



**Actuaries  
Institute**

# Analysing and Measuring Risk Culture and Conduct Risk

Insights

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# Key questions for today's discussion

1. What is risk culture and why is it so important to the leadership and performance of organisations?
2. What are some of the different approaches taken by financial institutions to measuring risk culture?
3. Where does risk conduct fit into the risk culture analysis and can we predict misconduct?
4. What do you do with results of the analysis?

# 1. WHAT IS RISK CULTURE AND WHY IS IT SO IMPORTANT TO THE LEADERSHIP AND PERFORMANCE OF ORGANISATIONS?

# Organisational Culture is....???



# Organisational culture is ?

‘The way things are done around here’  
....when no one is looking !

Culture is a unique emergent property of the an  
organising system of human activity.

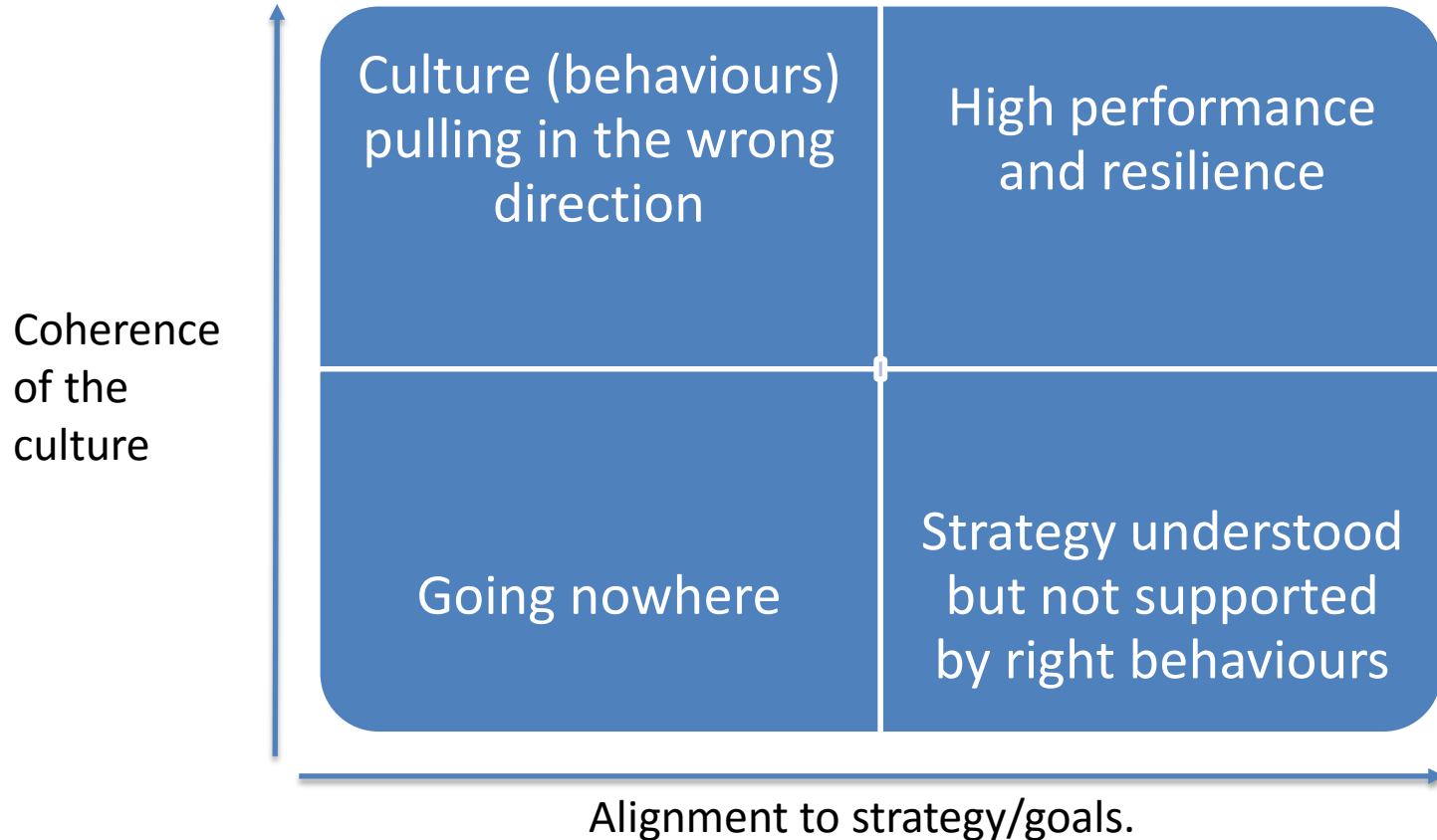
‘A pattern of shared basic assumptions invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that have worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.’ Edgar Schein

# Why are we interested in culture

- Proposition that successful companies have **strong coherent** cultures\*
- Bristol/Bath - conducted culture research over 8 years, with 250 leading engineering companies, looking at trending using models based on Harrison/Handy
- Bath University/CIPD report, *'Unlocking the black box'*, - reaffirms that the link between strategy and performance is culture.
- *STRATrisk - Dti funded report 'Culture is one of the key steps in managing strategic risk'*

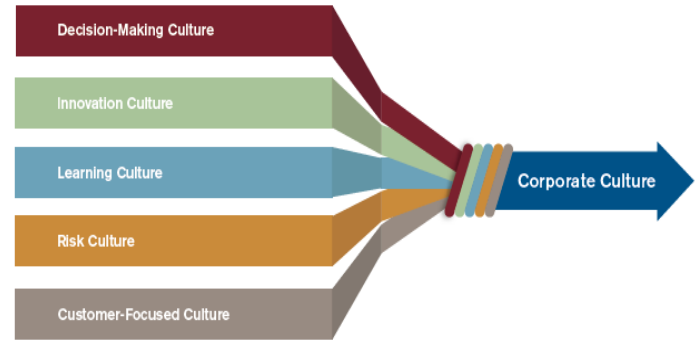
\*Harrison (1972), Handy(1976) and Peters & Waterman (1982)

# Strong link to performance





# Risk culture is?



‘The way risk management is done around here’ ....when no one is looking !

Risk Culture is a unique emergent of an organising system around the risk management activity.

Its dynamics are not revealed by adding up the collective traits of individual members.

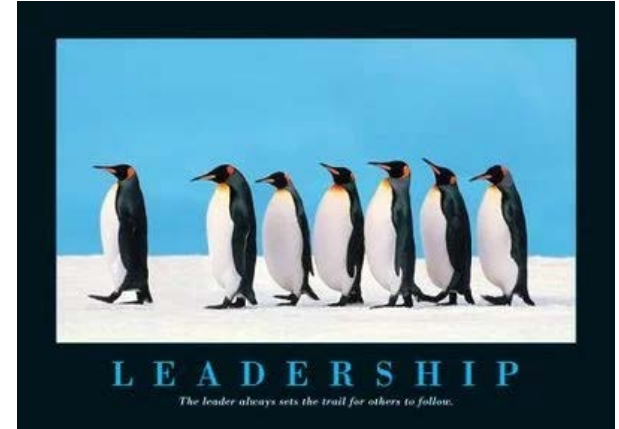
# When faced with an (unfamiliar) ethics, compliance, or risk-related decision, people consider: (and in this order)

1. How their leader or frontline supervisor behaves and/or how they might respond to the same issue;
  - Particularly behaviour in a crisis, then what leaders pay attention to, remuneration, hiring/firing processes, mentoring, artefacts and policy.

# Leader influence



Milgram's  
Obedience to  
Authority



Convention



Culture is strongly  
influenced by  
leaders at the apex  
of the  
organisation...



...but culture is experienced  
locally after it has been  
'filtered' by line leadership

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  - Particularly behaviour in a crisis, then what leaders pay attention to, remuneration, hiring/firing processes, mentoring, artefacts and policy.
2. How their peers are acting;
  - This brings into focus middle management's capacity to consistently propagate behaviours of their leaders.

# Co-workers behaviour



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  - Particularly behaviour in a crisis, then what leaders pay attention to, remuneration, hiring/firing processes, mentoring, artefacts and policy.
2. How their peers are acting;
  - This brings into focus middle management's capacity to consistently propagate behaviours of their leaders.
3. Their own moral compass modified by
  - Self image, motivations, personal liability, previous experience



# Doing what feels right





# What it looks like when there is an inappropriate culture...



## 2. WHAT ARE SOME OF THE DIFFERENT APPROACHES TAKEN BY FINANCIAL INSTITUTIONS TO MEASURING RISK CULTURE?



Magritte

# What do we want to achieve?

- Regulatory compliance
  - Evidence the existence and form of a risk culture – risk culture profile
  - Determine present risk culture 'location' (maturity) – risk culture map
- Organisational resilience
  - Examine in detail – analysis of risk culture
  - Comparison to measure progress – risk culture growth
- Stakeholder assurance
  - Comparison to 'best fit' – risk culture benchmark
  - Clear and consistent feedback – risk culture reporting



# How can you 'capture a view' of an organisation's risk culture?

- Organisational Cultural Models with surveys and traits
- Anthropological & Political model of society and groups
- Personality and psychometrics
- In-depth interviews, observations and grounded theory
- Risk and culture constructs based on research findings of hundreds of studies combined to form common dimensions
- Holistic systems perspective based on 'observed behaviours' combined with network science insights

# Holistic & Dynamic Best Practice Framework



# Uses seminal work of culture constructs/dimensions

- At the National Level
  - Established dimensions of national culture value difference
- At the Organizational Level
  - Established dimensions of distinguishable cultural practices
- At individual level
  - Combining how personality and the culture shape the people's behaviour in social groups.

A dimension is an organisational construct; it is a tension found common in most organisations.

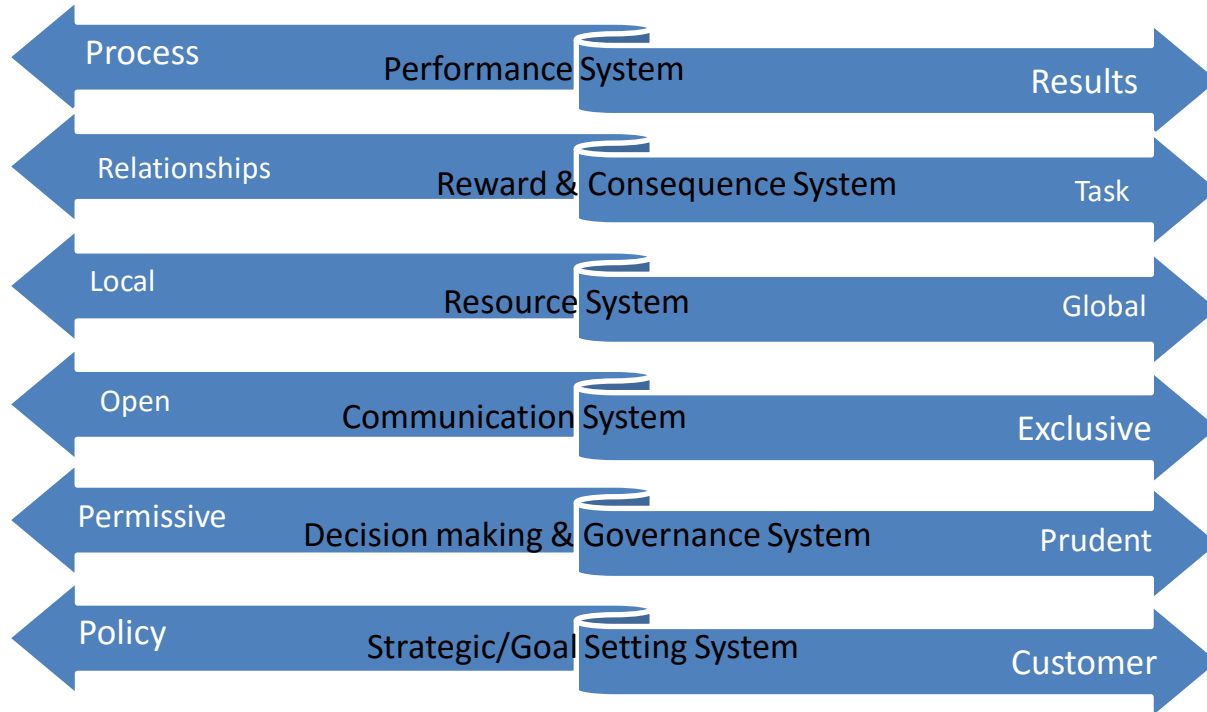
Whilst it might be desirable to have an organisation high on both ends of a dimension, in practice we find organisations lean one way or another, particularly under stress.

It is also possible to sit in the middle but this would be a very unrecognisable culture and tends to indicate low performance



For more on constructs please see Kelly, G. (1955) Personal construct theory.  
Yes it has been around a while !

# The six most common sub-system dimensions of culture behaviours





Understanding how the organisation behaves

...there is a well-established process which is used regularly to identify risks.  34%  70%

A bit more like this...



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59 %

Fairly like this...

...It is mostly long serving staff that are consulted when identifying risks faced.

A bit more like this

a carefully planned approach is taken to

In the part of the organization in which I work...

34 %

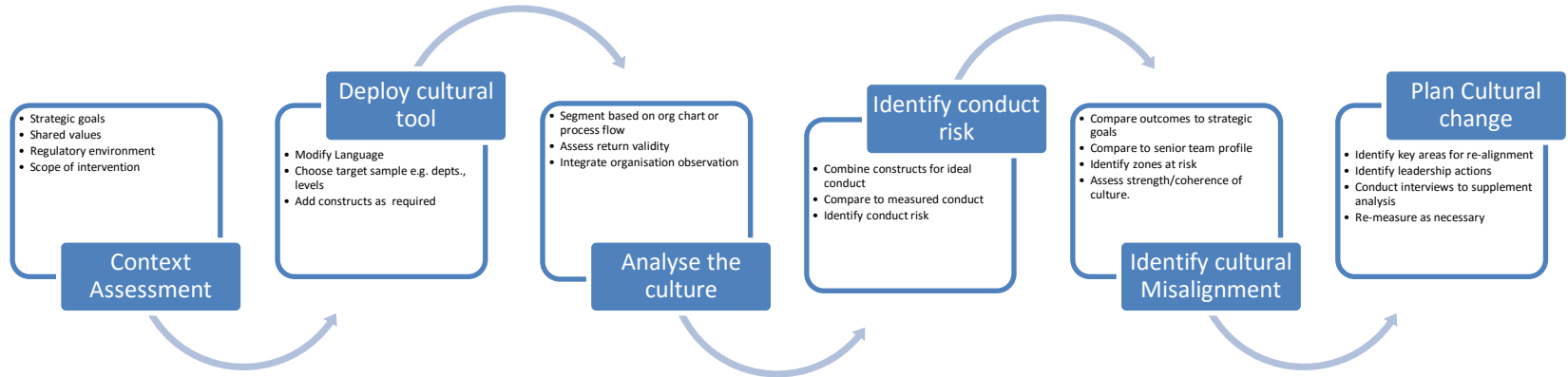
...the time that is spent identifying risks is governed by the nature of our work and the timescales for completing it.

- Choose between plausible scenarios to elicit observation about risk behaviour
- Non-judgemental...diagnostic



# Case Studies

1. International Insurance Company – diverse staff base, long history, \$800m+ profit
2. UK Insurance Company – static staff base, recent acquisition and restructuring

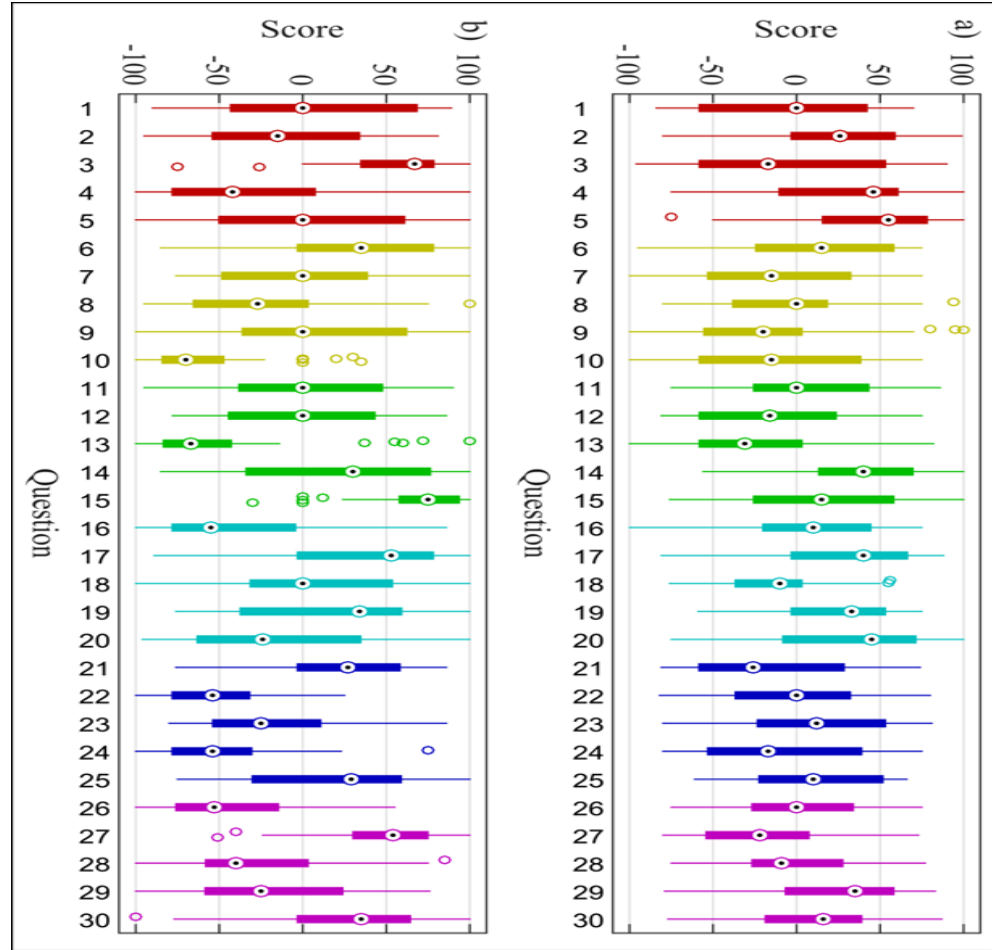


Overview dash board  
of the whole  
organisation.

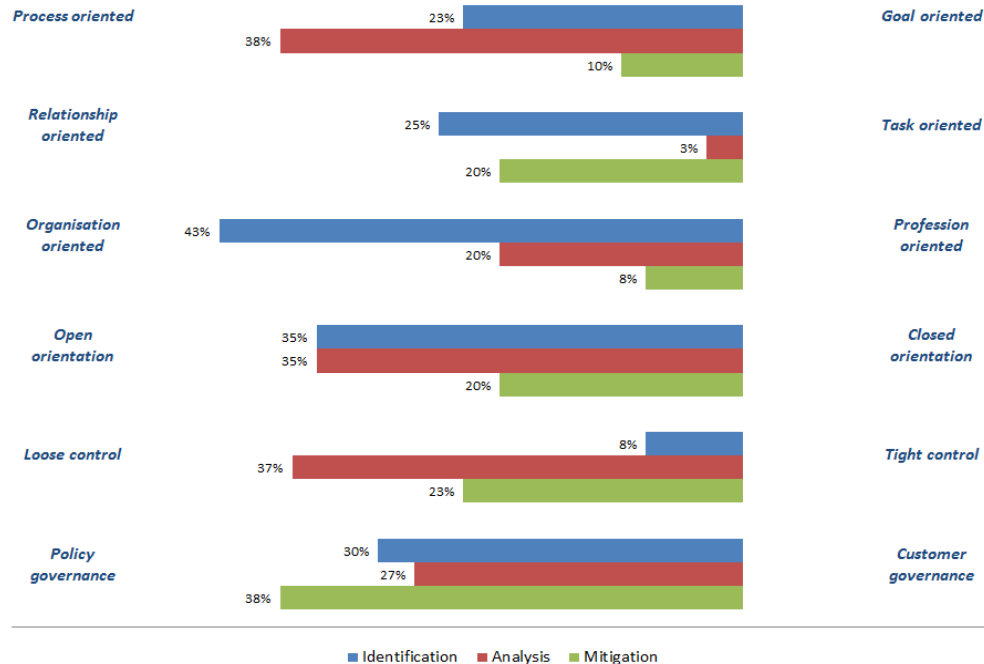
Each colour  
represents a core  
cultural dimension.

Five constructs  
measured on each  
dimension to assess  
different aspects of  
risk management.

a) is present culture  
b) is preferred  
behaviours/culture

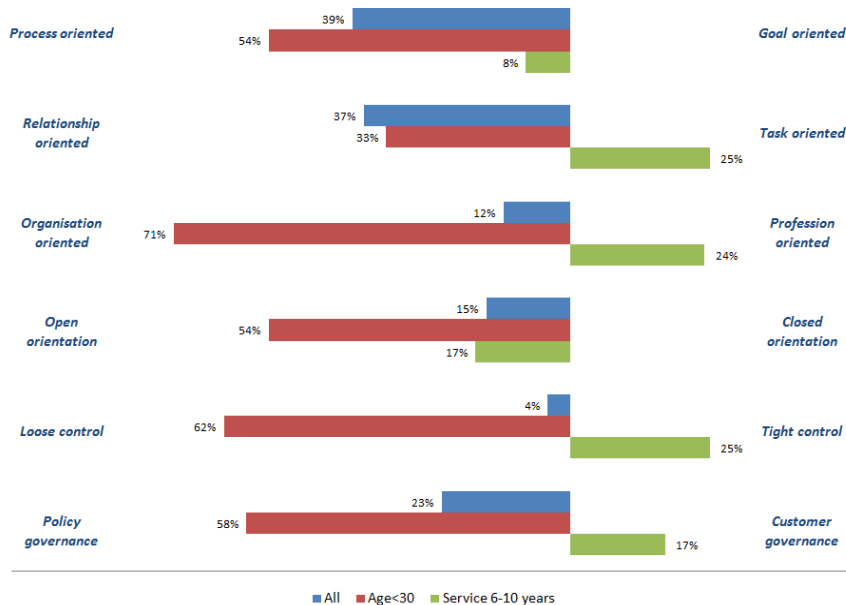


# Multinational Insurer: Culture by Risk Process



# Sub-Culture Insights

... and the hidden differences



*Group CRO could see who to adapt framework for and in what areas*

# Cultures by Risk Process by Service Period

6-10yrs (solid) versus 2-5yrs (dashed)



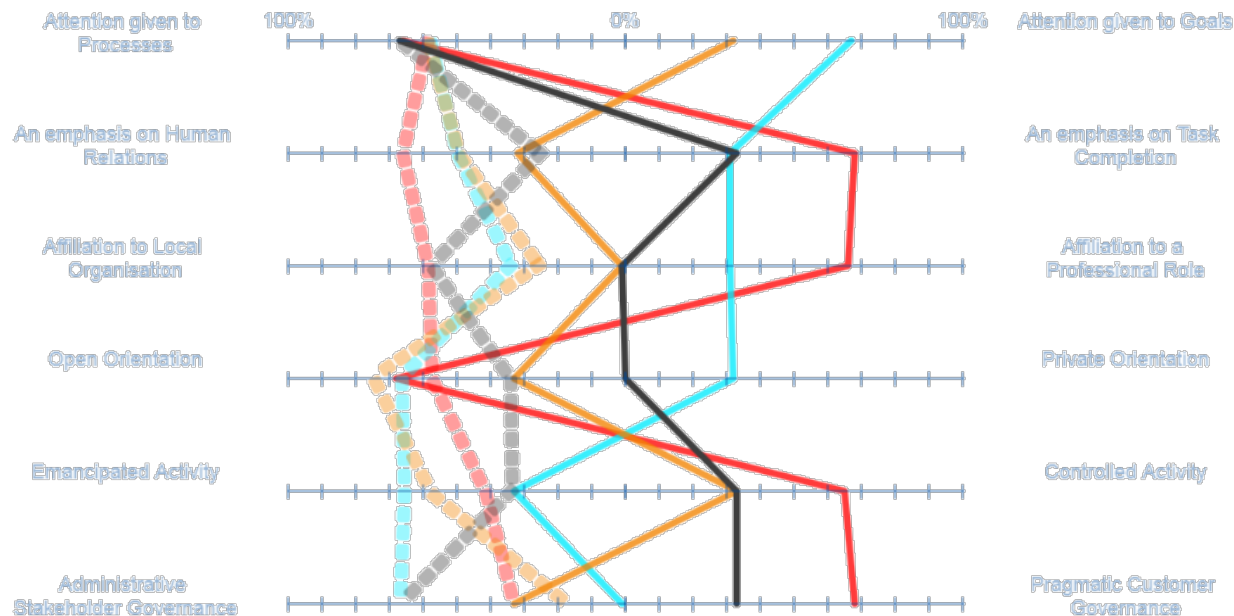
# Cultures by Risk Process by Service Period

Risk Identification

Risk Analysis )

Risk Mitigation

Risk Review



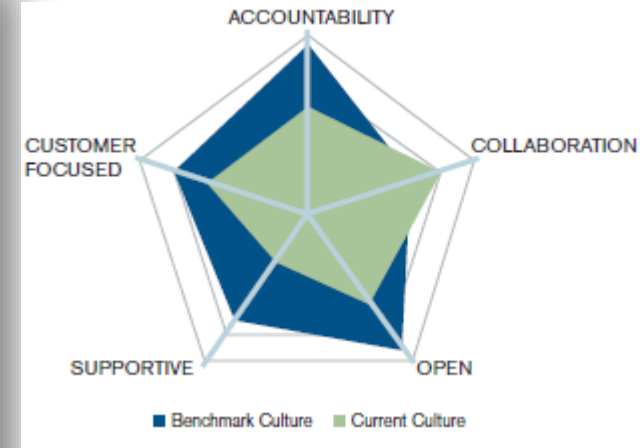
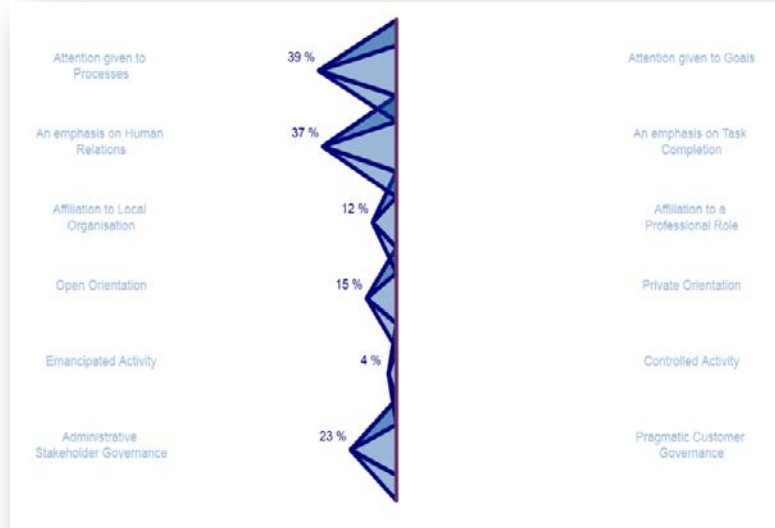
# National Insurer: Spotting Cultural Patterns

*The overall headlines...*

*Process focused*

*People focused*

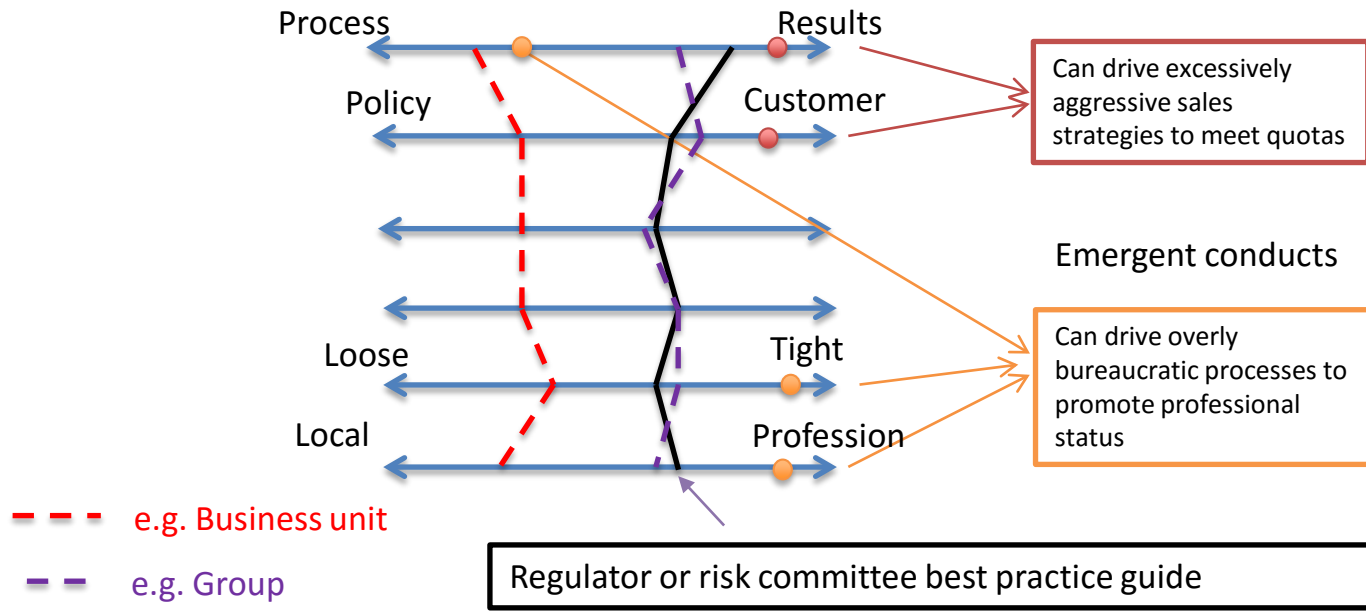
*Administrative  
governance focused*



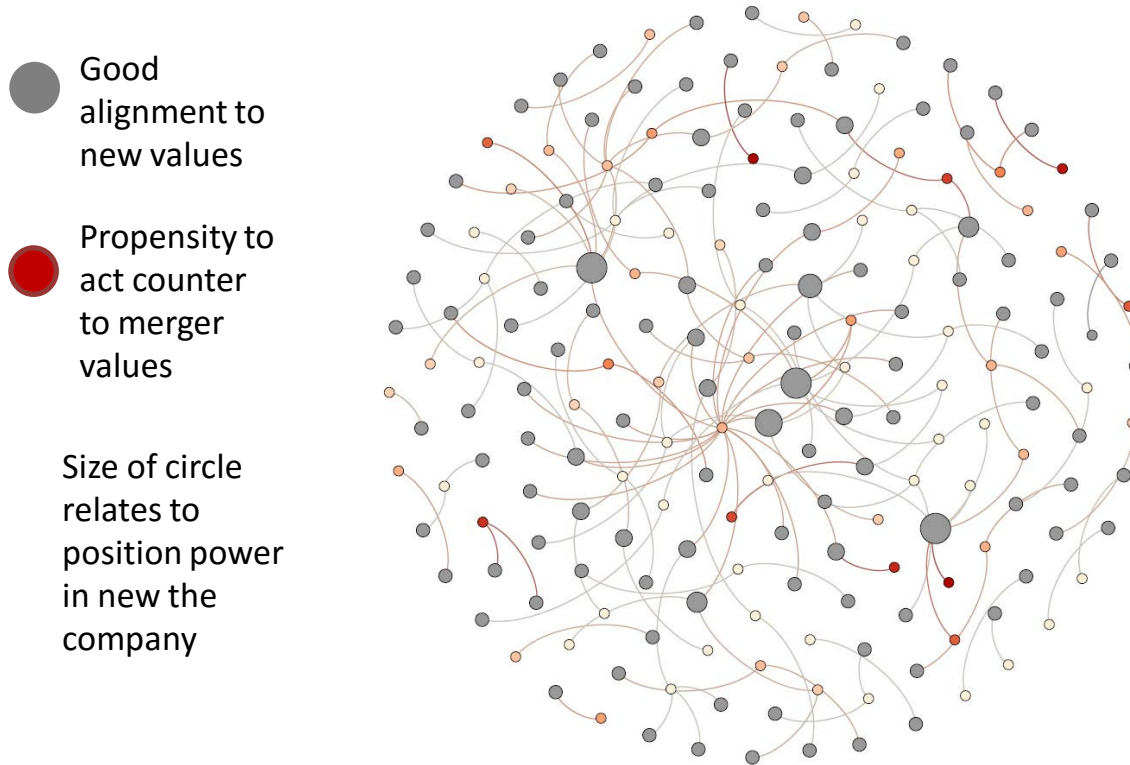


### 3. WHERE DOES RISK CONDUCT FIT INTO THE RISK CULTURE ANALYSIS AND CAN WE PREDICT MISCONDUCT?

# Constructs can be compared between group, business unit and/or individual – web enabled



# Networks of conduct alignment



# Example – Mis-selling

## Scenario

- Distributor mis-sold a single product
  - Individual complained on social media
  - Lots of customers saw this
  - They also claimed to be mis-sold
  - Story picked up by journalists

## Impacts

- Compensation to be paid
- Fines from regulator
- Reputational damage
- Low new business levels
- High lapse rates
- Loss of market share
- Share price falls
- Management replaced



# Example – Underwriting

## Scenario

- Incorrect mortality tables used in underwriting
  - Policyholders select against insurer
  - Business written is unprofitable
  - Increased amount of loss

## Impacts

- Profits fall/loss made
- Share price falls
- Staff have to be made redundant
- Low staff morale
- Best staff leave
- Different risk exposure
- Capital modelling invalid

## 4. WHAT DO YOU DO WITH RESULTS OF THE ANALYSIS?

# Measuring risk culture and conduct risk

- Can be simplified and still provide rich results
- Can be accomplished easily so regular assessment is not arduous
- The process of assessment raises up the significance of risk management
- Risk culture and conduct risk assessment that start now, create ongoing conversations that build risk management maturity

# Q&A Session

Or [Neil@systemicconsult.com](mailto:Neil@systemicconsult.com)

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