



# Risk Culture and Risk Maturity

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# Greed is good, obviously?





# Just a few bad apples?

...or actually something wrong with the tree?





# Ethics is...



- a) a county in England, whose county town is Chelmsford, and includes the Lakeside Shopping Centre, London Stansted Airport and the new towns of Basildon and Harlow; or
- b) an area of study that deals with ideas about what is good and bad behaviour



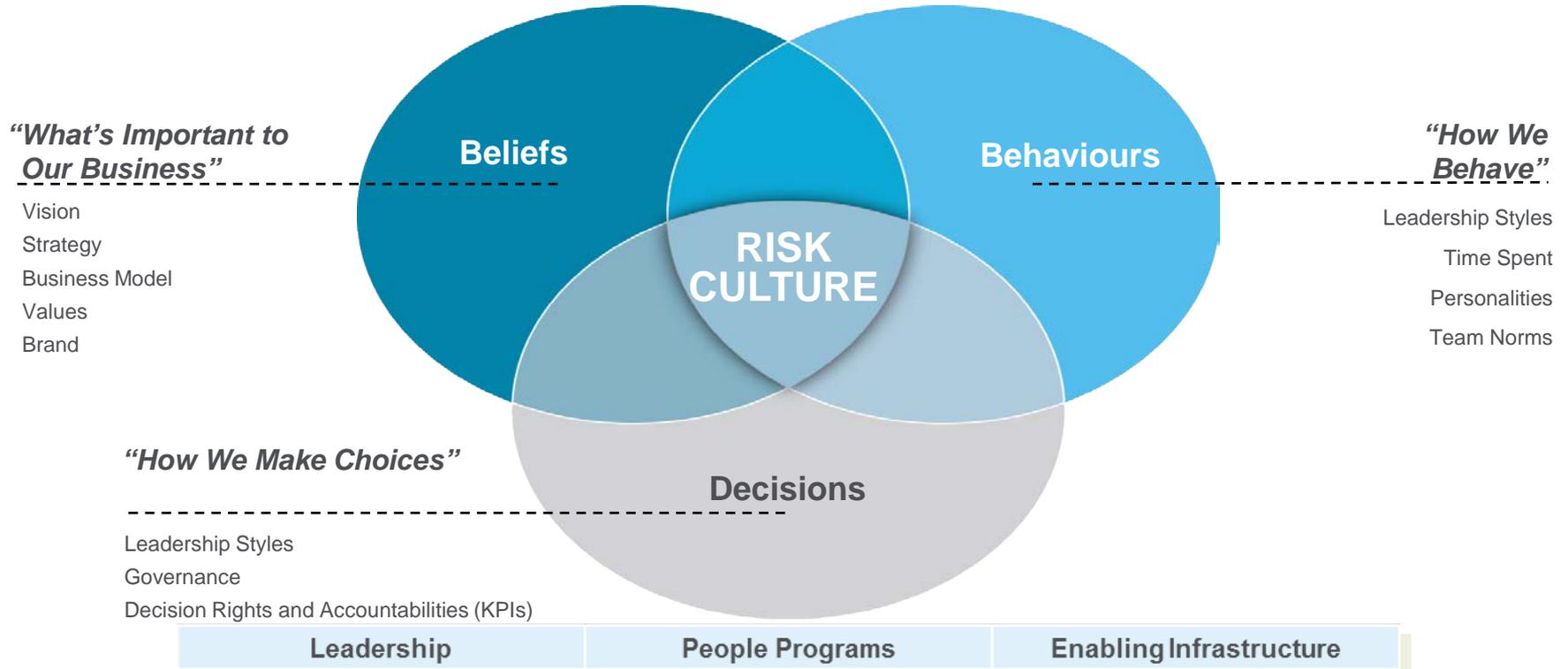
# Live and active cultures?

- a) Lactobacillus bulgaricus
- b) Streptococcus thermophilus
- c) Actuaries Institute





# Risk Culture





# Houston we have a problem



STANFORD FINANCIAL GROUP



LEHMAN BROTHERS





# Breaking waves on the Board



*The Board of an APRA-regulated institution is ultimately responsible for the institution's risk management framework. In particular, the Board must ensure that:*

*(b) a sound risk management culture is established and maintained throughout the institution*

APRA Prudential Standard CPS 220 Risk Management

**It's a Board issue because it is a Shareholder issue.....**



# Volkswagen





# Mitsubishi Motors





# Aon Risk Survey

## Top 10 risks

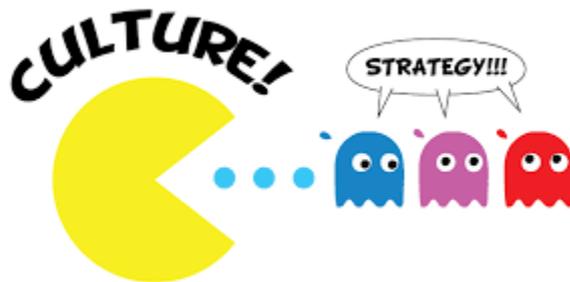
	2015	2013	2011	2009	2007
1	Damage to reputation/brand	Economic slowdown/slow recovery	Economic slowdown	Economic slowdown	Damage to reputation
2	Economic slowdown/slow recovery	Regulatory/legislative changes	Regulatory/legislative changes	Regulatory/legislative changes	Business interruption
3	Regulatory/legislative changes	Increasing competition	Increasing competition	Business interruption	Third-party liability
4	Increasing competition	Damage to reputation/brand	Damage to reputation/brand	Increasing competition	Distribution or supply chain failure
5	Failure to attract or retain top talent	Failure to attract or retain top talent	Business interruption	Commodity price risk	Market environment
6	Failure to innovate/meet customer needs	Failure to innovate/meet customer needs	Failure to innovate/meet customer needs	Damage to reputation	Regulatory/legislative changes
7	Business interruption	Business interruption	Failure to attract or retain top talent	Cash flow/liquidity risk	Failure to attract or retain staff
8	Third-party liability	Commodity price risk	Commodity price risk	Distribution or supply chain failure	Market risk (financial)
9	Computer crime/hacking/viruses/malicious codes	Cash flow/liquidity risk	Technology failure/system failure	Third-party liability	Physical damage
10	Property damage	Political risk/uncertainties	Cash flow/liquidity risk	Failure to attract or retain top talent	Merger/acquisition/restructuring Failure of disaster recovery plan



# Killer Compliance

“Culture, more than rule books, determines how an organisation behaves”

Warren Buffett

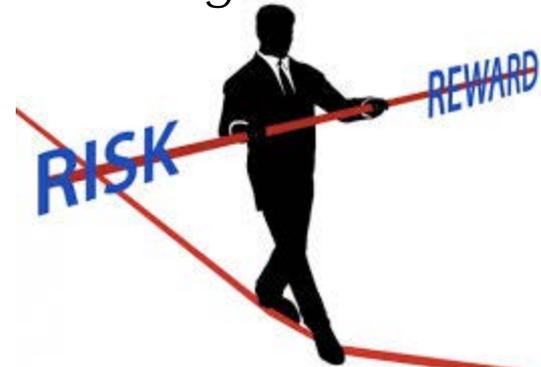




# Goodhart's Law

"When a measure becomes a target, it ceases to be a good measure."

*Agents, like fund managers working on behalf of investors, or employees doing the same for shareholders, have an uncanny ability to produce results in line with the targets they are set, a process which often has little to do with the maximization of profits or a firm's future well-being.*





# Mythbusting 1

“Risk Culture is different to Culture”





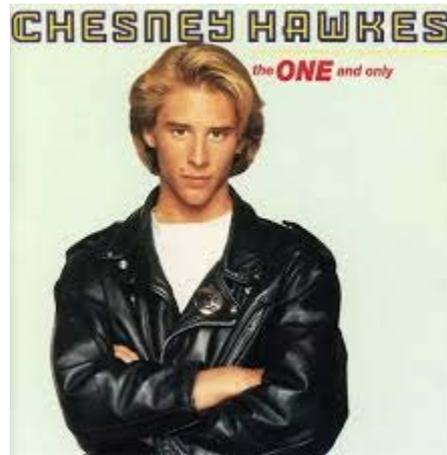
# Our Point of View

- Culture is defined as an organisation's **“operating environment”** or more simply as **“how work gets done”**. Culture manifests itself in beliefs and assumptions about what is important and results in normed behaviours that shape how the business operates.
- There is **no ‘ideal’ culture**. Organisational culture should **align with the business strategy** and should support the delivery of financial, operational, and customer objectives.
- We have identified **common culture traits** demonstrated by financially **high performing organisations**, these can be applied as a high performance norms.
- While organisational culture can be influenced, geographic culture can't be; accordingly, **sensitivity towards geographical cultures** is critical when framing an organisational culture.



# Mythbusting 2

“Every organisation has one and only one Culture”





# Mythbusting 3

“Sound employee engagement equals sound risk culture”



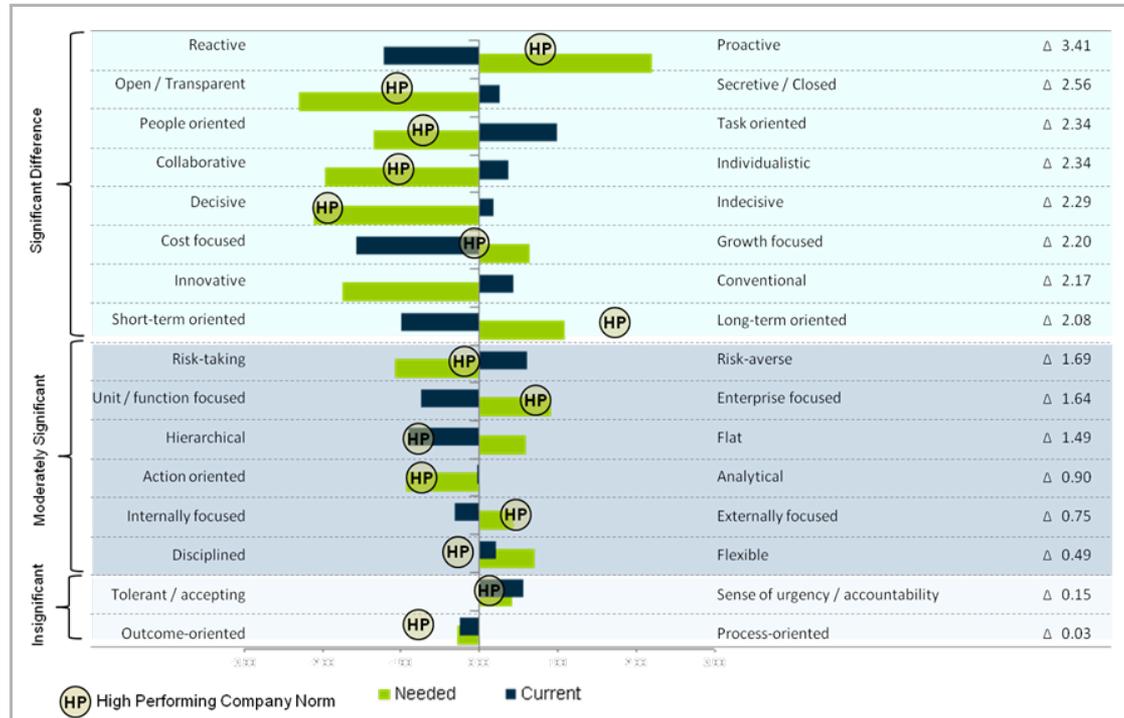
# Mythbusting 4

“Culture cannot be measured”

**I**   
**CULTURE**



# Mind the gap!





# Mythbusting 5

“Risk Culture is just a risk issue”





# A cross-discipline approach is needed



Form your own Culture Club



# Mythbusting 6

“Risk is bad”



# Regulatory focus



- Supervision
- Influence and education – APRA paper on observations and industry practices coming out later this year
- Alignment of risk culture and remuneration structures
- Governance – clarification of Board obligations and sharpen distinction with executive management



# Approaches being applied

- Employee risk surveys
- Risk interviews/group sessions
- Subjective observational inputs ('pit of stomach' feelings)
- Review of organisational policies and artefacts
- Psychometric assessments
- Greater consideration of cultural fit in recruitment and succession
- Review of KPI/incentive structures e.g. customer outcome based





# The crux of the problem

People don't behave in the same way as they say they will behave

.....and this divergence increases under stress





# Comments and Questions

