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Building a stronger risk culture

Geoff Trickey

Russell Beaumont



7 June 2017

Agenda

- What are Risk Types?
- Risk Types in action
- The importance of culture in risk management
- Using Risk Types to manage risk culture

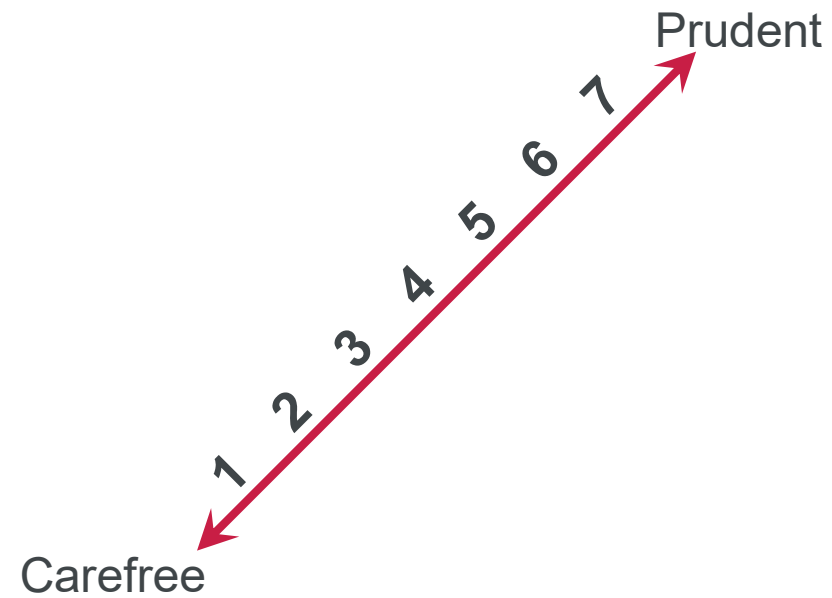


Who is taking the greater risk?



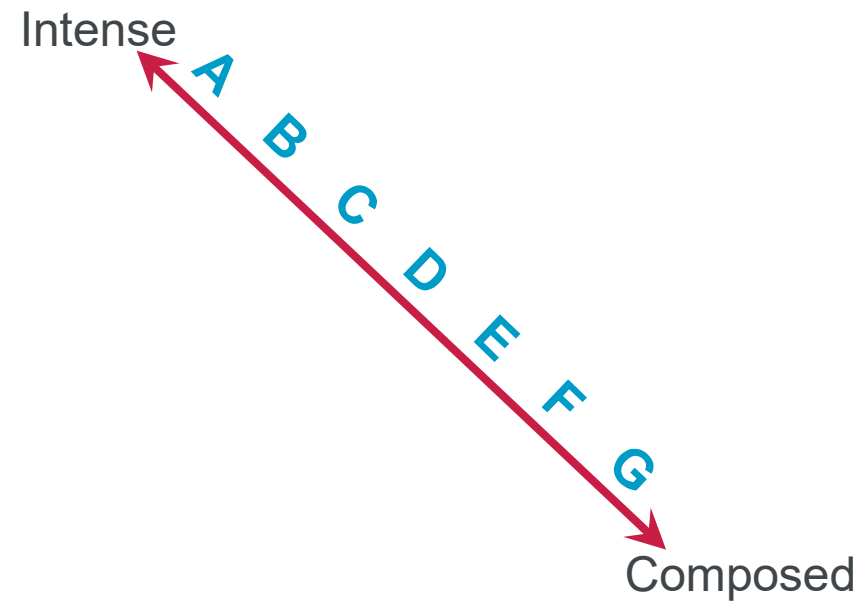
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The Risk Type Compass



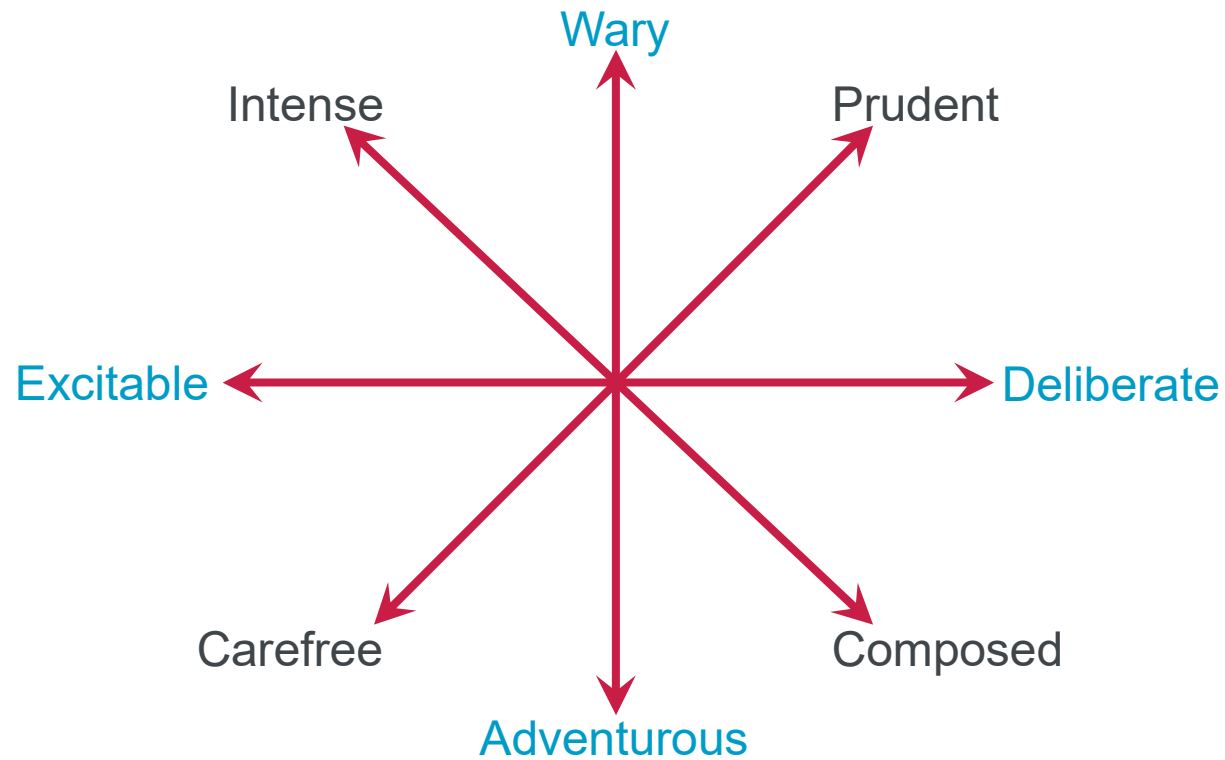
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The Risk Type Compass



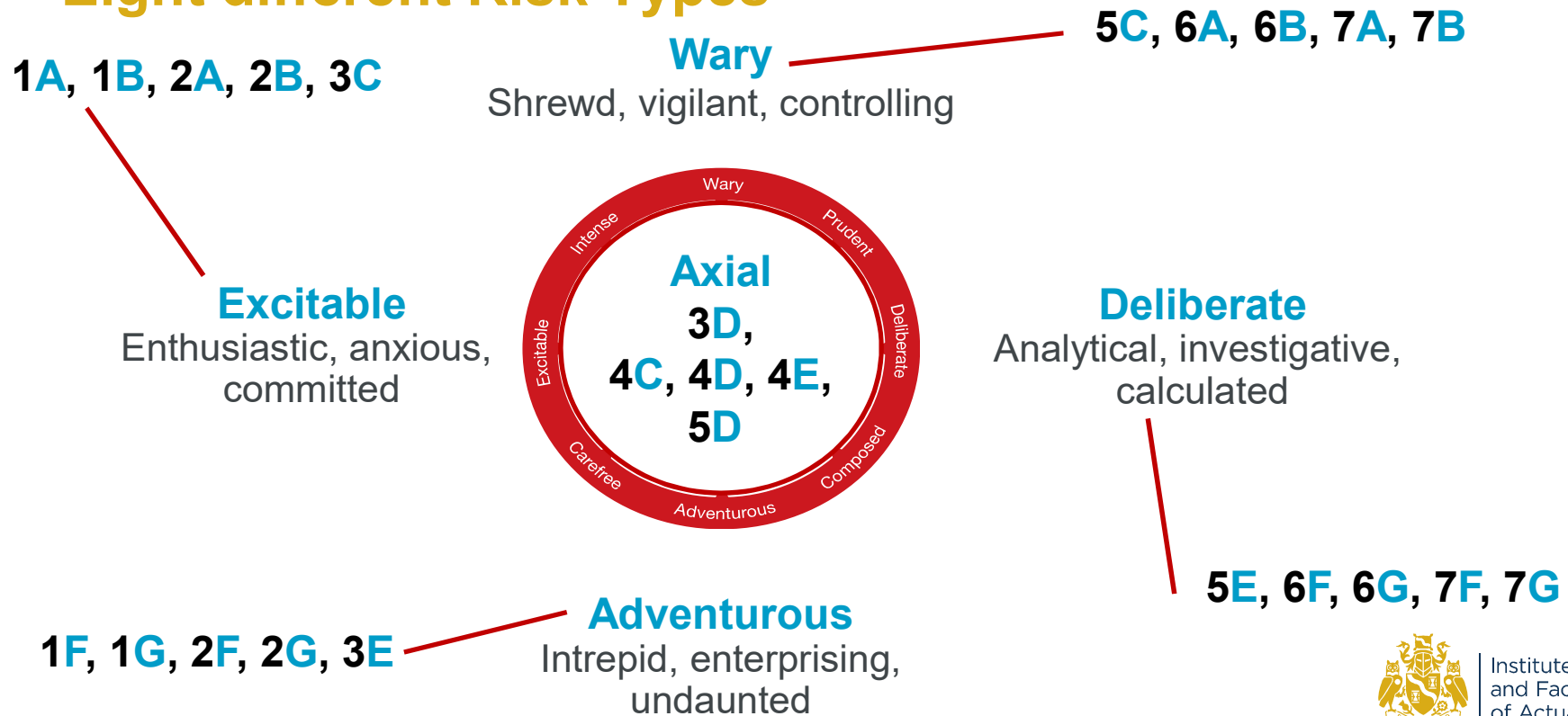
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The Risk Type Compass



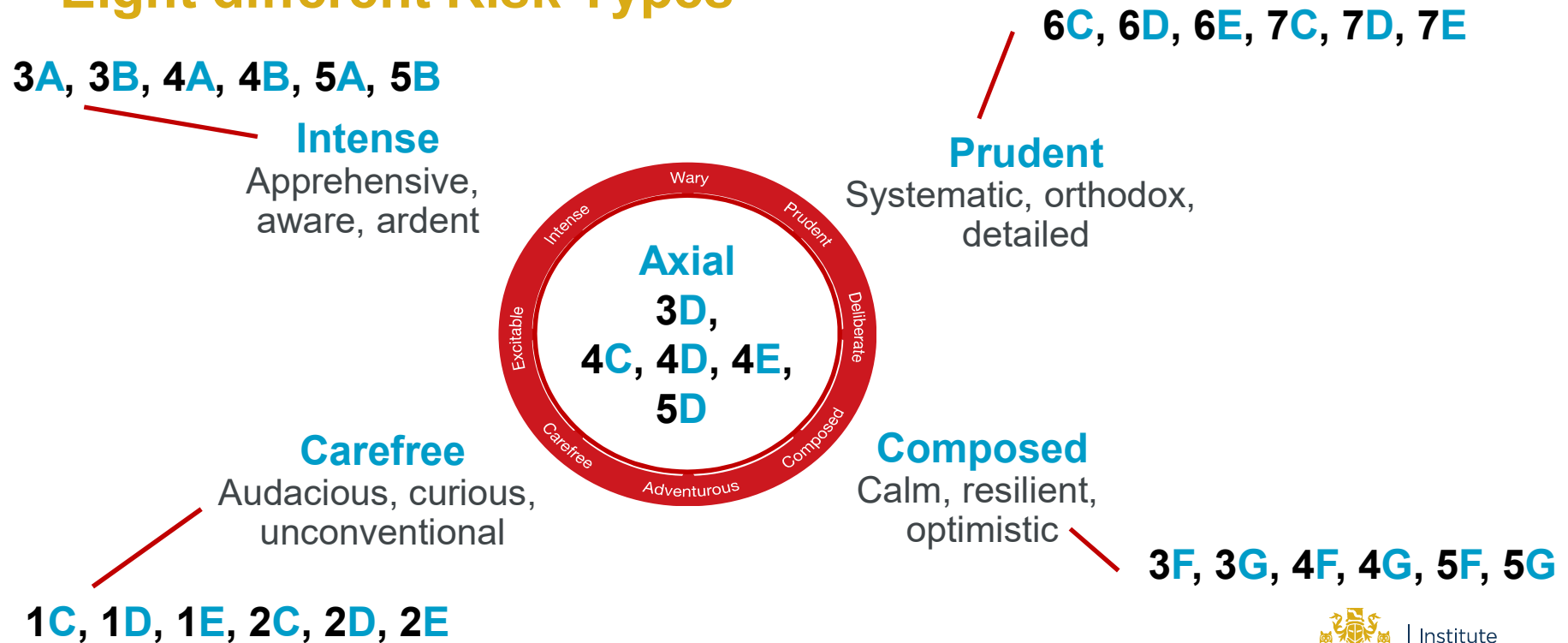
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Eight different Risk Types



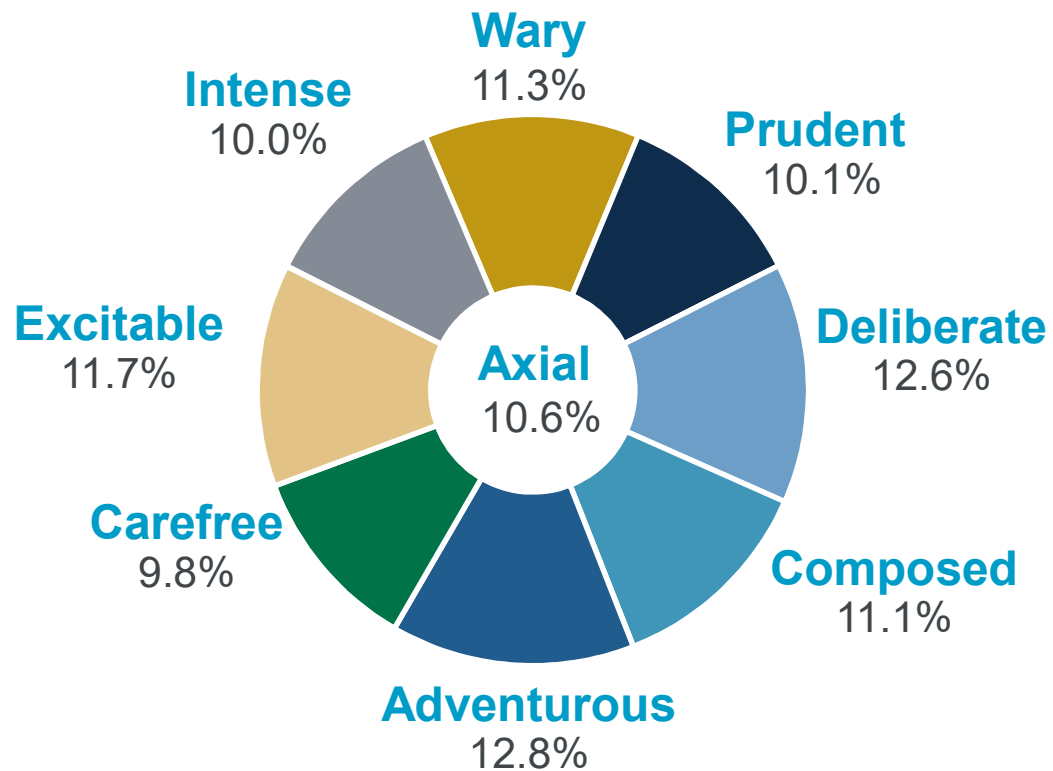
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Eight different Risk Types

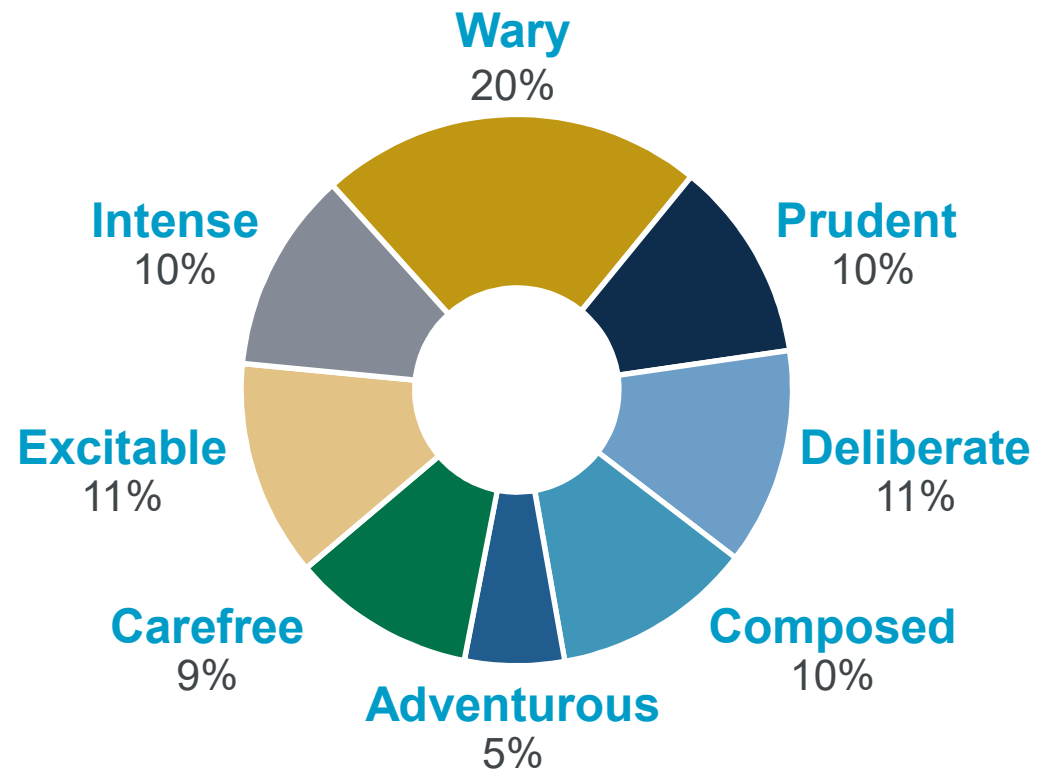


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Eight different Risk Types in the population

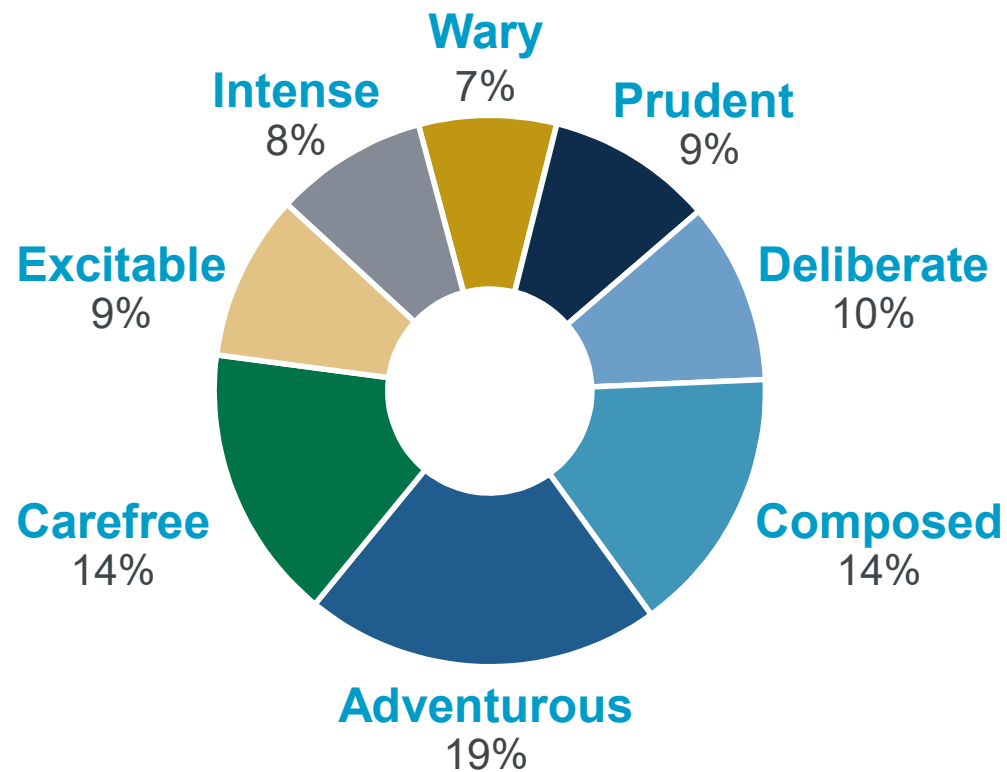


Police officers



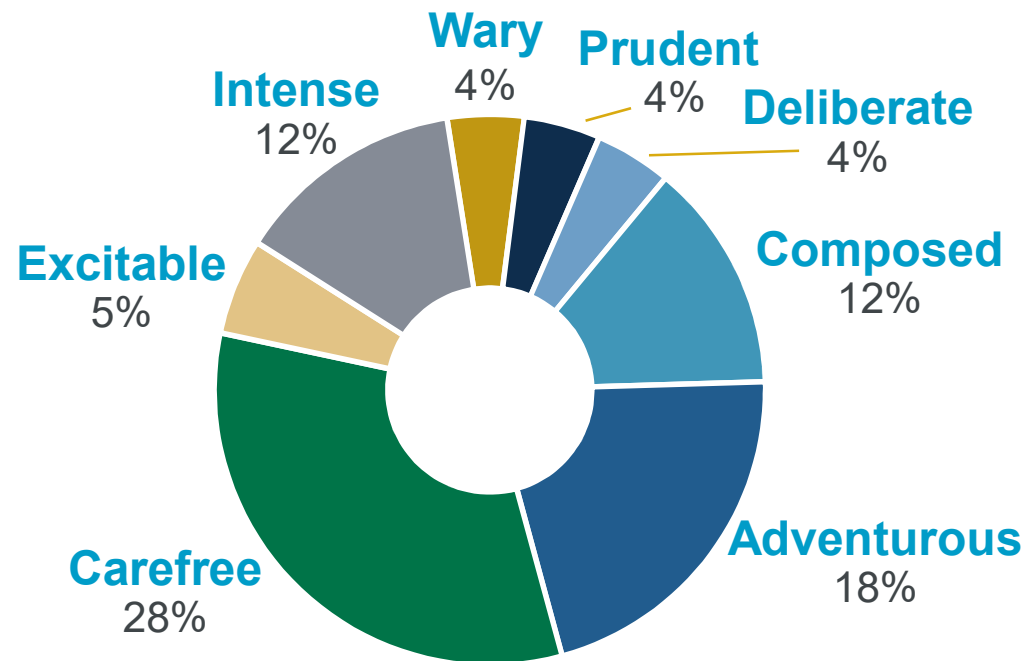
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IT Professionals



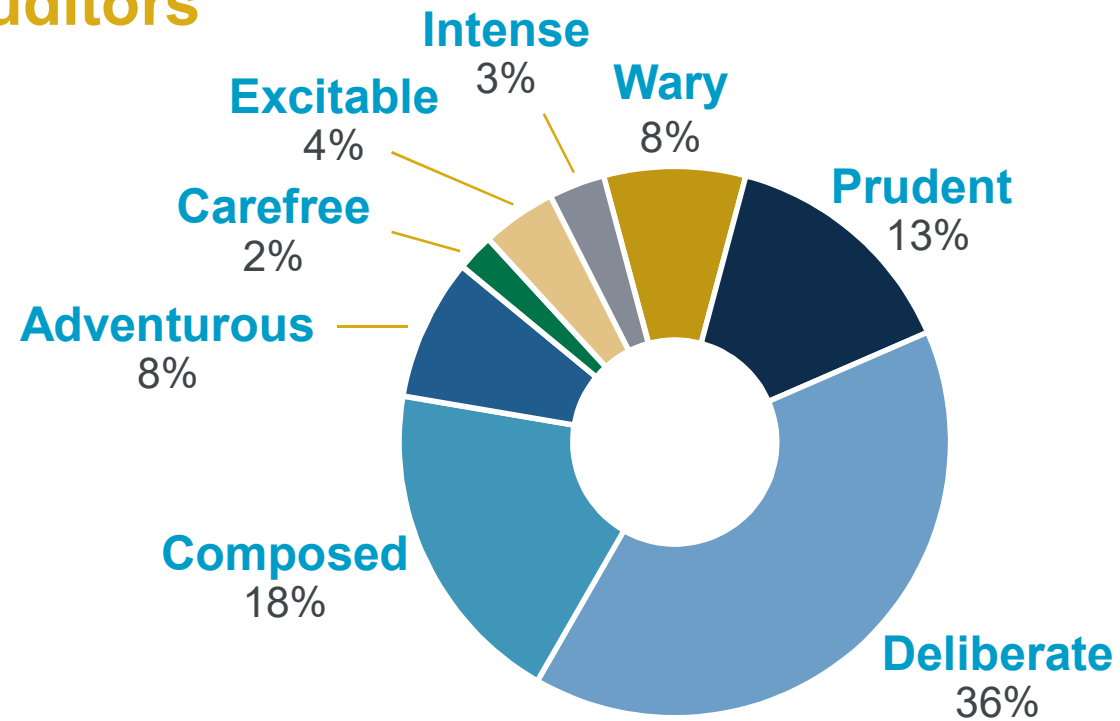
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Recruitment professionals



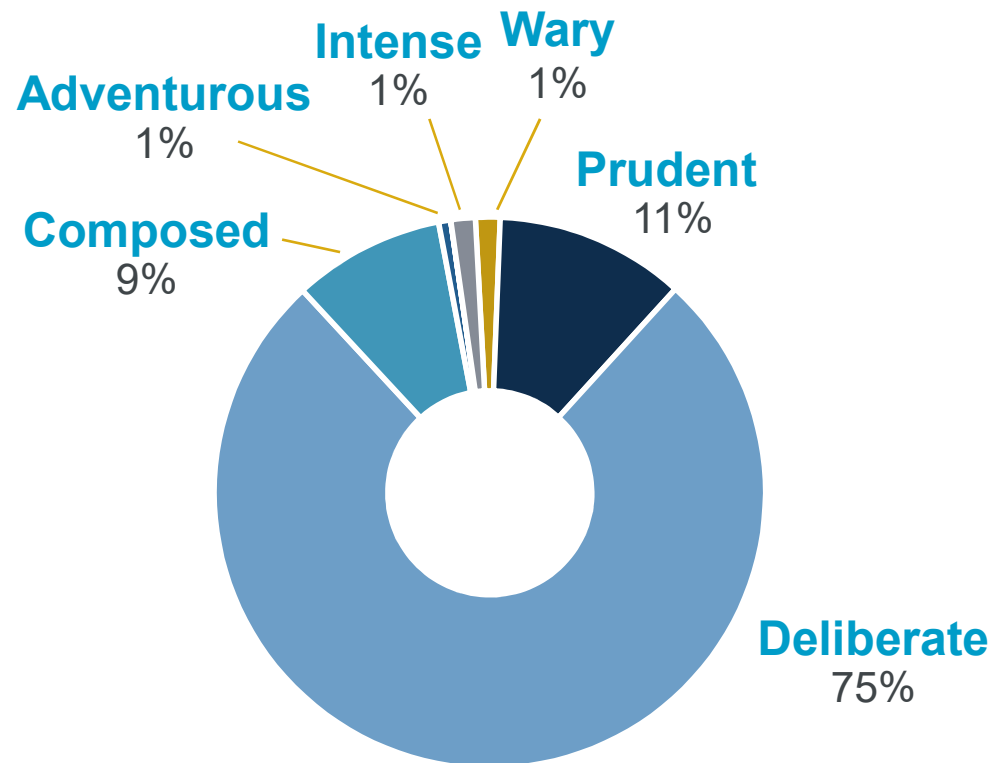
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Auditors



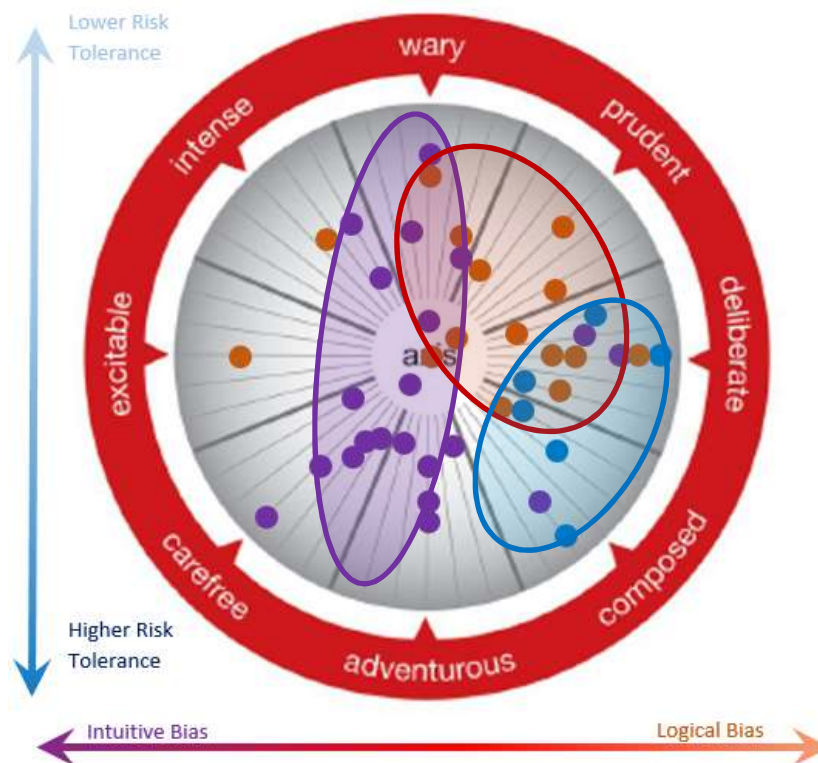
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Air traffic controllers



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Stock traders



Directional traders

Mainly long or short of an asset/class, but not both

Spread traders

Typically long and short of assets. Relative value and/or portfolio approach

Volatility traders

Option traders



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The importance of culture

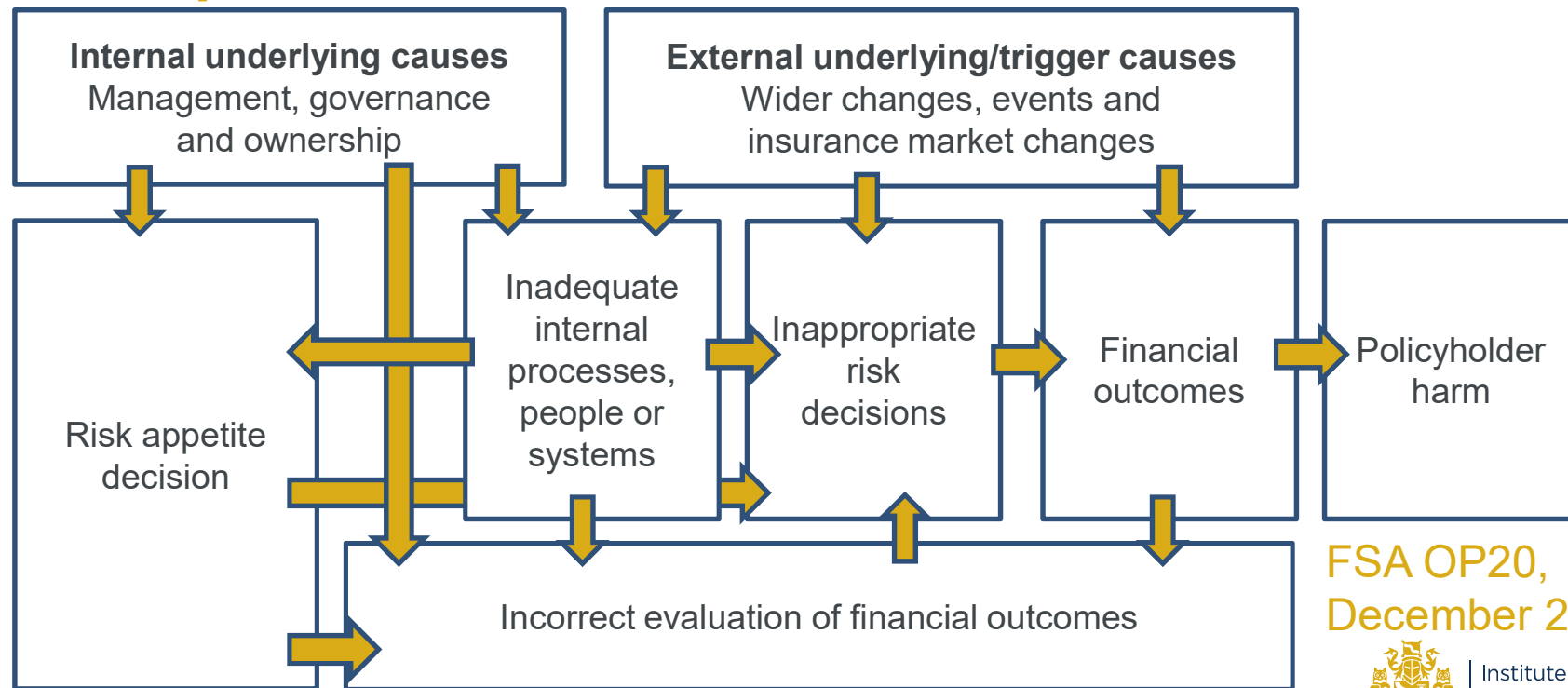
“There has not been a case of a major prudential or conduct failing in a firm which did not have among its root causes a failure of culture as manifested in governance, remuneration, risk management or tone from the top”

Andrew Bailey, June 2016



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The importance of culture

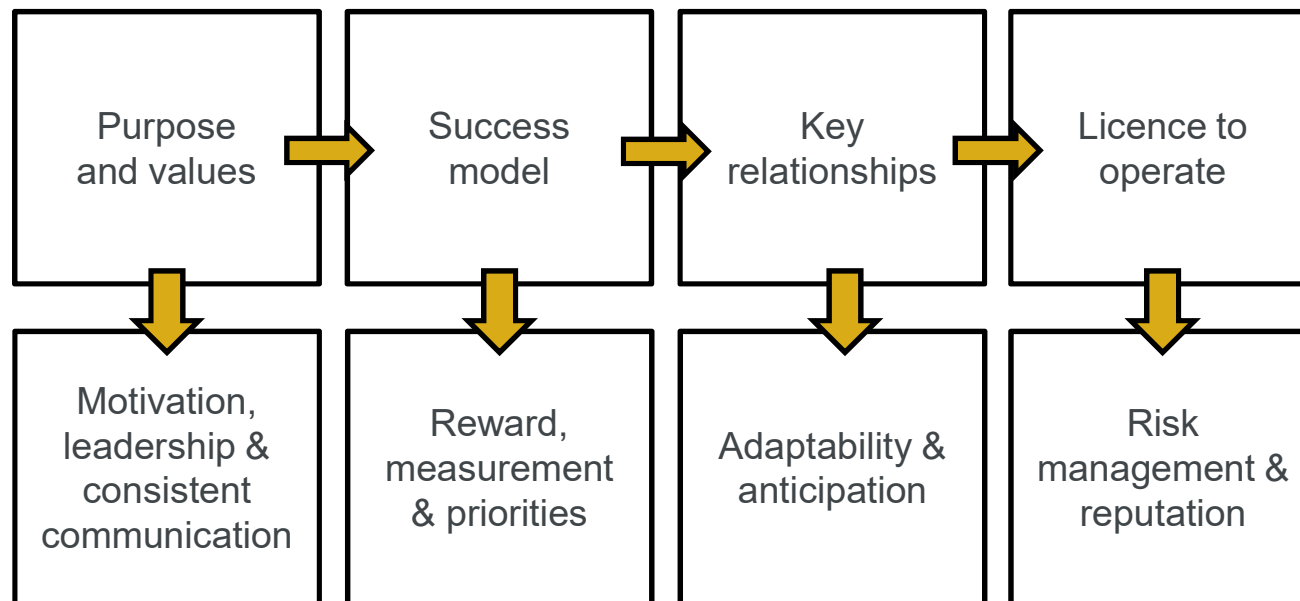


FSA OP20,
December 2002



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The importance of culture

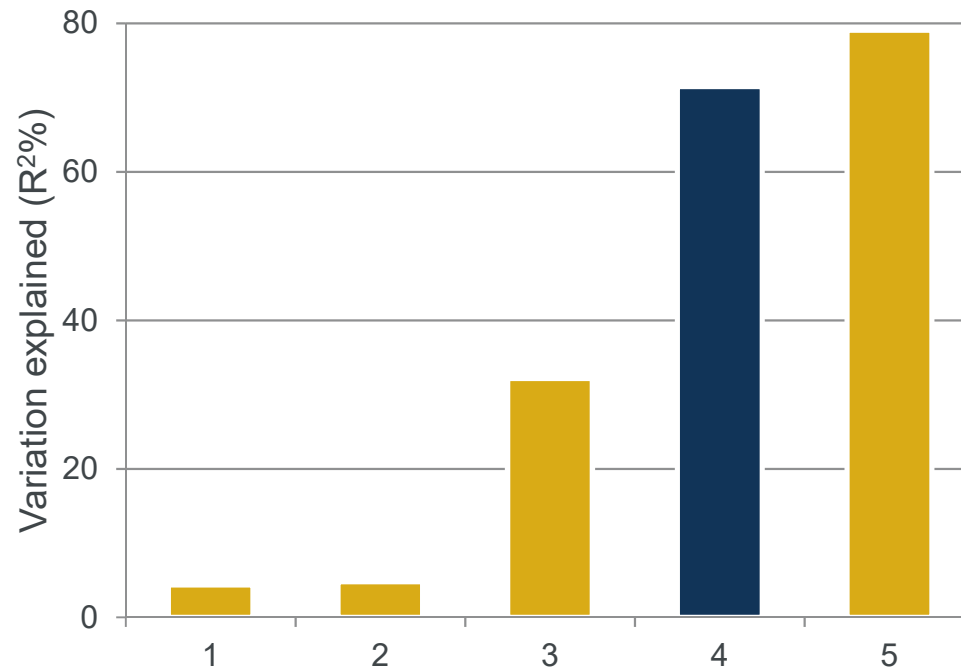


RSA 'Tomorrow's Company' 1995



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Risk culture is driven by Risk Type



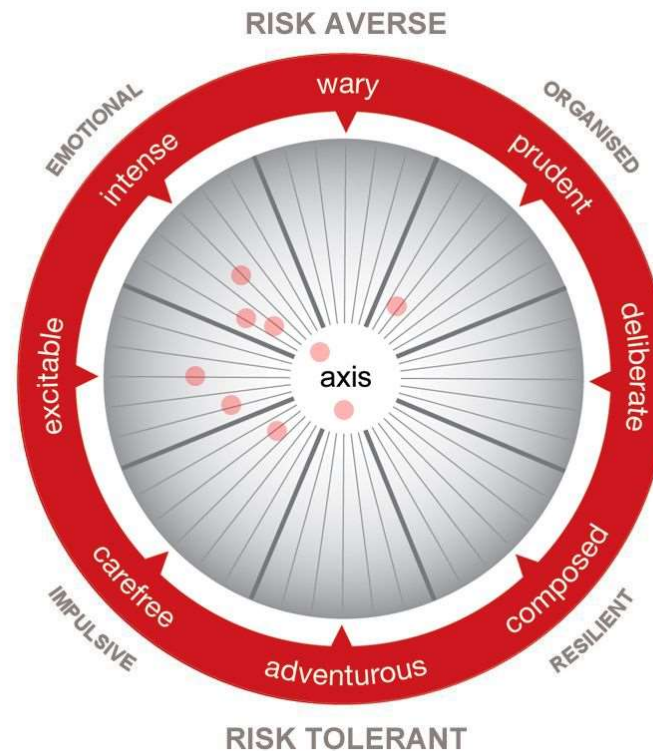
1. Compensation
2. Other manager attributes
3. Compensation + other manager attributes + controls
4. Manager styles
5. Manager styles + compensation + controls

‘Wolves of Wolf Street’, Hagendorff et al, April 2016



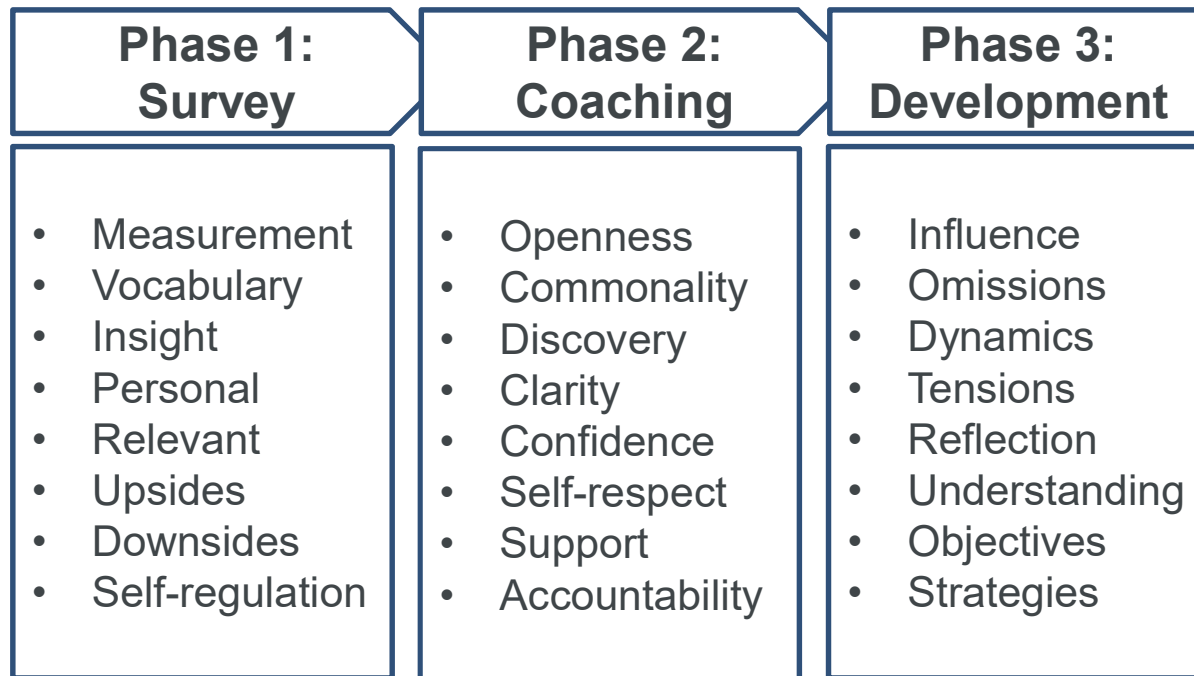
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Using Risk Types to manage risk culture



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Using Risk Types to manage risk culture



Summary

- We all have an underlying Risk Type
- Our Risk Type underpins the way we think and communicate about risk
- Risk Type is highly correlated with corporate culture and risk taking
- Corporate culture is the starting place for both success and failure
- Understanding Risk Types helps to manage risk culture



Thank you

Geoff Trickey

www.psychological-consulting.com

Russell Beaumont

www.russellbeaumont.co.uk



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Questions

Comments

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