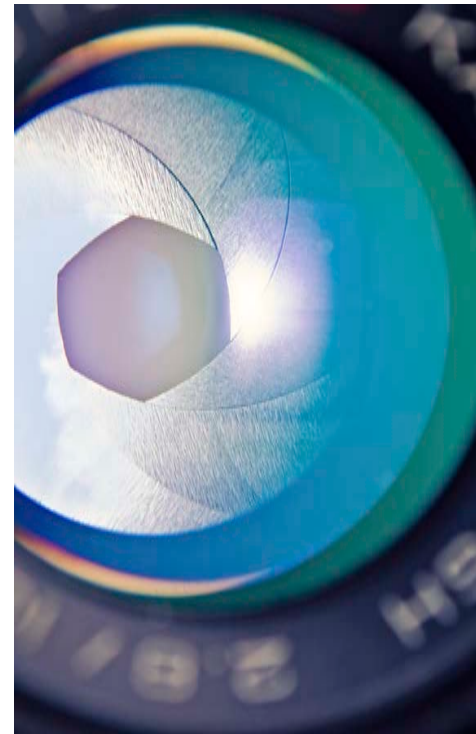


Assessing the impact of enhancements to risk management capabilities

A financial institution had recently increased its risk management capabilities by introducing new risk management leadership roles and processes. The board's risk committee wanted to understand if these initiatives were having the desired beneficial impact on the business' risk culture. Through an overall assessment of the risk culture, which included interviews with the executive team and a company-wide Risk Culture Survey, Deloitte helped the client in its efforts to develop an internal benchmark to be used to assess current and future changes to risk culture. Also, with the use of data analytic techniques, Deloitte was able to identify particular opportunities to enhance overall success by identifying specific ways that the business could better manage its risks.

Developing a risk culture assessment capability

The Board Audit Committee of a bank required a definitive statement on its risk culture in order to take specific action to strengthen identified weaknesses. Deloitte helped the internal audit department develop a repeatable approach to measuring its risk culture to include in its regular audit process. Leveraging the Risk Culture Framework allowed Deloitte to help create a broad, objective, and intuitive two-tier assessment methodology for the internal audit department to first identify areas of possible risk culture weakness within business units, and then to conduct a more in-depth analysis of these areas of concern. The assessment process used employee surveys, behavioural enquiry, deep structured interviews and data analytics to provide tangible evidence to support its statement on risk culture. After success of the initial pilot, the internal audit department expanded the risk culture audit process to be included in programmed and ad hoc audits across the entire organisation globally.

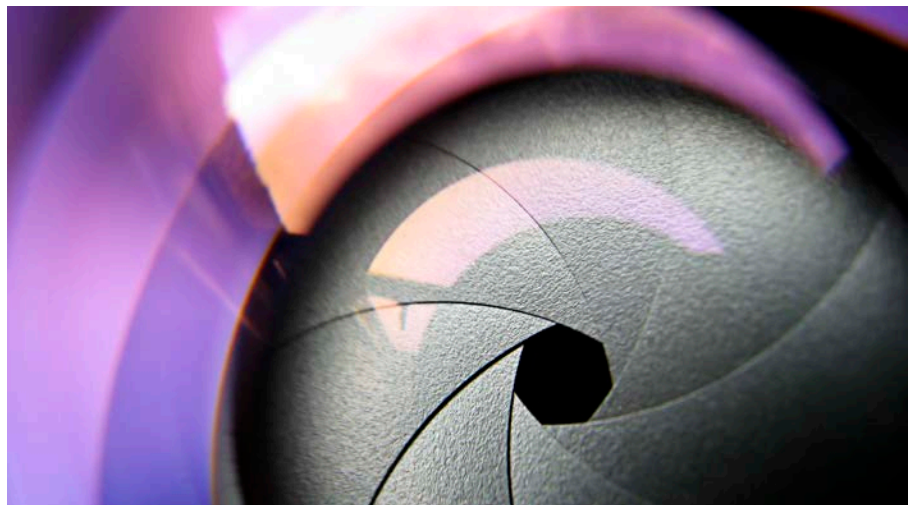


The Risk Intelligent Enterprise™

A strong risk culture is a pervasive theme of the nine fundamental principles of a Risk Intelligent Enterprise²

In a Risk Intelligent Enterprise:

1. A common definition of risk, which addresses both value preservation and value creation, is used consistently throughout the organisation
2. A common risk framework supported by appropriate standards is used throughout the organisation to manage risks
3. Key roles, responsibilities, and authority relating to risk management are clearly defined and delineated within the organisation
4. A common risk management infrastructure is used to support the business units and functions in the performance of their risk responsibilities
5. Governing bodies (e.g. boards, audit committees, etc.) have appropriate transparency and visibility into the organisation's risk management practices to discharge their responsibilities
6. Executive management is charged with primary responsibility for designing, implementing, and maintaining an effective risk program
7. Business units (departments, agencies, etc.) are responsible for the performance of their business and the management of risks they take within the risk framework established by executive management
8. Certain functions (e.g. Finance, Legal, Tax, IT, HR, etc.) have a pervasive impact on the business and provide support to the business units as it relates to the organisation's risk program
9. Certain functions (e.g., internal audit, risk management, compliance, etc.) provide objective assurance, as well as monitoring and reporting on the effectiveness of an organisation's risk program to governing bodies and executive management.



² "Putting risk in the comfort zone: Nine principles for building the Risk Intelligent Enterprise™," Deloitte Development LLP. Available online at http://www.deloitte.com/view/en_US/us/article/6b929c9096ffd110VgnVCM100000ba42f00aRCRD.htm

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