



The Actuarial Profession

making financial sense of the future

Current issues in Life Assurance
Naren Persad – Towers Watson



Risk culture and managing it

Agenda

- Why is risk culture important?
 - How does risk culture fit into a risk management system?
- What do we mean by risk culture?
 - Can it be measured and monitored?
 - What do the results look like?
- How to improve risk culture within an organisation

Risk culture is integral to a functioning risk management framework



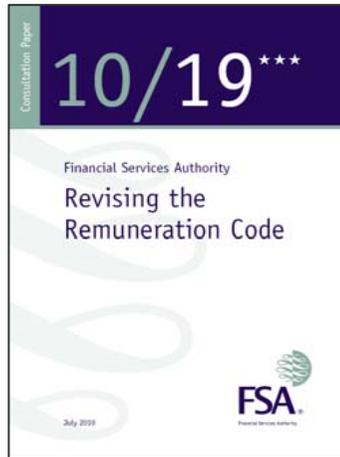
A wider definition of risk....

“Risk comes from not knowing what you're doing.”
- Warren Buffett

“Risk is like fire: If controlled it will help you; if uncontrolled it will rise up and destroy you.”
- Theodore Roosevelt

“Any time you take a chance you better be sure the rewards are worth the risk because they can put you away just as fast for a ten dollar heist as they can for a million dollar job.” - Stanley Kubrick

Other pressures to focus on Risk Culture



“4.30 A firm’s entire risk adjustment process should be driven primarily by a culture that champions and encourages strong risk management practices within a robust policy framework. This culture should be driven from the very top levels of management. It should support effective controls and governance and an open attitude towards the regulator.”



“Underpinning the effectiveness of the entire risk-management processes is the company’s risk management culture. Risk-management culture is the degree to which risk and risk management are important considerations in all aspects of corporate decision making.”



*“Unacceptable culture within firms was a major contributor to the financial crisis and so regulators should play a greater role in judging how culture drives firms’ behaviours ... We are still seeing some decisions by management in major firms that we would judge not to be prudent. **The end goal should be that firms understand their own culture and the potential risks posed by the wrong culture.**”*

Hector Sants, June 2010

Risk Culture in practice...

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

Warren Buffet

Berkshire Hathaway

We have an effective way of measuring and managing risk culture in our organisation

1. Strongly agree



2. Agree



3. Neutral



4. Disagree



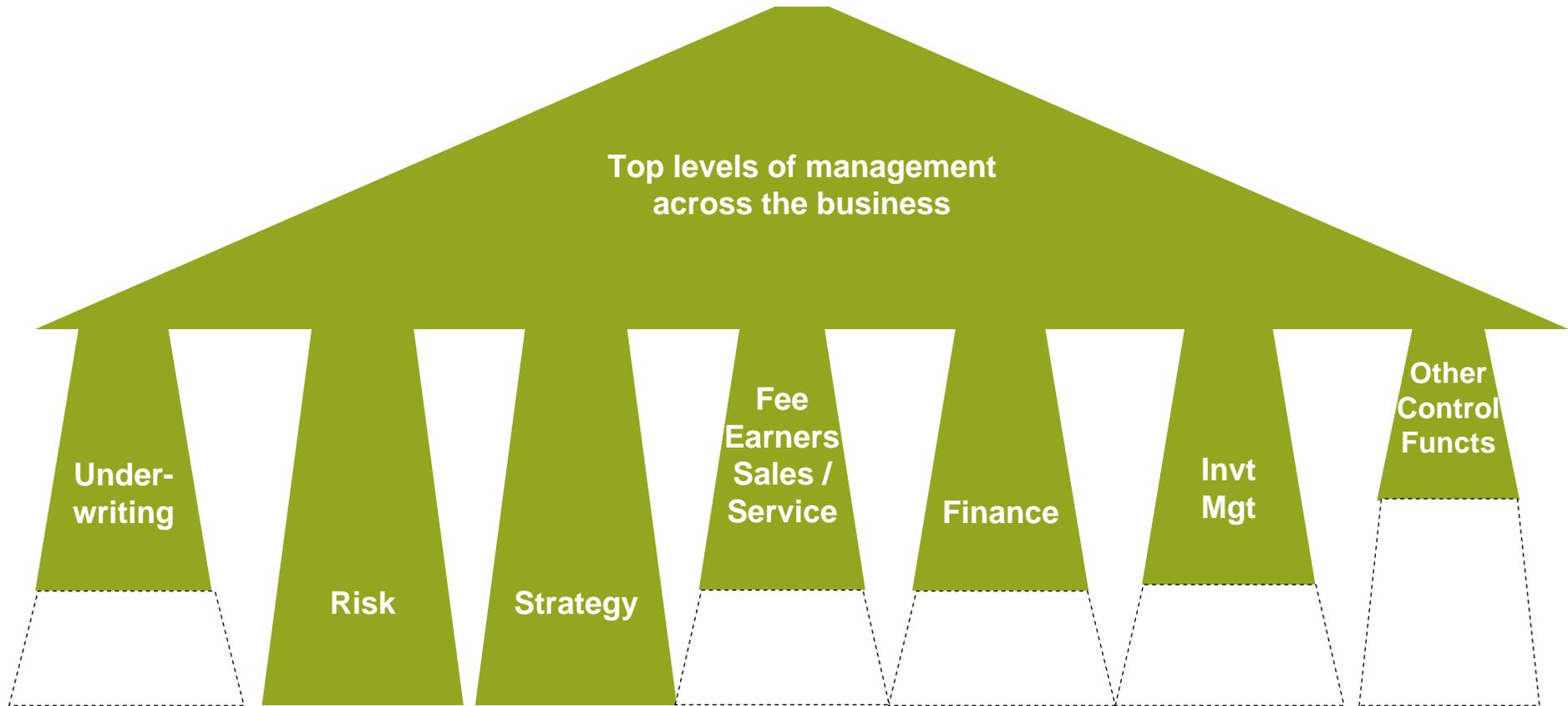
5. Strongly disagree



What characterises a good Risk Culture?

- According to a recent report from the Institute of International Finance (IIF), a positive risk culture includes:
 - Committed leadership
 - Horizontal information sharing
 - Vertical escalation of threats or fears
 - Continuous and constructive challenging of the organization's actions and preconceptions
 - Active learning from mistakes
 - Incentives that reward thinking about the whole organization
 - An effective governance structure
 - Access to authority
 - A Chief Risk Officer (CRO) with extensive influence
 - Communication of risk tolerance to the organization and external parties
 - Evidence of management objectives linked to risk management objectives

Where is the risk culture of your organisation?



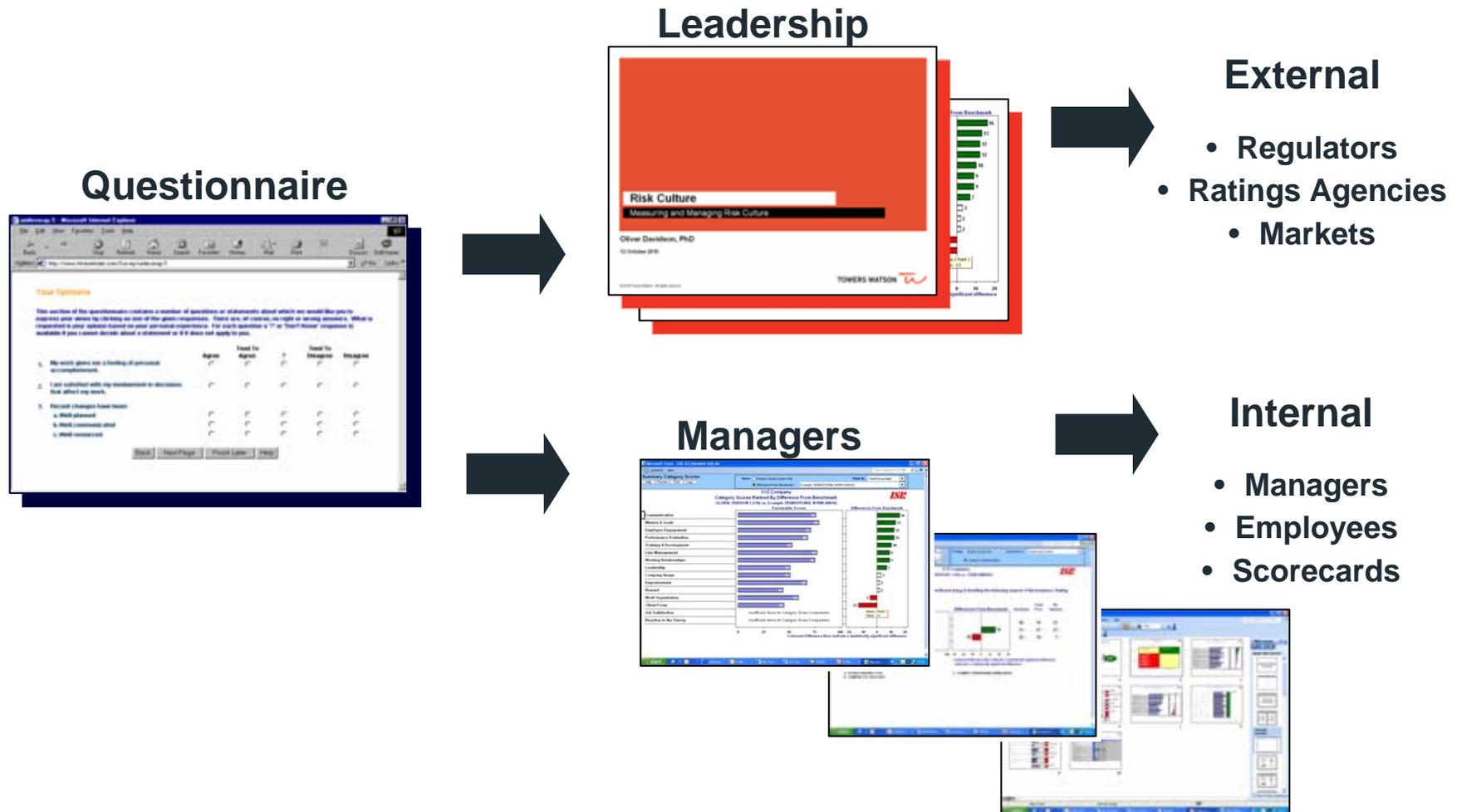
A risk culture survey

It is possible to measure risk culture in a way that is:

- Quantifiable
- Rich
- Benchmarkable
- Repeatable
- Clear
- Detailed
- Accessible

(...and we do)

A risk culture survey

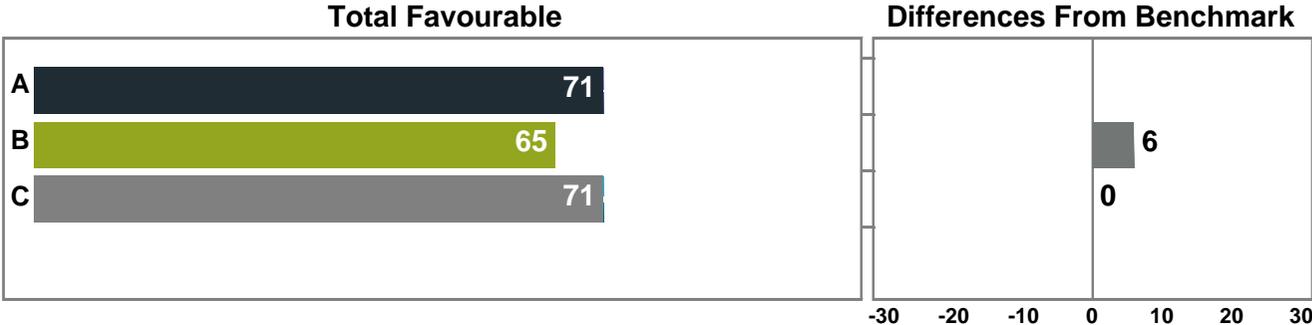


Typical coverage of a risk culture survey questionnaire

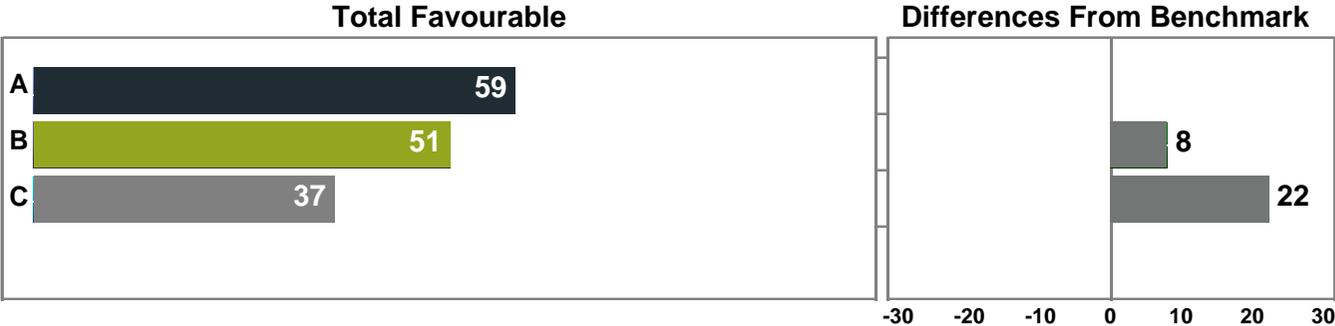
Category	Coverage
Organisational Culture	The values and norms of behaviour within the organisation generally support effective management of risk
Risk, Appetite, Strategy & Policies	The company's attitude towards risk is clear and appropriate
Leadership Commitment	Leadership throughout the organisation have a focus on risk appropriate decision-making communication and behaviour
Roles and Organisational Structure	Roles, responsibilities and rewards are determined in keeping with effective risk management
Process & Controls	Risk controls and process are appropriate, clear, timely and effective
Reporting & Management Information	There is effective reporting and documentation of risk activity
Technology & Infrastructure	IT systems are designed in a way that supports effective risk management
Tools & Methodology	The approaches to manage risk are clearly understood and appropriate to the need

High level of confidence in the design of recent changes

31. Management provides a clear sense of direction in relation to risk management.



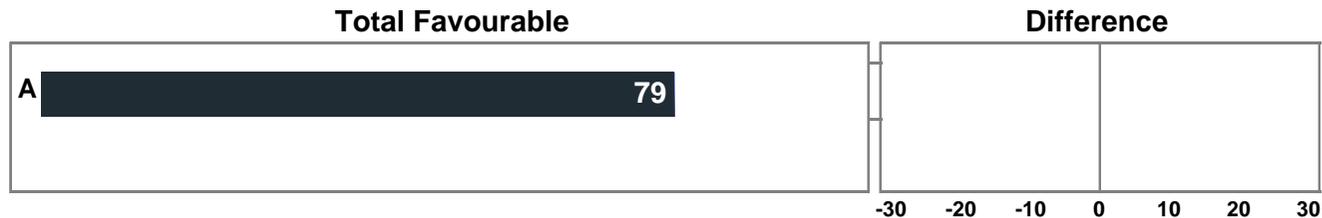
49a. Over the past year or so, changes the way we manage risk have: Been well designed



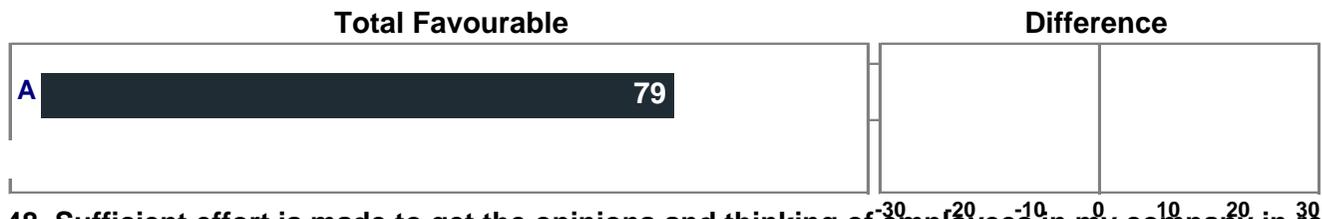
- A. XYZ OVERALL 2010 (202)
- B. TOWERS WATSON NATIONAL NORM (25482)
- C. TOWERS WATSON GLOBAL FINANCIAL SERVICES COMPANIES NORM (159464)

Upward communication channels are clear and used. More effort needed to seek employee views on risk management

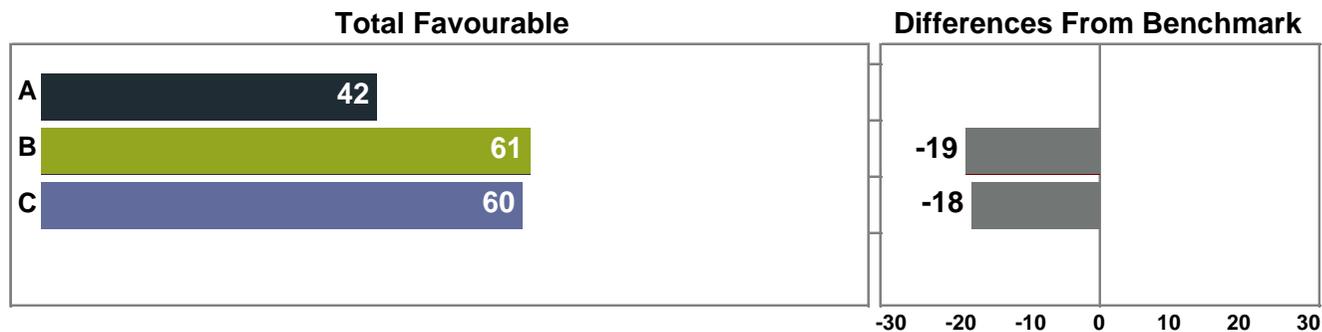
19. It is clear who to approach about risk management issues.



29. The risks to which my business unit is exposed are assessed and reported on regularly.



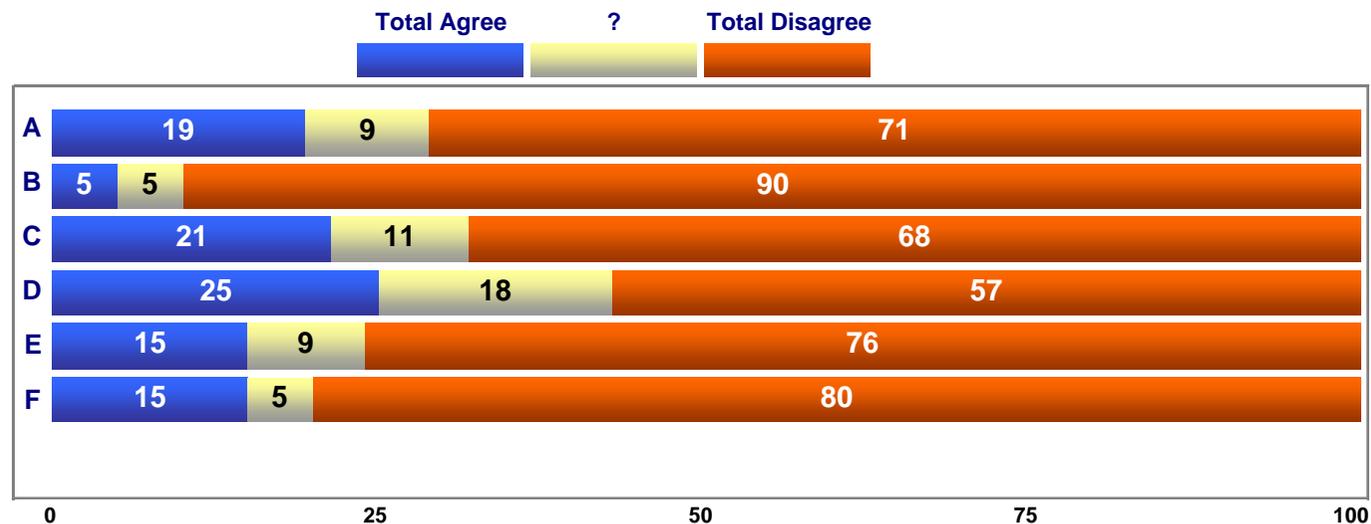
48. Sufficient effort is made to get the opinions and thinking of employees in my company in relation to risk management.



- A. XYZ OVERALL 2010 (202)
- B. TOWERS WATSON NATIONAL NORM (25482)
- C. TOWERS WATSON GLOBAL FINANCIAL SERVICES COMPANIES NORM (159464)

Most realise that risk management is not mainly a functional responsibility, though this varies across the Group

81. Risk management is mainly the responsibility of the risk management function.



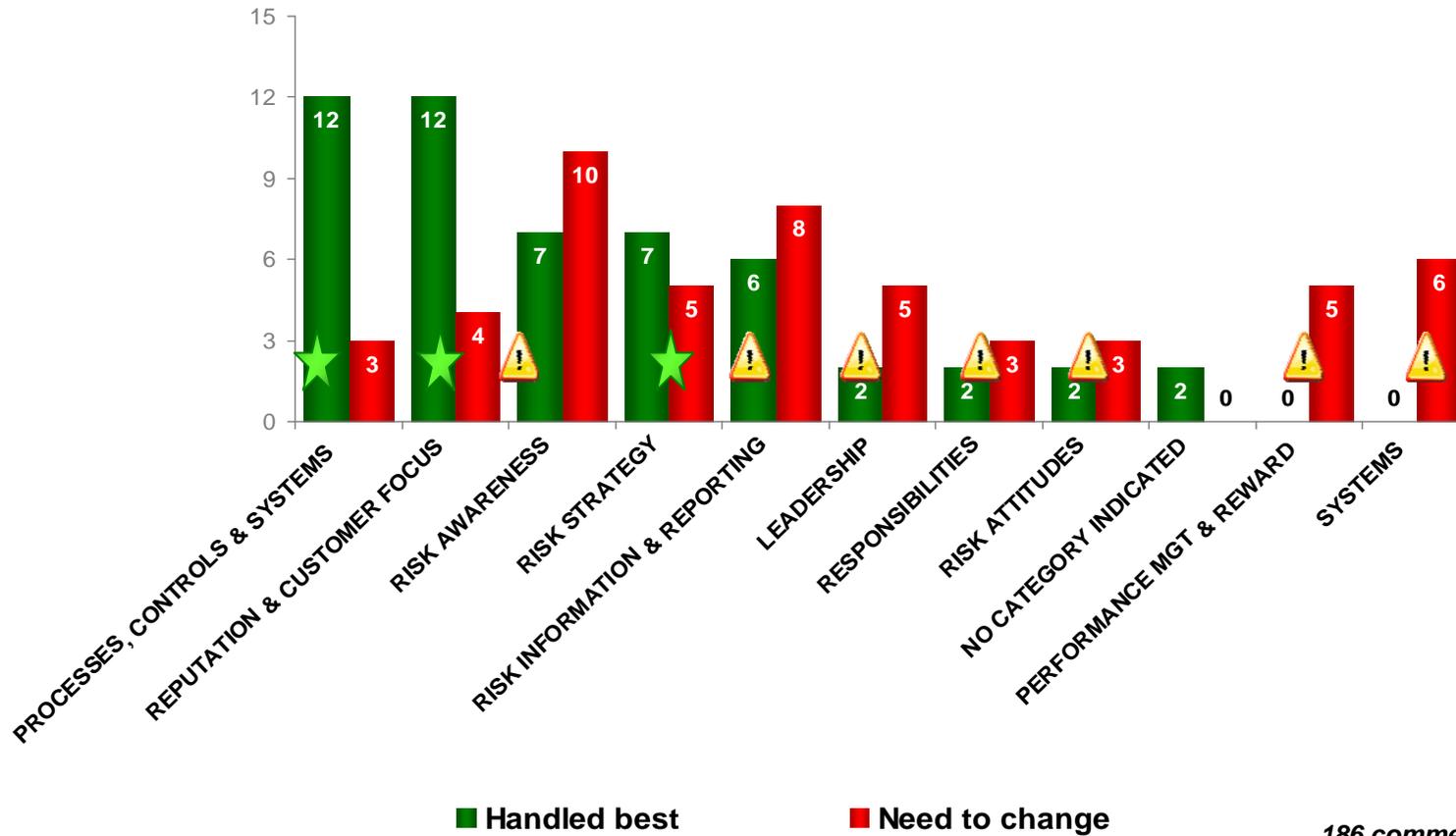
This is a "No Favourable Response" Item

** indicates a statistically significant difference*

A. XYZ OVERALL 2010 (202)
 B. GROUP FUNCTION 2010 (20)
 C. BUSINESS ONE 2010 (47)

D. CORPORATE BUSINESS 2010 (28)
 E. BUINSESS TWO 2010 (68)
 F. INVESTMENT MANAGEMENT 2010 (20)

Comments by topic

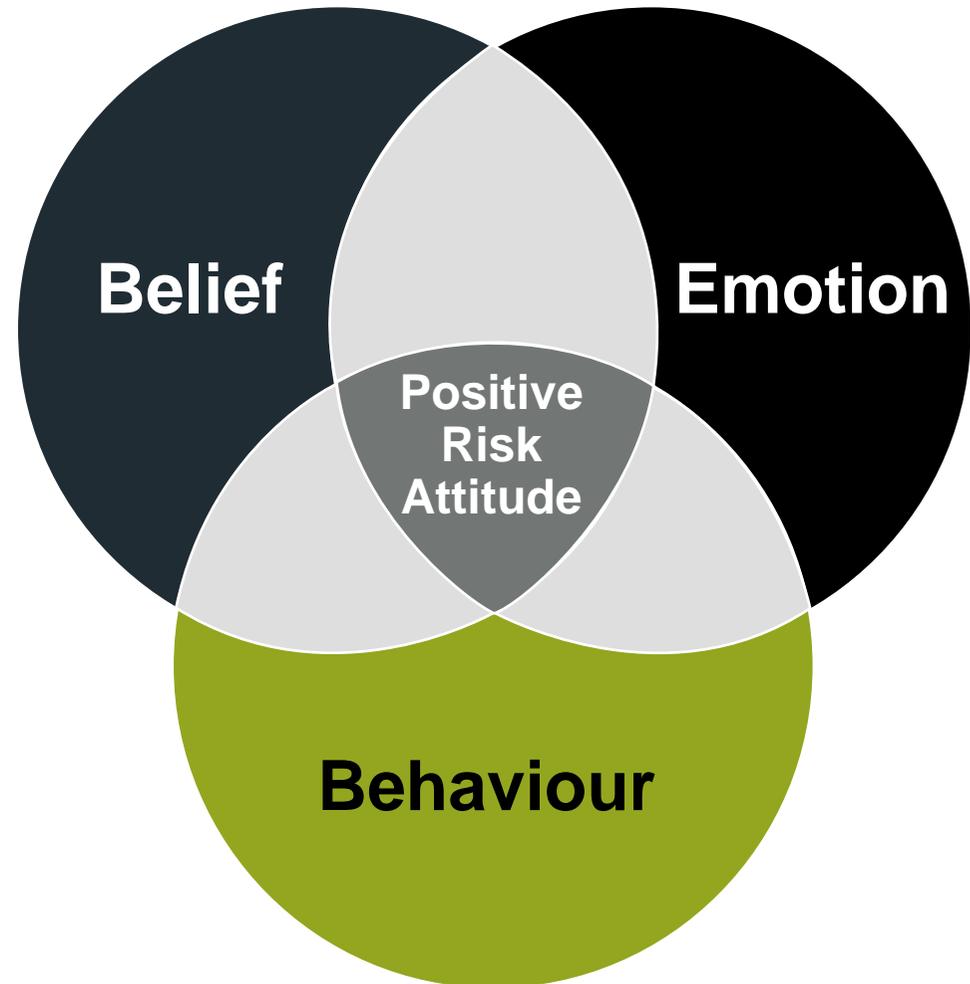


Why Conduct a Risk Culture Survey?

- Carrying out such a survey yields invaluable insights, facilitating the active management of a company's risk culture. It also enables:
 - **Setting the Tone From the Top**
 - Clear signal of the leadership agenda
 - Engages the Board with the topic of risk
 - **Engaging with external stakeholders**
 - Proactively demonstrating commitment and capability to regulators
 - Communicating with rating agencies, markets/investors
 - **Creating an internal dialogue**
 - Giving managers in the business a language and structure in which to discuss the concept of risk culture
 - Identifying and addressing good/poor practice compared to internal and external norms
 - **Better informed business decisions**
 - Informing the business case for change initiatives
 - Assessing ROI of risk management initiatives and training

Positive risk attitude

- **BELIEF** – belief that managing risk effectively is a good thing for the business to do
- **EMOTION** – personal commitment to ensure risks are well managed
- **BEHAVIOUR** – conviction that you personally make a difference to risk management



Key drivers analysis

Understanding what drives risk attitudes



Example interventions to improve risk culture



Summary

- Regulators, ratings agencies and competitive pressures demand a sharper focus on risk culture in financial services companies
- Although risk culture has traditionally been seen as difficult to measure, a well designed and implemented risk culture survey offers clear, quantitative data that is detailed, rich and comparable internally and externally
- Risk Culture survey results can be used as the basis of both internal and external communications and serve as an important baseline to measure future progress
- It can be a useful tool to help companies satisfy Solvency II regulatory requirements around the Use test and ORSA

Some lessons learnt from experience

- Identify who is responsible for your risk culture
- Don't shy away from risk culture – it can be measured and managed
- Bring together capabilities and perspectives from different disciplines
- Changing any aspect of culture takes time. Start early and measure progress to maintain momentum