



**Actuaries
Institute**

Melbourne Insights

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**Risk Management Capability
+ Strong Leadership
= Effective Risk Culture**

Outline

- Context
- Risk Management Framework
- Risk Culture – Making it Personal
- Developing and Measuring Risk Culture
- Conclusions

Focus on Financial Services Risk Culture

“ASIC warns corporates to clean up culture”

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

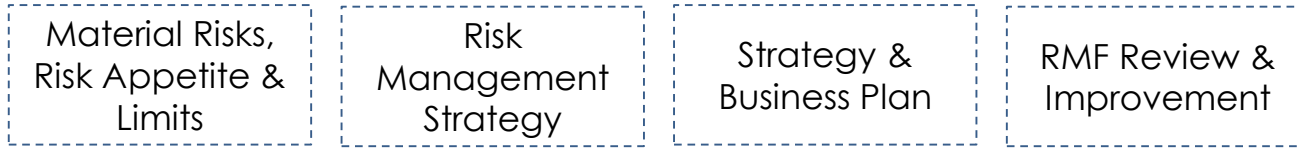
“PM lashes banks over trust and standards”

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

“Banks face new tax, bigger penalties for misconduct”

RMF – Many Parts, All Important

Board Policy, Strategy and Review



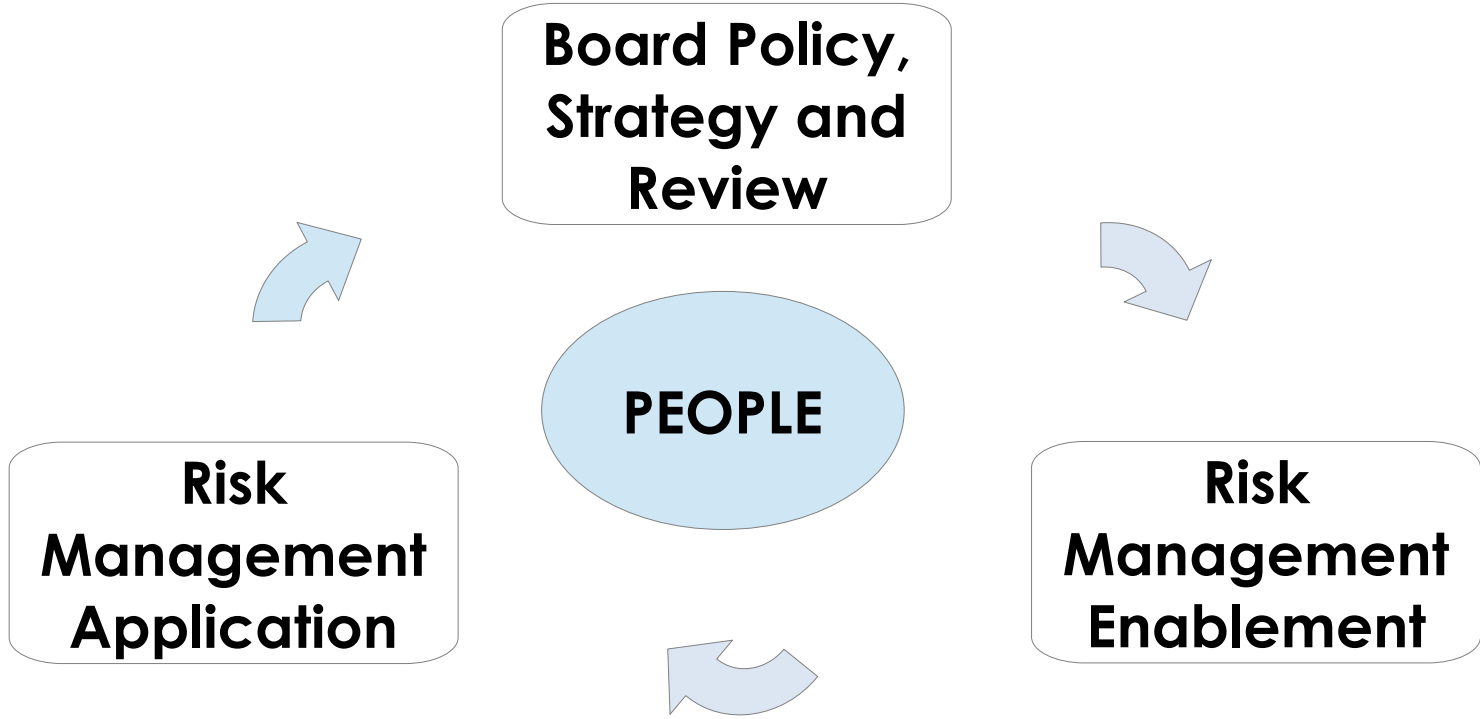
Risk Management Enablement



Risk Management Application



RMF – Build It For, and Around, People



Risk Culture – Make It Personal

KNOW YOUR BUSINESS

- Look Back
- Look Forward
- Connect the Pieces

Head

COLLABORATE

- Engage Your Stakeholders
- Welcome Review and Challenge

Heart

TAKE ACCOUNTABILITY

- Serve Your Customers
 - Own Your Role
- Respect Your Limits

Guts

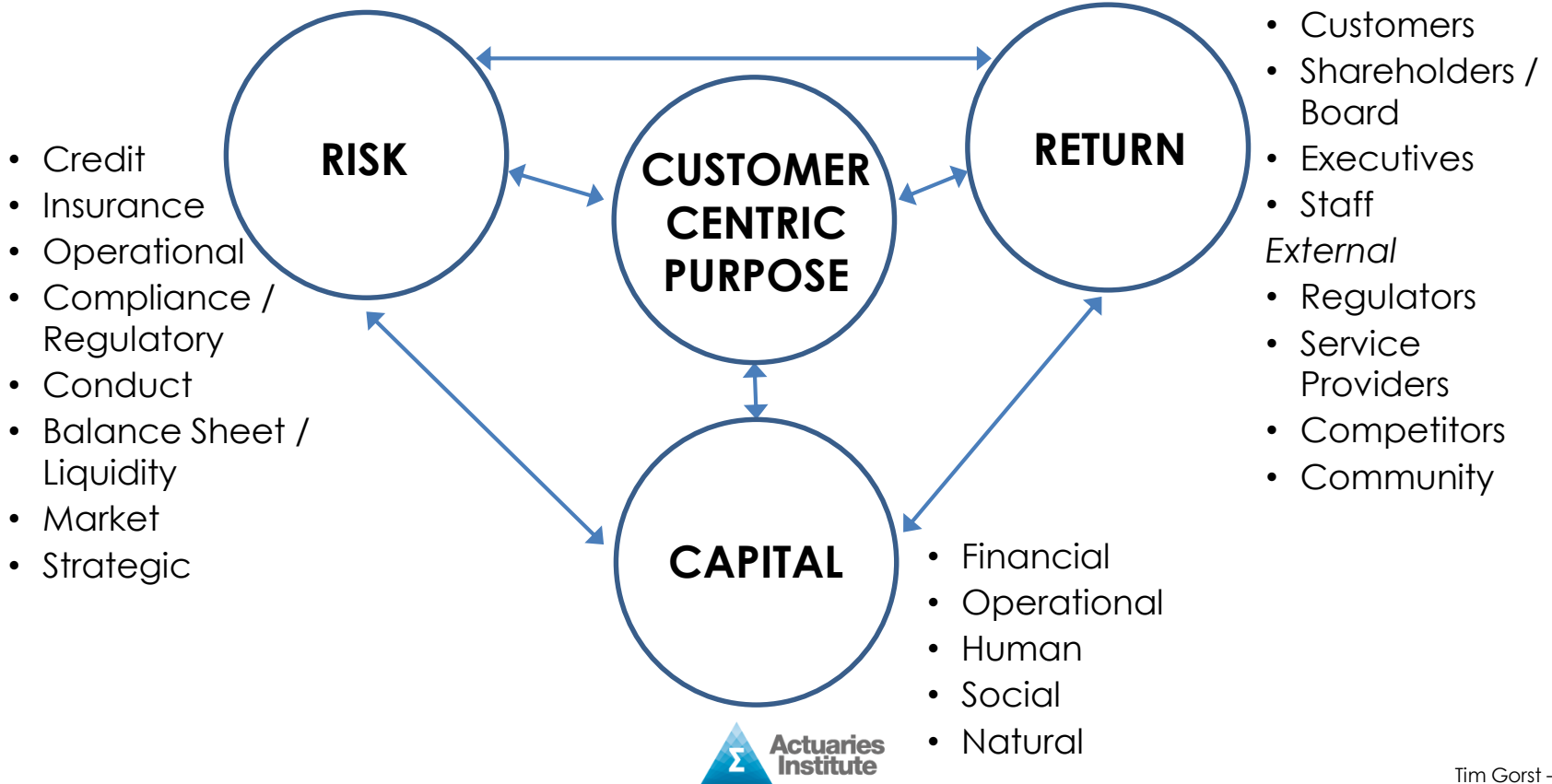
LEAD WITH INTEGRITY

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

Know Your Business

- *Look Back* – Understand how events of the past have shaped where your organisation is today. Use facts and data to better understand your business.
- *Look Forward* – Know and understand the purpose, plan and values for your organisation, and think about how they might be impacted by different scenarios, trends or futures.
- *Connect the Pieces* – Understand that an organisation is a complex and dynamic series of interconnected pieces. Master your role. Speak up when your knowledge is needed to help protect or create value.

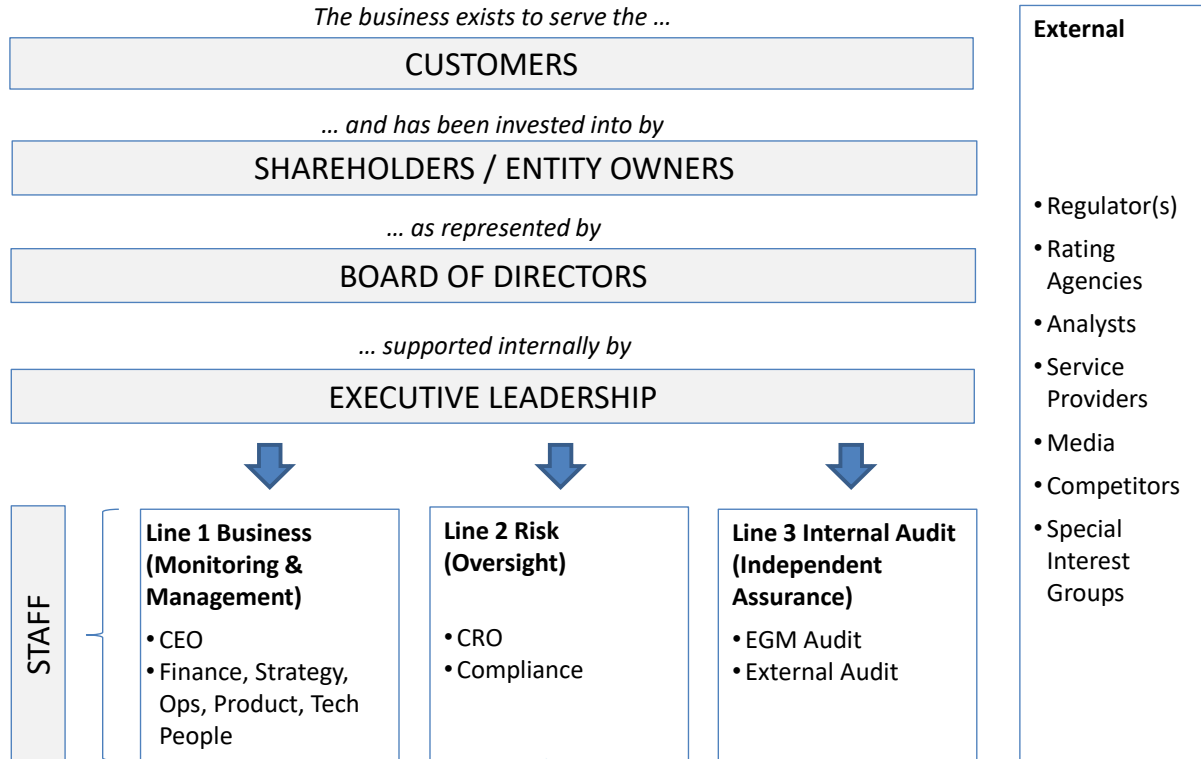
Connect the Pieces



Collaborate

- *Engage Your Stakeholders* – Understand that you will get better more creative outcomes when you work with others around a common purpose, than when you work alone. Discuss important decisions with the right people, in the right place, at the right time.
- *Welcome Review and Challenge* – Welcome review and challenge, and respect those whose role it is to provide this. Value trust and candor as the ingredients of a healthy relationship between the Business (Line 1) and Risk Function.

Respect Diversity of Roles



Take Accountability

- *Serve Your Customers* – Understand that a failure to focus on or meet the needs of their customers will be a fast track to failure. Understand how your role ultimately serves the customer or community.
- *Own Your Role* – Be crystal clear on the risks and compliance obligations that are your responsibility to manage. Continually improve and enhance the controls that fall under your responsibility.
- *Respect Your Limits* – Understand that there are limits to your delegated authority to manage risk. When something “doesn't smell right” escalate your concerns proactively.

Lead With Integrity

- *Lead With Head, Heart and Guts* – Know how and when to use your head, demonstrate heart, and act with guts. Develop in those leadership characteristics you are weak in to help more effectively manage risks and issues. Role model the espoused values in your organisation.
- *Do the Right Thing* – Understand that community trust and transparency is the foundation of the effective working of the financial services industry. Seek help and advice in managing those ethical “grey areas” where it is unclear what is the right thing to do.

Learn To Use 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• 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

Strong Leaders can adapt across all three leadership styles

Developing Risk Culture #1 – Make It Personal



Developing Risk Culture #2 – Build the RMF For, and Around, People



Developing Risk Culture #3 – Focus on Training and Development

- Support people with regular *training and development*.
- *Measure & reward* risk management capabilities and leadership.
- Role model desired capabilities and leadership through a strong *tone from the top* (Board and Executives).
- Develop a *customer centric purpose, plan and values* that resonate with the type of people you need to attract.

Measuring Risk Culture

KNOW YOUR BUSINESS

*ASSESS HOW WELL
PEOPLE UNDERSTAND
THEIR BUSINESS
(SURVEYS, TESTS)*

Head

COLLABORATE

*OBSERVE HOW
PROBLEMS GET SOLVED
(ON SITE REVIEW,
LINE 2 BRIEFING)*

Heart

TAKE ACCOUNTABILITY

*OBSERVE HOW
DECISIONS GET MADE,
AND BY WHOM
(REVIEW KEY ARTEFACTS)*

Guts

LEAD WITH INTEGRITY

ASSESS LEADERSHIP SKILLS (STAFF SURVEYS, CRO ASSESSMENT)

In Conclusion

- Risk Culture is about people, more specifically the strength of their capability to manage risk and lead with integrity.
- An effective Risk Management Framework will have people (and therefore Risk Culture) at its centre.
- As Risk Culture is about risk management capability and leadership, ongoing training and development is critical.
- Measuring Risk Culture can be done through a pragmatic application of surveys, assessment and observation.

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 25 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 Actuarial, Pricing and Profitability NAB Retail Wealth, Head of Corporate Superannuation Pricing & Technical Services and Project Director with NAB Group Credit. 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". Tim is also the founder of RISKfriend, helping small to medium sized organisations be more effective at managing their risks.

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