

Institute of Risk Management

Solvency II Special Interest Group – Workshop 10

9th September 2010 9.30am – 12noon, IRM Offices, Lloyd's Avenue

Risk Culture – what is one, how do I get one? Impact on Use Test

Item	Details discussed and agreed
1	Phil Whittingham chaired the meeting. There were over 50 people in attendance.
2	<p>Survey</p> <p>Phil Whittingham summarised the survey results with 48 SIG members responding.</p> <p>The findings are available on the webpage. Summary key points included:</p> <ul style="list-style-type: none">- Most organisations do not have a coherent plan for influencing or creating a risk culture- Tone at the top and handling of bad news are significant challenges.- Most organisations are well placed in terms of resources- The weakest area is developing competency across the organisation including skills, training and communication.- The use test requires the transparent communication of risk information in a timely and accurate way and its active and visible use in decision making.- The main challenge remains making the link from risk management to performance & reward management. Links to appraisals and incentives are challenging.- The role of HR in the risk management process and creating the right culture should not be under-estimated. <p>Thanks to Rosie Hayes for managing the survey online.</p>
3	<p>James Maxwell – Marsh Risk Consulting</p> <p>James looked at what risk culture was and how this is built up and influenced.</p> <p>There are few definitions of risk culture and most are not helpful.</p>

	<p>Behaviours, decisions and risk appetite are key aspects of risk culture.</p> <p>The value of risk management needs to be recognised and the challenge is to make risk management contribute to making the organisation more successful. An enabler not a business limiter.</p> <p>It is important to create a culture where you can think the unthinkable.</p> <p>Risk management should include thinking about business performance – using techniques such as RAROC.</p> <p>Performance and incentives are key to getting the right risk culture.</p> <p>These are all ‘hallmarks’ of a risk culture. Risk culture cannot be measured directly but there are indicators of a good or a poor culture.</p> <p>The risk function and CRO need to be valued, credible and have sufficient influence and gravitas.</p>
4	<p>Alex Hindson – IRM Director</p> <p>Risk culture is a big issue, post credit crisis and there are plenty example of why this is important and what the consequences of failing to address this are.</p> <p>Rating agencies are focusing on this topic, but there scope and method of evaluation does have limitations.</p> <p>Defining a risk culture is difficult to one clear handle is to look at an organisation’s core values and beliefs.</p> <p>Culture is about shared meanings. It is about the extent to which an organisations seeks to impose controls or empower employees and the extent to which employees understand the organisation’s objectives and wish to make these objectives happen.</p> <p>A model was put forward that identified 4 separate risk culture types. For each a completely different way of implementing an ERM risk management framework would be needed. It is important to diagnose / analyse the type of risk culture an organisational already has a work from this start point.</p> <p>Deciding what type of risk culture you want is the first step to trying to influence a culture change. It requires a plan just as implementing the more process aspects of ERM. It won’t happen by accident and needs strong senior management support and leadership to happen.</p>
5	<p>Iain Wright – Avantage EU</p>

	<p>Iain looked at the regulators expectations of culture and how these are changing.</p> <p>The FSA are positively seeking to influence on this issue. They are looking to drive outcomes-based regulation. They will measure culture by reference to outcomes and may anticipate problems. They will not explicitly state what the ‘right’ culture involves.</p> <p>FSA are upskilling in this area and will become more challenging and intrusive. Section 166 key person reviews are increasing and are focusing on management culture. FSA are challenging NEDs and Boards on effectiveness and ability to challenge.</p> <p>FSA will be more challenging on approved person approvals and will look at the behavioural framework and the selection / due diligence process.</p> <p>This means organisations need to evidence the use test, and show how the culture takes effect in decision making and strategy developments. This means keeping MI, papers, minutes and proving challenge and review.</p> <p>Management need to lead by example, challenge each other and hold people to account for not demonstrating the right culture.</p> <p>Need to consider how this supports a sustainable business model. The challenge is constant reinforcement.</p>
6	<p>Questions and Answers</p> <p>FSA Training regimes and are they equipped to evaluated risk culture? The FSA are not well equipped but they are recruiting and training to address this rapidly.</p> <p>Ability to create a common culture across an international organisation? It is not always realistic to create a common risk culture across international boundaries but this is linked to corporate history and culture and issues such as organisational design (centralised/ decentralised). The challenge is to identify gaps between current state and aspirations in a realistic and open way to allow debates to be had.</p> <p>Reaction to bad news and driving risk event reporting? Management can be tested by their willingness to confront bad news and learn from things like operational risk reporting. Punitive responses will not create a risk culture. Performance and reward – carrots often work better than sticks in getting people to report issues.</p> <p>Making the link to performance management? Making the link to performance management can include targets, job</p>

	<p>descriptions but also a competency framework.</p> <p>Mandatory training – is this the answer? Yes for some organisations with a compliant culture, but in other cases this will not work. How you deliver training depends on the culture diagnostic.</p> <p>Risk appetite and tolerance cascade as a way of driving culture? Risk appetite is a key part of creating a risk culture. Defining group level appetite statements is just the start. The real change in culture happens with embedding at business unit level and people being held to account for performance. Need to link risk to reward generated for taking the risk to make this an added value process. IRM is developing a best practice framework on risk appetite within ERM SIG. Contact Richard Anderson or Bill Aujla for more details.</p> <p>Projects and risk culture? Some examples of successful risk cultures in projects were discussed including Olympics, Terminal 5, Toyota and Apple development projects. Taking a positive attitude to risk and contingency and sharing problems key to success.</p> <p>FSA evaluation of approved persons on risk management? FSA will be looking for skills and competency on knowledge of industry, business, products, strategy, and regulatory environment. Irish regulator has a good NED briefing pack on key questions they should be able to answer. This will be circulated to SIG members.</p>
7	<p>Topics for future meetings were discussed</p> <p>October – New Risk in Financial Services Diploma Module This will also include a presentation from KPMG on the state of the market versus Solvency II development.</p> <p>November – The role of rating agencies in ERM</p> <p>December – date to be confirm Group Supervision</p> <p>Suggested topics for future meetings included ‘Use Test’. SIG members are asked to forward ideas for topics and speakers to Phil or Alex.</p>
8	<p>Next meeting</p> <p>October 2010 7/10/10 – 9.30 to 12pm IRM offices</p>

Minutes taken by Alex Hindson
Sept 2010