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## Introduction

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- Is a risk culture relevant
- What is our approach
- How does the tool work
- How does it add value

## Our road to risk culture

- Proposition that successful companies have **strong coherent** cultures\*
- Bristol/Bath - conducted culture research over 8 years, with 250 leading engineering companies, looking at trending using models based on Harrison/Handy
- Bath University/CIPD report, '*Unlocking the black box*', - *reaffirms that the link between strategy and performance is culture.*
- STRATrisk - Dti funded report '*Culture is one of the key steps in managing strategic risk*'

\*Harrison (1972), Handy(1976) and Peters & Waterman (1982)

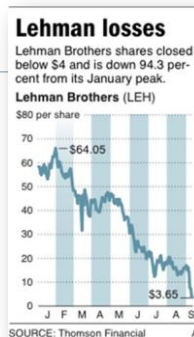
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## Why risk culture



2008



In a recent international survey, 48% of the 500 bank executives that participated cited risk culture as a leading contributor to the credit crisis.

(Farrell and Hoon, 2009)

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## Why risk culture – more specifically

- Walker (2009), Baker (2007), Turner (2011), Punter (2011)
- Solvency II IMAP review FSA Sept 12
  - ‘Ensuring a consistent interpretation and application of the policy across the firm remains a challenge.’
  - ‘Most firms underestimated time required to embed a group-wide data governance framework in ‘business as usual’.’
  - ‘Some firms had difficulty in demonstrating the effective operation of data quality checks, due to lack of evidence of controls and inconsistent reporting of issues.’

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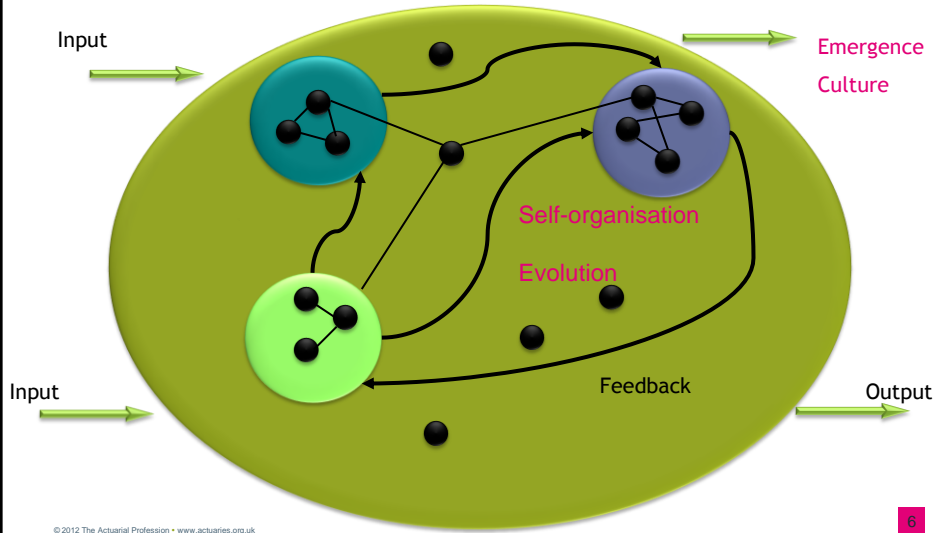
## Overview of our approach

- Applying complex system systems principles to risk behaviours we have broadened our risk culture insights
  - Purpose – Emergence – Self-Organisation - Evolution
- Developed an instrument that allows organisations to map their cultural strength and orientation against a number of behavioural constructs
- This uniquely includes differentiating between risk processes
- The tool is customisable for different organisational structures; industries or countries

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## What is a *complex system* ?



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### Constructs, Models and Resultant Tool

**Dr Hilary Lewis**

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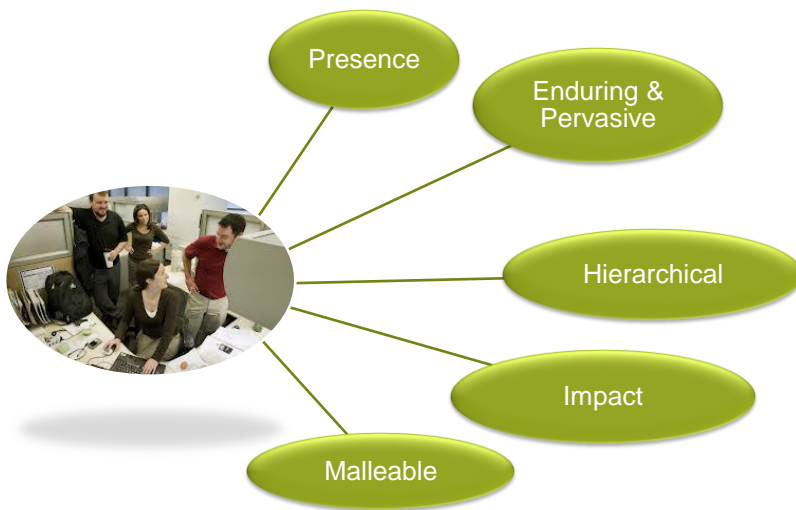
## Culture is a third hand metaphor



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## Characteristics of an Organisational Culture



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**When faced with an ethics, compliance, or risk-related decision, the following are considered:**

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**(and in this order)**

Culture is a unique emergent property of an organising system of human activity. Its dynamics are not revealed by adding up the collective traits of individual members.

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## **Risk Behaviours in work settings...**

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- Need to find out what is the ***perceived*** right way to behave.
- Easier to describe the behaviour that is taking place rather than what you might do in a hypothetical situation.
- Finer gradations of scale to respond to subjective process of 'quantifying' behaviour.
- Language contextualised to reduce/remove disassociation from scenario's presented.

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**Risk**

- Driven by mainly *n* objective and *o* obtain

**Culture**

interpretative approaches aimed at contextual understanding

**Both used to reduce uncertainty and inform actions and strategies**

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## Risk Culture Diagnostic Tool

- We look at competing cultural dimensions;  
(related to organisation and industry)  
e.g. market vs regulation (Ind), people vs task (Org)

and

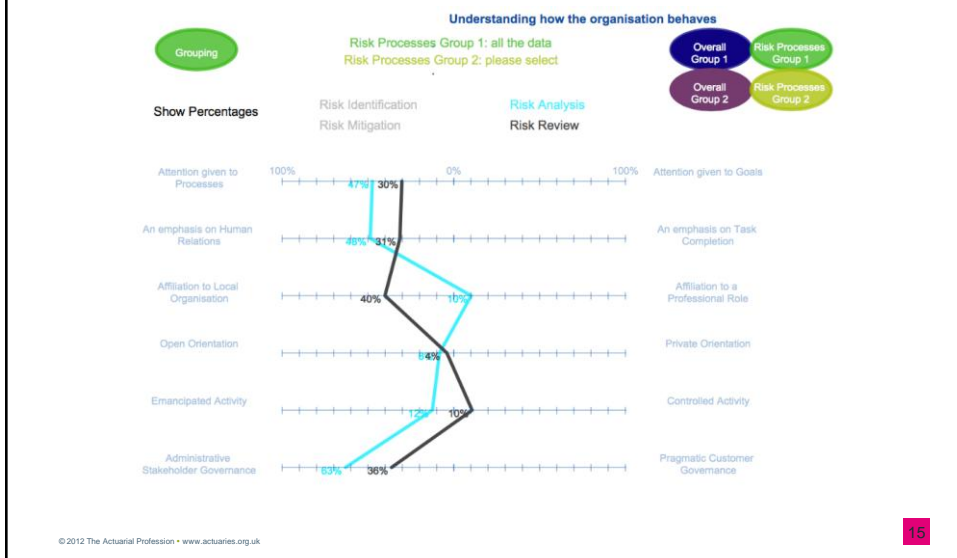
- We look at 5 risk practices.  
Identifying, contextualising, analysis, management, review

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## Not pejorative – questions appropriateness



## Allows comparison – between processes; between sectors as well as levels of the organisation







## Case Study

### Neil Cante

## Case Study

- Two case study applications
  - Multinational insurer
  - Domestic insurer
- Both undergoing transformation of risk framework

## Case Study

- Questionnaire sent to
  - Global Risk community of multinational
  - Entire organisation of domestic insurer
- Some demographic questions
- 24 culture questions
- About 10 minutes to complete

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## Questionnaire



- Simple comparative questions to elicit opinion about each risk process

In the part of the organization in which I work...

...there is a well-established process which is used regularly to identify risks.

34 %

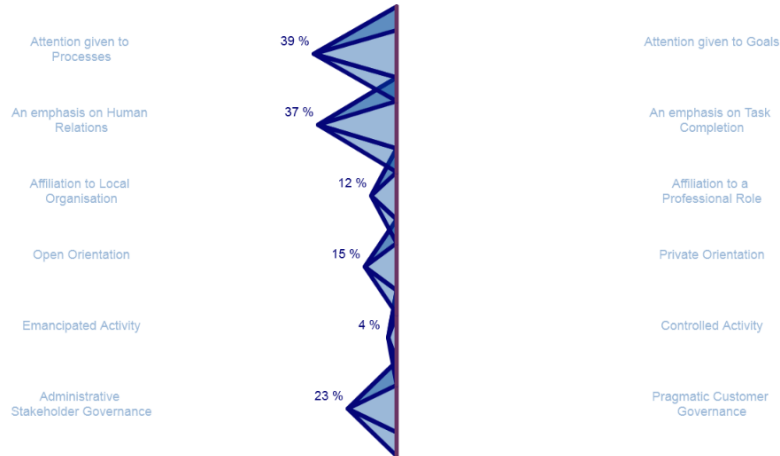
A bit more like this...

...the time that is spent identifying risks is governed by the nature of our work and the timescales for completing it.

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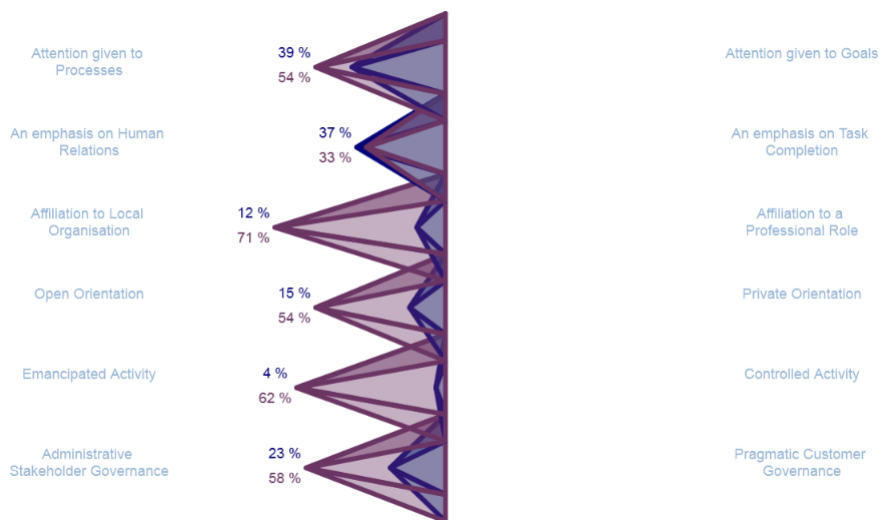
## Overall Results



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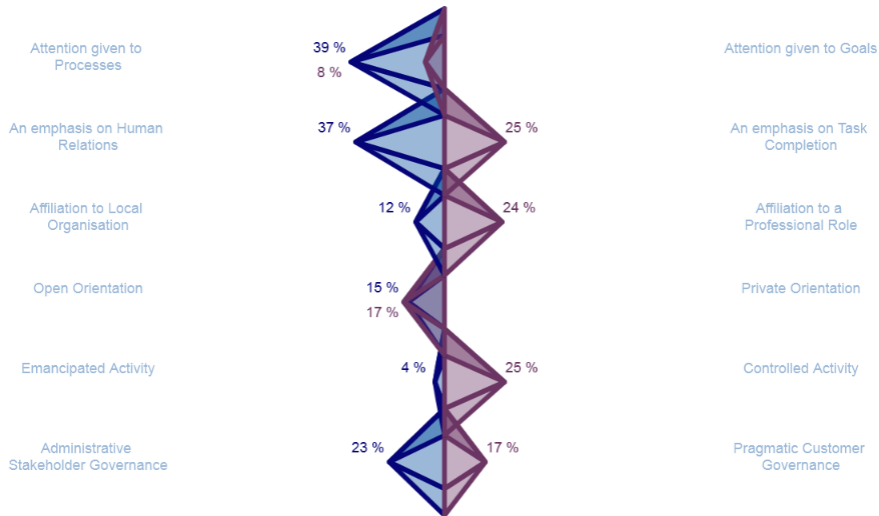
## All vs. Age<30



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## All vs. service 6-10 yrs



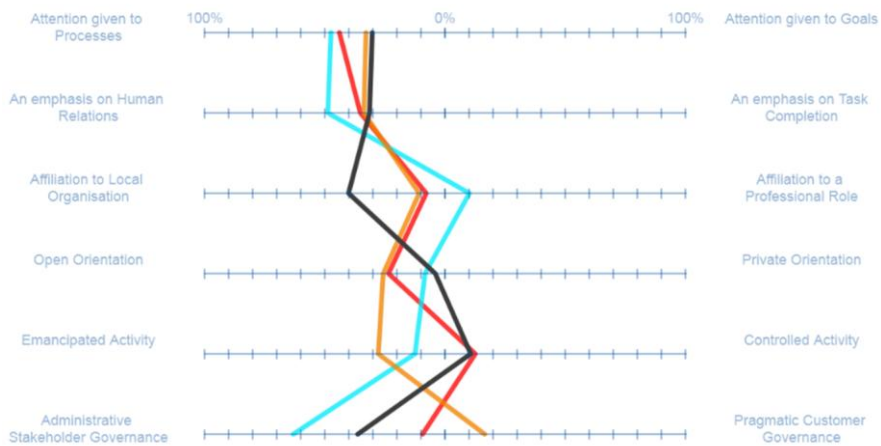
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## By Risk Process

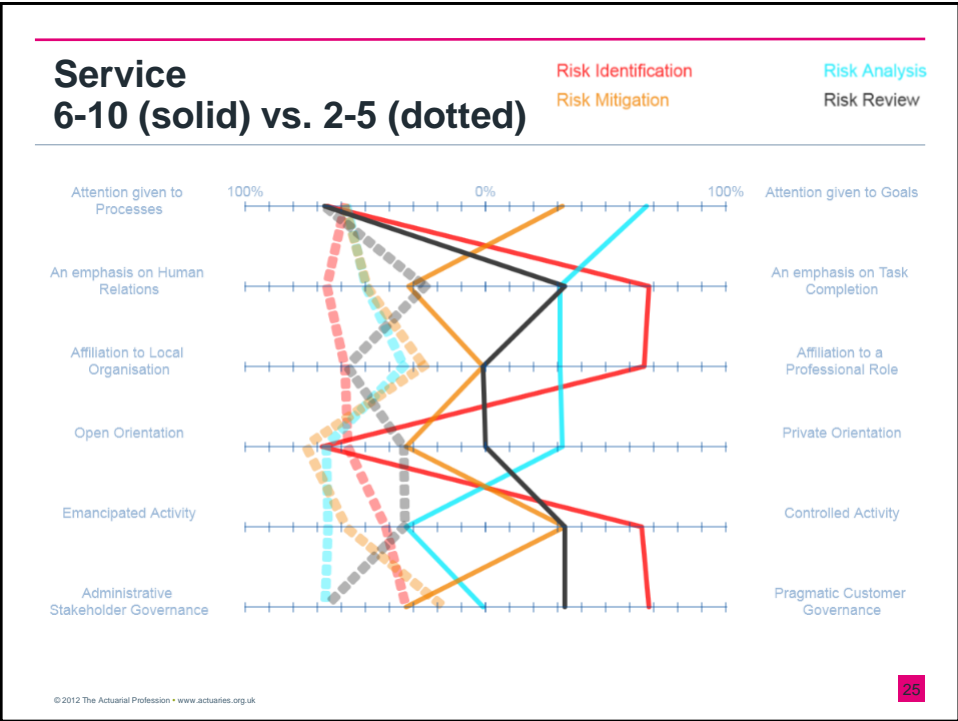
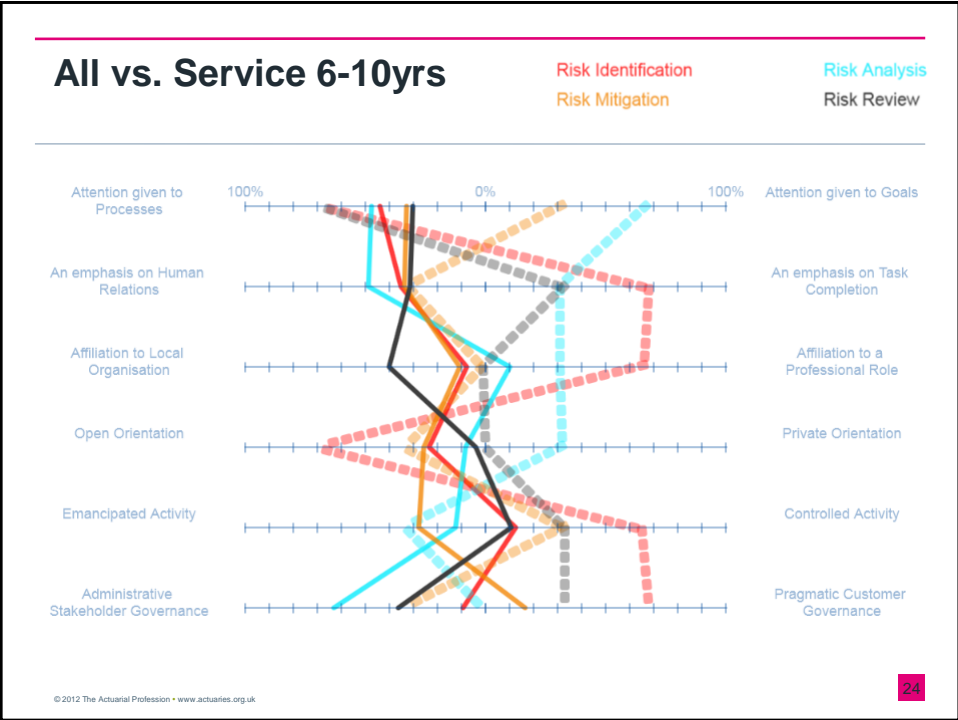
Risk Identification  
Risk Mitigation

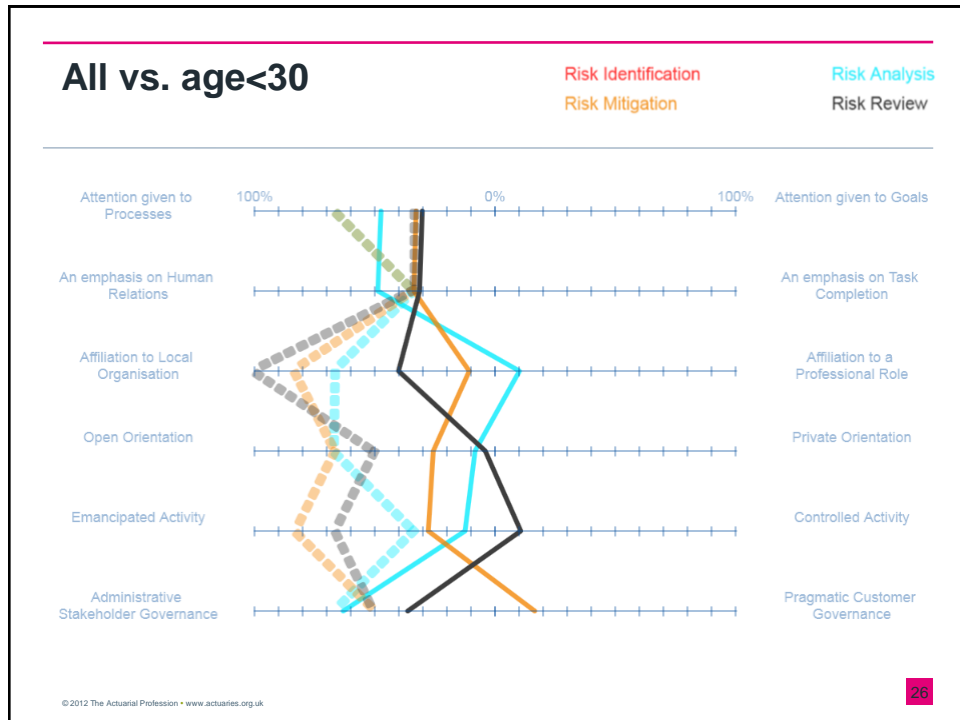
Risk Analysis  
Risk Review



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## Conclusions

- Systems approach provided genuine diagnostic rather than test against mythical “benchmark”
- Assessing “emergent” group behaviours rather than individual behaviours gave more realistic results and high participation
- Provided real actionable information about **why** risk framework might not be working in some places
- Also provides information about what type of framework **would** work with the diagnosed culture
- You cannot always change the culture

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## Questions or comments?

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Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

