

Actuaries Summit

Think Differently



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Financial Services, Risk Culture and the Effective Professional

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Outline

- Context - financial services, community expectations and risk culture
- Key capabilities of the effective professional
 - Know their business
 - Collaborate
 - Take accountability
 - Lead with integrity
- Initiatives to improve risk culture
- Conclusions

Context – Community Expectations and the Financial Services Industry

Post GFC Focus

- Strengthening of balance sheet positions
- Risk management as law (CPS220)
- Addressing ongoing public concerns around culture and conduct
- Improving risk culture as “the final frontier in the post-crisis response”

“ASIC warns corporates to clean up culture” (2016)

“APRA pushes bank boards to define, improve risk culture” (2016)

“PM lashes banks over trust and standards” (2016)

“ASIC chief lashes big banks for 'disgraceful' rate hikes” (2017)

“Banks face new tax, bigger penalties for misconduct” (2017)

Risk Culture and the Effective Professional

- Risk is the impact of uncertainty on an organisation.
- Organisations that succeed over the long term employ people who proactively manage the impact of risk to both protect and create value. Collectively such people contribute to a strong risk culture.
- A strategy to strengthen risk culture will therefore improve risk management and in turn the success of an organisation. It is now law (CPS220) that a financial services entity have such a strategy.
- This presentation describes the capabilities of people effective in the management of risk. I call these people **effective professionals**.

Risk Management Strategy – Built Around People



What Do Effective Professionals Look Like?

KNOW THEIR BUSINESS

- Look Back
- Look Forward
- Connect the Pieces

Head

COLLABORATE

- Engage Their Stakeholders
- Welcome Review and Challenge

Heart

TAKE ACCOUNTABILITY

- Serve Their Customers
- Own Their Role
- Respect Their Limits

Guts

LEAD WITH INTEGRITY

- Head, Heart and Guts Leadership
- Do the Right Thing

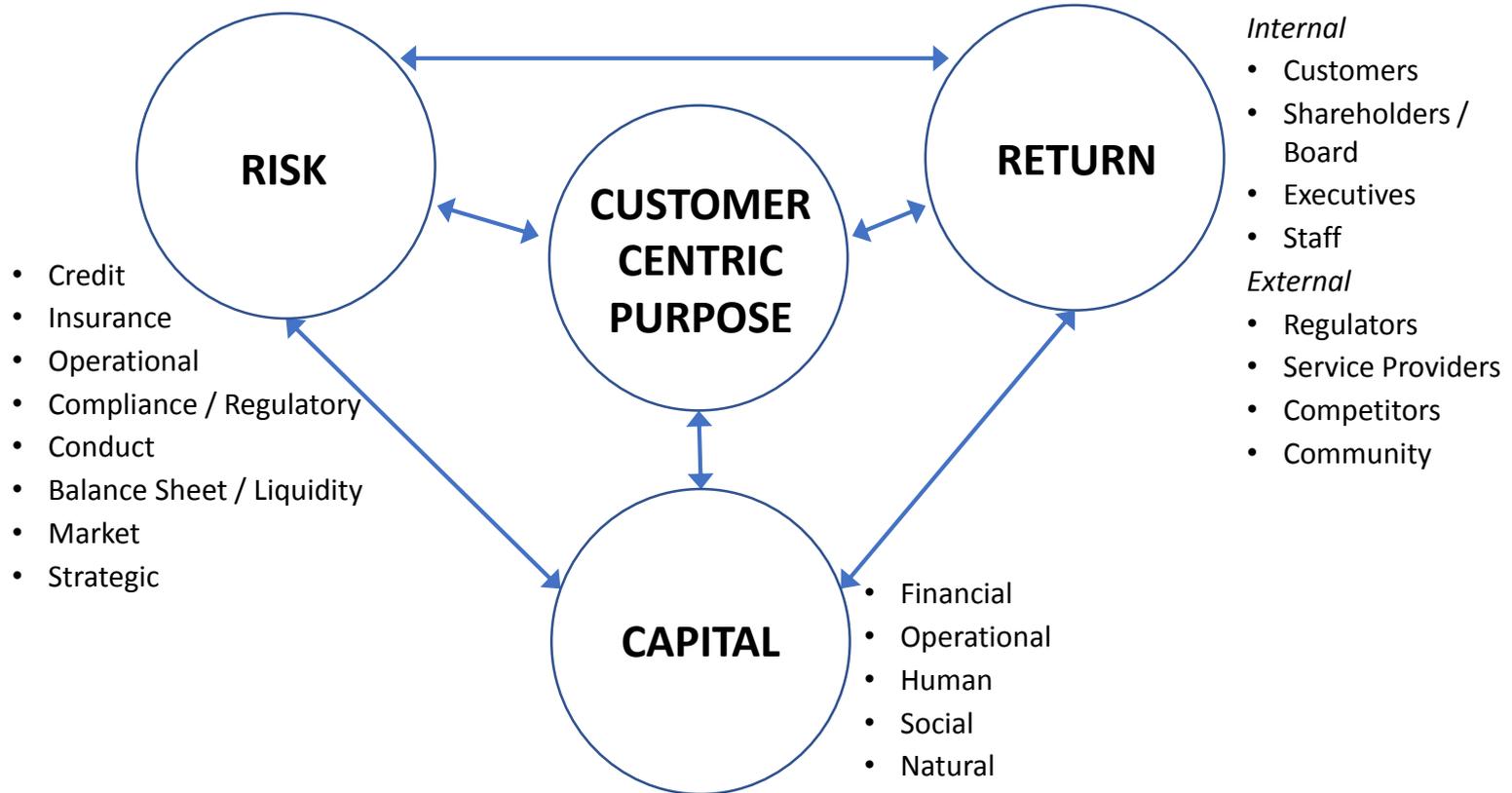
“Ineffective Unprofessionals” = Business Failure

- *Lack of Business Knowledge* – context, past experiences, facts and data are not factored into peoples decisions.
- *Lack of Collaboration* – key stakeholders not represented in important business decisions. Lack of thought diversity leads reduces the level of innovation and creativity in strategy development and problem solving.
- *Poor Accountability* – people lack clarity around whose responsibility it is to make a decision leading to delays, inaction and poor choices.
- *Weak Leadership, Low Integrity* – people struggle to apply organisational values, don't have the skill to adapt their leadership style when needed and fail to act with integrity.

People Who Know Their Business

- *Look Back* – People understand how events of the past have shaped where their organisation is today. They use facts and data to better understand their business.
- *Look Forward* – People know and understand the purpose, plan and values for their organisation, and think about how they might be impacted by different scenarios, trends or futures.
- *Connect the Pieces* – People understand that an organisation is a complex and dynamic series of interconnected pieces. People continually improve to master their role, grow in confidence when solving problems. They speak up when this is needed to better manage risk or avoid an imminent risk event.

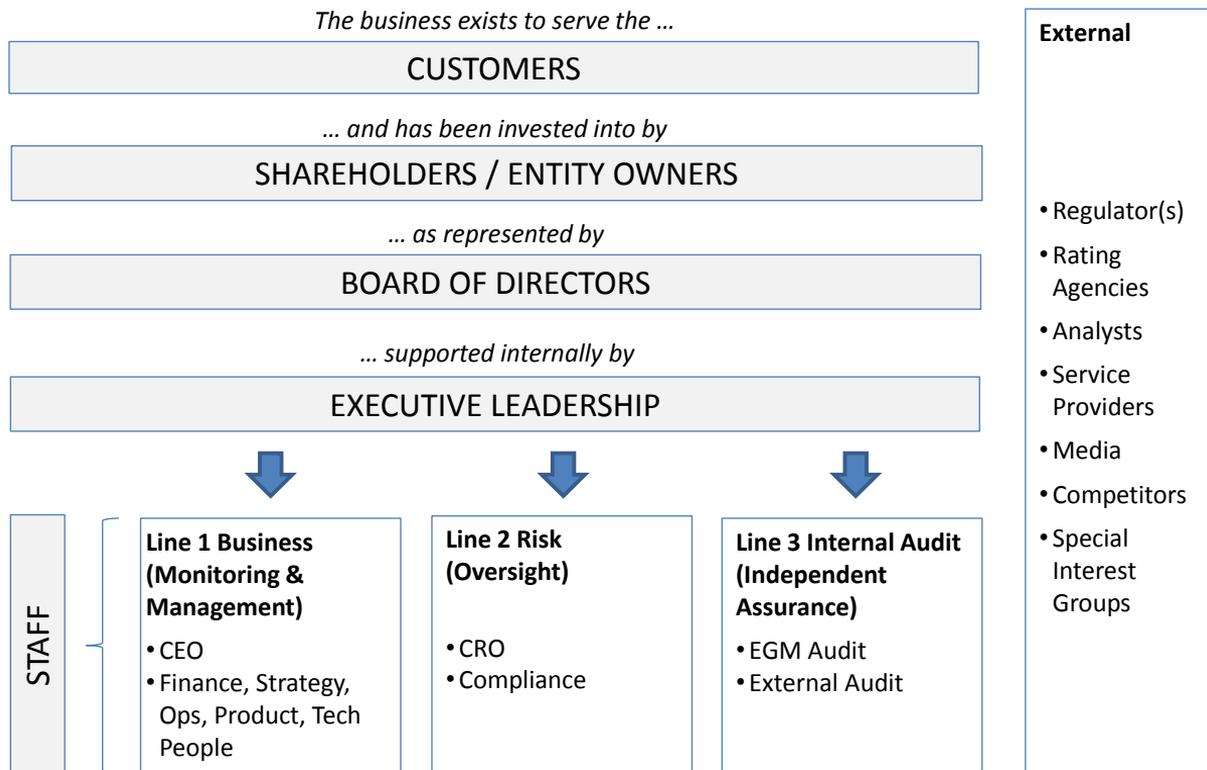
Connecting Risk, Return, Capital and Purpose



People Who Collaborate

- *Engage Their Stakeholders* – People understand that you will get better more creative outcomes when you work with others around a common purpose, than when you work alone. They discuss important decisions with a group that ensures that all relevant business knowledge and stakeholder perspectives are incorporated into the decision making process.
- *Welcome Review and Challenge* – People welcome review and challenge, and respect those whose role it is to provide this. Trust and candor are a feature of the relationship between the Business and Risk Function.

Collaboration Engages Across Stakeholders



People Who Take Accountability

- *Serve Their Customers* – People understand that a failure to focus on or meet the needs of their customers will be a fast track to failure. They understand how their role reconciles back to serving the customer or community in some way.
- *Own Their Role* – People are crystal clear on the risks and compliance obligations they are responsible to manage, and continually improve and enhance the controls in place to protect their organisation.
- *Respect Their Limits* – People understand that there are limits to their delegated authority to manage risk. When something “doesn't smell right” they escalate their concerns proactively.

People Who Lead With Integrity

- *Lead With Head, Heart and Guts* – People know how and when to use their head, demonstrate heart, and act with guts. They develop in those leadership characteristics they are weak in to help them more effectively manage risks and issues. They role model the espoused values of their organisation.
- *Do the Right Thing* – People understand that community trust and transparency is the foundation of the effective working of the financial services industry, and seek help and advice in managing those ethical “grey areas” where it is unclear what is the right thing to do.

Head, Heart and Guts

Head Leader	Heart Leader	Gut Leader
<p>Excels At Knowing the Business</p> <ul style="list-style-type: none"> • Rethinking the way things are done • Reframing boundaries when necessary • Understanding the complexities of a global world • Thinking strategically without losing sight of short-term goals • Looking for ideas inside and outside a company, wherever they can be found • Developing a point of view 	<p>Excels at Collaborating</p> <ul style="list-style-type: none"> • Balancing stakeholder needs • Creating trust • Developing true compassion in a diverse workplace • Creating environments in which people can be truly committed • Knowing what's important to all stakeholders involved 	<p>Excels at Taking Accountability</p> <ul style="list-style-type: none"> • Taking risks with incomplete data • Balancing risk and reward • Acting with unyielding integrity in spite of the difficulty • Tenaciously pursuing what's required for success • Persevering in the face of adversity • Not being afraid to make tough decisions

The Effective Professional can operate across all three leadership styles

The Effective Professional

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Initiatives That Help Develop Effective Professionals

- “Effective Professionalism” is measured & **appropriately rewarded**.
- **Board and Executives (tone from the top)** role model being an Effective Professional.
- **Purpose, plan and values** resonate with the people you need to attract.
- **Systems and processes** allow people to do their jobs.
- **Effective Professionals are hired**, and “Ineffective Unprofessionals” are managed out.
- **People are trained and developed** to be more effective professionals, strong at risk management.

In Conclusion

- Risk culture is about people, and is most effectively described as such.
- An effective ERM framework will have the actions and behaviours of its people at its centre. The community is increasingly demanding this of the financial services industry.
- An organisation must agree the professional characteristics that people at all levels need to demonstrate to effectively manage risk. Only then can it develop initiatives to strengthen risk culture.
- The opportunity for the actuarial profession is for its members to be role models in contributing to a strong risk culture for the organisations, customers and communities they serve.

About Tim Gorst

Tim qualified as a Fellow of the Institute of Actuaries of Australia in 1997, and more recently qualified as a Chartered Enterprise Risk Actuary in 2013. Tim has over 20 years financial services experience across both banking and wealth management and currently consults independently as a senior financial services actuary. Some of Tim's other more recent roles include Head of Corporate Superannuation Pricing & Technical Services, Project Director with NAB Group Credit, and Head of Performance Innovation. Some of Tim's more recent ERM experience includes implementing SPS114 operational risk capital management requirements for NAB's \$90b Superannuation business, and project managing the rebuild of NAB's mortgage Basel 2 regulatory capital models. Tim has written a number of risk management related papers for the actuarial profession, and was the recipient of the 2010 Melville Financial Services Prize for his paper "APS330 Home Lending Data – Application and Insights".