

## IRM Operational Risk SIG MINUTES

<b>Date:</b>	27th August 2009
<b>Time:</b>	17.30 – 19.00
<b>Meeting location:</b>	RBS offices Waterhouse Square, 138-142 Holborn, London

<b>Attendees</b>	
Mark Russell (RBS) Chair	Elizabeth Bilton (Hitachi Capital)
Jill Dyer (Abbey) Minutes	Bharat Kapoor (Prudential)
Toshio Mano (SMBC)	Nick Smith (Momenta)
Alison Shanley (Davis Langdon)	Amrita Reddy (AAA Risk Management)
James Cole (Cognitix 360)	

<b>No.</b>	<b>Notes</b>
<b>1</b>	<p><b>Welcome and introduction</b></p> <p>The Chairman welcomed members and noted that the number of attendees was good given that this was the run-up to a Bank Holiday weekend. He explained meeting protocol and stated that the theme for the evening was <i>'The Risk Management Process only really works for the very best business managers'</i>.</p>
<b>2</b>	<p><b>Agree minutes of previous meeting</b></p> <p>The minutes from the meeting of 6 August 2009 were agreed with no changes.</p>
<b>3</b>	<p><b>Presentations for and against 'The Risk Management Process only really works for the very best business managers'</b></p> <p>Two SIG members each gave a fifteen minute presentation, the first in favour of the motion, and the second against it. These talks set out theoretical positions to prompt debate and did not represent either personal or corporate opinions.</p> <p>The main points presented were as follows:</p> <p><u>In favour of – <i>it only really works for the best business managers</i></u></p> <ul style="list-style-type: none"> <li>• Risk Managers feel comfortable engaging with the best business managers. As for the rest, they despair.</li> <li>• The best business managers are comfortable with risk management, because they like to pro-actively engage with the threats and challenges they face, and this is the essence of good risk management.</li> <li>• The best business managers have:             <ul style="list-style-type: none"> <li>○ A clear grasp of the core activities they are responsible for, a vision of the direction the business is moving in, and an understanding of what this implies for their exposure to risk.</li> <li>○ Ownership of risk – they identify, score, act and report.</li> <li>○ Control over change, casting forward to stay in control.</li> <li>○ Active monitoring of exposure – KRIs &amp; other Management Information.</li> <li>○ Communication skills – able to escalate concerns effectively to secure the support for needed action.</li> </ul> </li> </ul> <p>The risk management process ensures that these attributes are not sidelined when things get tough; it works in harmony with “good managers, but puts “bad managers” out of their comfort zone.</p> <ul style="list-style-type: none"> <li>• Risk Management is what better managers do naturally; it is integral to how they manage. Bad managers push back to such an extent that their use of the Risk Management process is at best empty lip service.</li> <li>• Risk Management increases transparency, keeping Executives informed – but bad managers want to block this upwards flow of information.</li> </ul>

- Effective risk management happens when people work collaboratively, raising everyone's awareness of the exposures, including those that are cross-functional. The risk processes need to be part of the governance structure, fully embedded in the business. Good managers buy into this while bad managers, preferring to be un-collaborative, refuse to engage.
- The best managers already understand what the business does and how this relates to risks. They deliver consistent results and meet their objectives – being less likely to get caught out by the unexpected. They know the “big picture” and look externally to see the broad range of risks the business faces. In the case of bad managers, the Risk Manager has to try to fill the gaps in their awareness, but this is not always possible. They may not know where to “look for” the risks, in some cases this is because they have not experienced the business cycle – also making the estimation of impact and likelihood very difficult.
- It is dangerous for Risk Managers to fill in the gaps because they often have an insufficient depth of experience, being too generalist. Even when they need to challenge a “bad manager” they do not have the authority or credibility to do this. The “bad manager” may ‘pull rank’ or not co-operate with fact finding; to prevent the Risk Manager from finding out what the business risks are.
- The best managers have a concept of risk appetite and the risk/reward trade off. Bad managers either do not, or choose to ignore these.
- In summary, the risk management process only really works for the very best managers.

Against – it only really works for the best business managers

- ‘Good managers’ work for the good of the business they are employed by, ‘bad managers’ pursue a personal agenda, potentially to the detriment of the business.
- It is inevitable that the risk management process is dependent on the cooperation of business managers.
- To say that risk management only works for the best, is the same as saying exercise only works for the fittest of people or that teaching only works for the most academic of children.
- Exercise works for all and is even more beneficial to the flabby than to the fit. Teachers mustn't give up on poor learners because the little they learn can make a huge difference.
- Total ‘couch potatoes’ are an enormous challenge and only the best of personal trainers can inspire them, but if this is achieved the rewards are huge (less drain on NHS).
- Risk Managers must not give up on their ‘couch potatoes’. Those that can inspire discipline and “throw grit” will achieve big wins for their company.
- It is too easy to showcase the best managers as the success story of risk management, but there is more to this. Business Managers can be divided into:
  - Tranche 1 Really Good
  - Tranche 2 OK
  - Tranche 3 Bottom of the pile
- Tranche 1 managers have to be included in the risk management processes so that there is a complete set of risk data; there is only marginal benefit in trying to improve their risk management practices, as they are already good.
- Tranche 2 managers need encouragement, they are reasonably willing, and the risk specialist can tip the balance in favour of effective risk management.
- Tranche 3 managers are unwilling to listen or to engage. “*I've been on the couch for 10 years so why should I move now?*” A rigorous Risk Management process makes their ineffectiveness transparent; it shows in the risk data, and in risk reporting.
- So the risk management process ‘works’ for bad managers because they are seen for what they are. They then have to choose either to change or “take up opportunities elsewhere”.

4	<p><b>Comments from around the table</b></p> <p>There were wide ranging comments from members:</p> <ul style="list-style-type: none"> <li>• The two speakers were coming at the motion from slightly different angles, but it is hard to disagree with either.</li> <li>• There is no push back from the best business managers but plenty from “tranche 2 &amp; 3”. Convincing these managers “<i>you’re gonna have to do this</i>” is not easy.</li> <li>• Those managers who say they don’t need a risk management process are often the ones who need it most.</li> <li>• The best managers do risk management instinctively, even though they may not call it ‘risk management’.</li> <li>• A worthy aim for Risk Managers would be to do themselves out of a role, having achieved fully embedded processes. Some disagreed with this – ‘that day will never come’, etc.</li> <li>• Risk Managers need to become better at setting out their achievements, and presenting the business benefits of the risk management process.</li> <li>• The best managers can be relied on to escalate issues. Risk Managers can help the less good managers to do the same.</li> <li>• The best managers have good relationships up the line. The worst managers try to keep facts to themselves and avoid escalating bad news whenever possible. Again the Risk Manager can help to make issues more visible.</li> <li>• Business culture and behaviour are important. CEOs generally “want to know”; but they don’t want to be overloaded with information, either. They need to know the key decisions to be taken.</li> <li>• A manager can be “best” at e.g. sales, but it doesn’t necessarily follow that they are good at risk management. Different personalities have to be engaged in different ways. There is a dichotomy. Some need facilitation only (as they want to do it but haven’t got around to it), others need more forceful intervention.</li> <li>• Risk Managers are “oversight only” for the best managers. More investment of time and effort is required on other managers.</li> <li>• What is the risk management process delivering for any manager? This is a key starting point for setting out a stall that will encourage managers to commit.</li> <li>• A company’s stated culture of ‘openness’ may be at odds with its actual culture. The Risk Management processes must take account of the actual culture, and often include elements to deliberately challenge this.</li> <li>• The best managers make informed decisions, and the risk management process provides information to support measured, rather than arbitrary, decision-making.</li> <li>• Risk Managers need to focus on the bad managers to check that they operate within risk appetite, highlighting gaps and weaknesses.</li> </ul> <p>The Chairman thanked everyone for their contributions. It is clear that Risk Managers have to deal with, and adapt to, a wide range of business managers. Life would be dull if this were not the case.</p>
5	<p><b>Topics &amp; Speakers</b></p> <p>There was a call for volunteers to present new topics to the Group. All ideas welcome. The Chairman asked anyone willing to speak in the next meeting to circulate members with their proposed topic.</p>
6	<p><b>Any other business</b></p> <p>One member asked for views on Risk Champions and Business Ethics. A few comments were provided, after the laughter prompted by the term ‘Business Ethics’ had subsided.</p>
7	<p><b>Next Meeting</b></p> <p>24<sup>th</sup> September.</p>