

Risk, Young, Culture – Do you fit the mix?

The importance of having a sound risk culture

Sean McGing

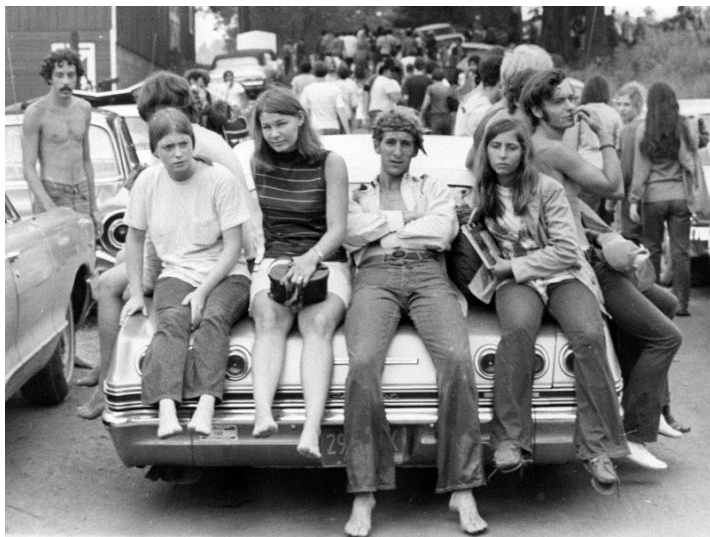
Young Actuaries Program - Sydney, 22 September 2015



Based on research (see paper references on later slide) by
© Sean McGing of McGing Advisory & Actuarial, and
© Andrew Brown of lead.first

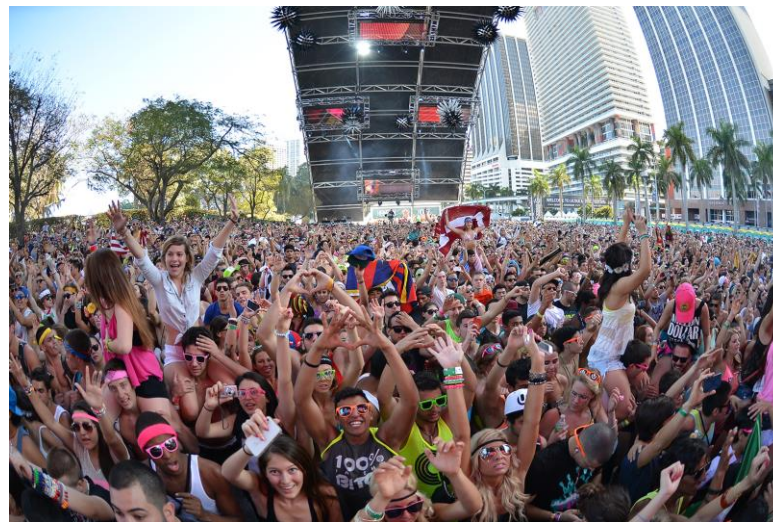
Risk, Young, Culture

1970s Actuarial students



Source: By Ric Manning (Own work) [CC BY 3.0 (<http://creativecommons.org/licenses/by/3.0>)], via Wikimedia Commons

2010s Actuarial Students



Source: Ultra-music-festival-week-1-miami-fl-2013" by Vinch - Own work. Licensed under CC BY-SA 3.0 via Commons

What we'll cover

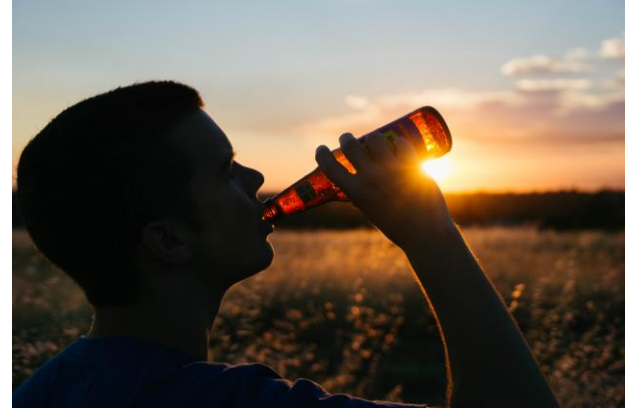
1. Case study on changing risk culture –VIC Road deaths
2. Risk & Enterprise Risk Management
3. Culture & Risk Culture
4. What is a Mature Risk Culture?
5. Case studies in Risk Culture
6. Measuring Cultural Maturity
7. Conclusions, Recommendations & Insights

Risk, Young, Culture

1970s Actuarial students



2010s Actuarial Students

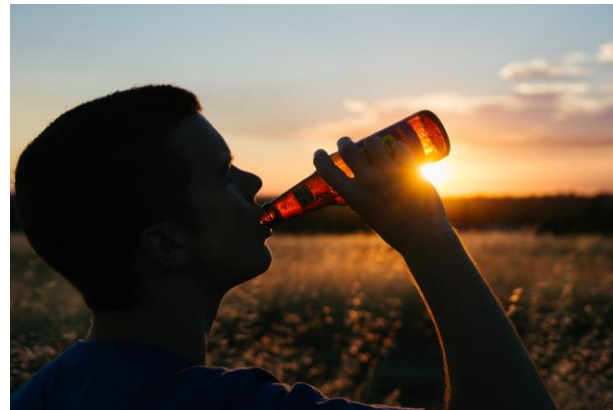


Risk, Young, Culture

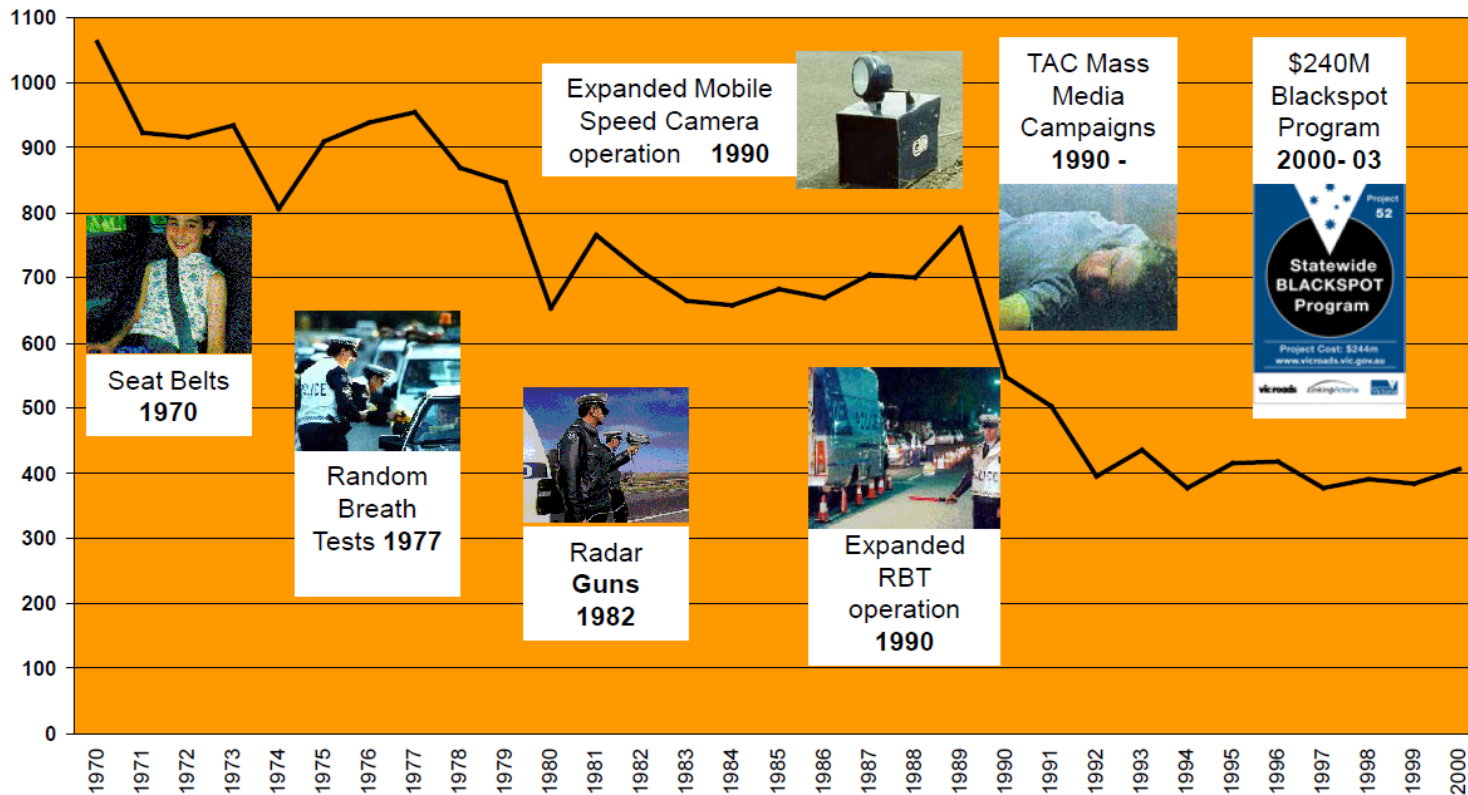
1970s Actuarial students



2010s Actuarial Students



It all started with seatbelts...

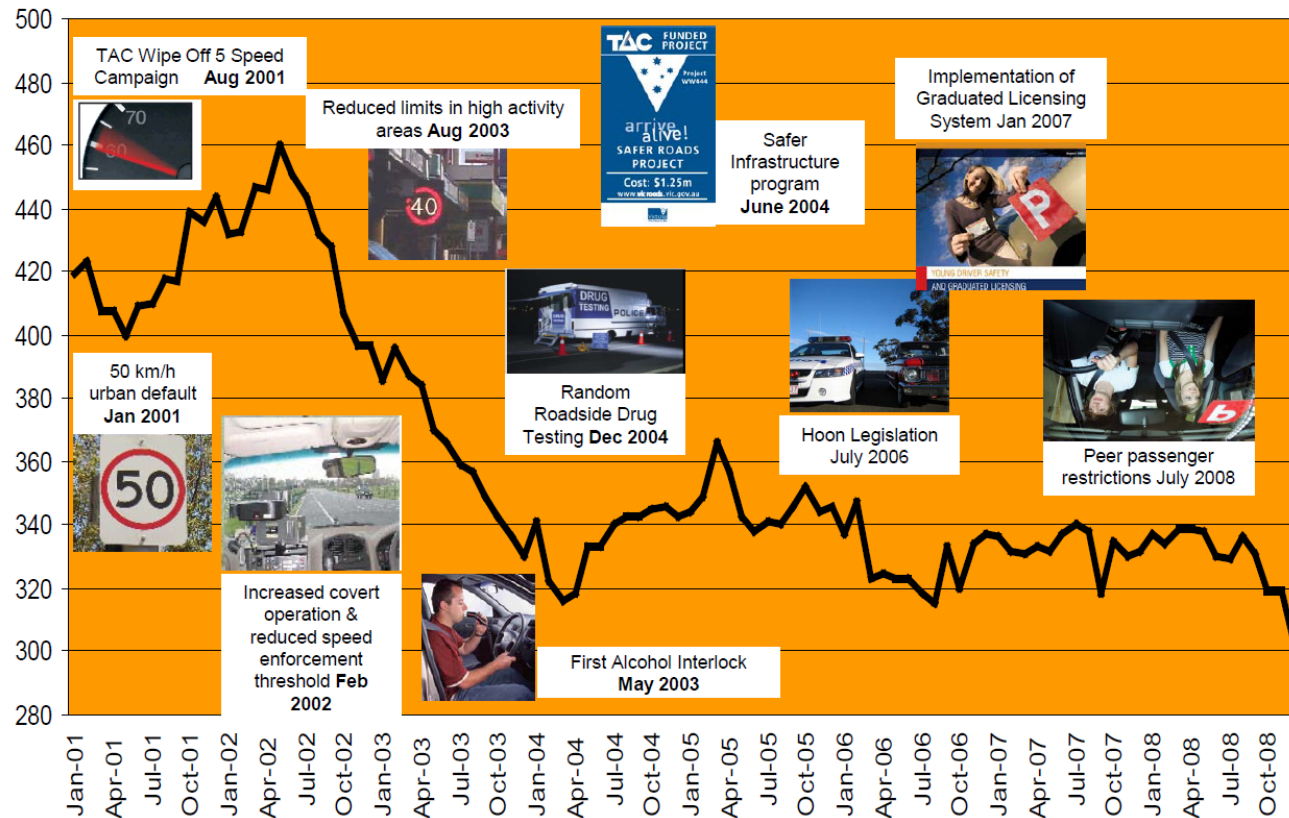


Road Deaths Victoria 1970 to 2000



Source: TAC, 2011,
The potential for
insurance markets to
reduce road trauma -
Samantha Cockfield.

And has continued over 40 years



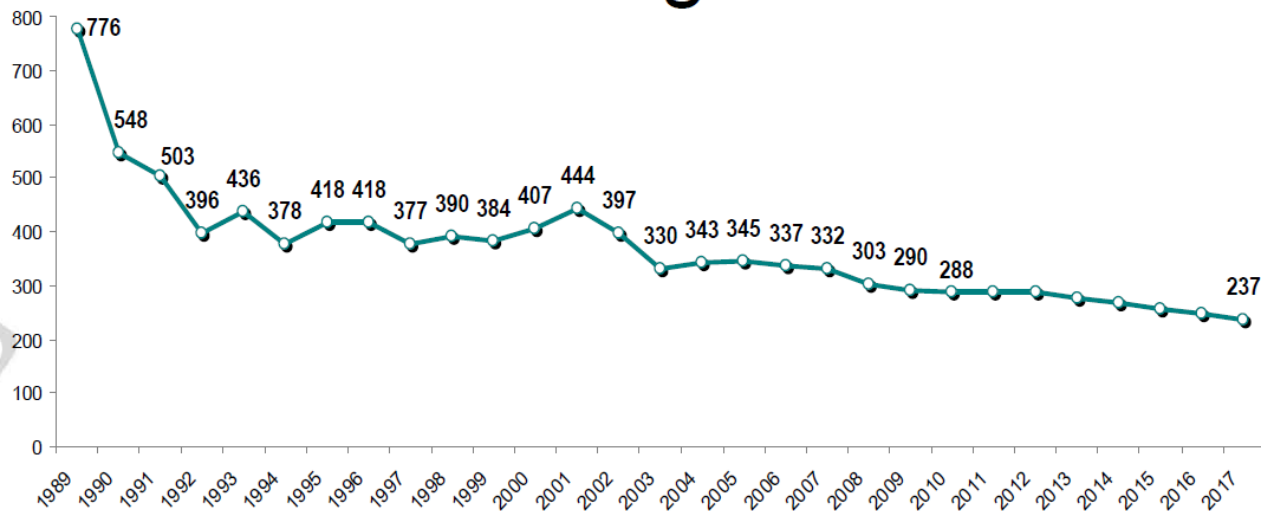
Road Deaths Victoria 1971 to 2008



Source: TAC, 2011,
The potential for
insurance markets to
reduce road trauma -
Samantha Cockfield.

Victoria's Road Toll – The Challenge

2011
Plan



Victoria's fatality rate is now among the lowest globally
By the end of Arrive Alive II (2017) the target is 237

Source: TAC, 2011,
The potential for
insurance markets to
reduce road trauma -
Samantha Cockfield.

2015 Plan



The image shows a landing page for the 'Towards Zero' road safety campaign. The background is a close-up of a man's face with a beard, looking slightly to the side. Overlaid on this is a graphic of concentric circles, with a blue circle in the center containing the word 'ZERO'. To the left of this circle is the word 'TOWARDS'. Below the central graphic, there is a quote: 'REDUCING ROAD TRAUMA IS A SHARED RESPONSIBILITY. THERE'S NO ONE SOMEONE WON'T MISS.' At the bottom of the page, there is a light blue banner with the text 'WORKING TOWARDS A FUTURE FREE OF DEATHS AND SERIOUS INJURIES ON OUR ROADS.' In the top right corner, there are social media icons for Facebook and Twitter. In the bottom center, there is a white circle with a downward-pointing arrow.

TOWARDS ZERO

REDUCING ROAD TRAUMA IS A SHARED RESPONSIBILITY.
THERE'S NO ONE SOMEONE WON'T MISS.

WATCH THE TV AD 

BECOME ONE TOWARDS ZERO

WORKING TOWARDS A FUTURE FREE OF DEATHS
AND SERIOUS INJURIES ON OUR ROADS.

Source
<http://www.towardszero.vic.gov.au/>

Risk & Risk Management

- **Risk** is the effect of uncertainty on objectives
 - (ISO 31000 – Standards Australia)
- **Risk management** is the culture, processes and structures that are directed towards taking advantage of potential opportunities while managing potential adverse effects
 - (ASX Corporate Governance Council – from Principle 7 – Recognise and manage risk)

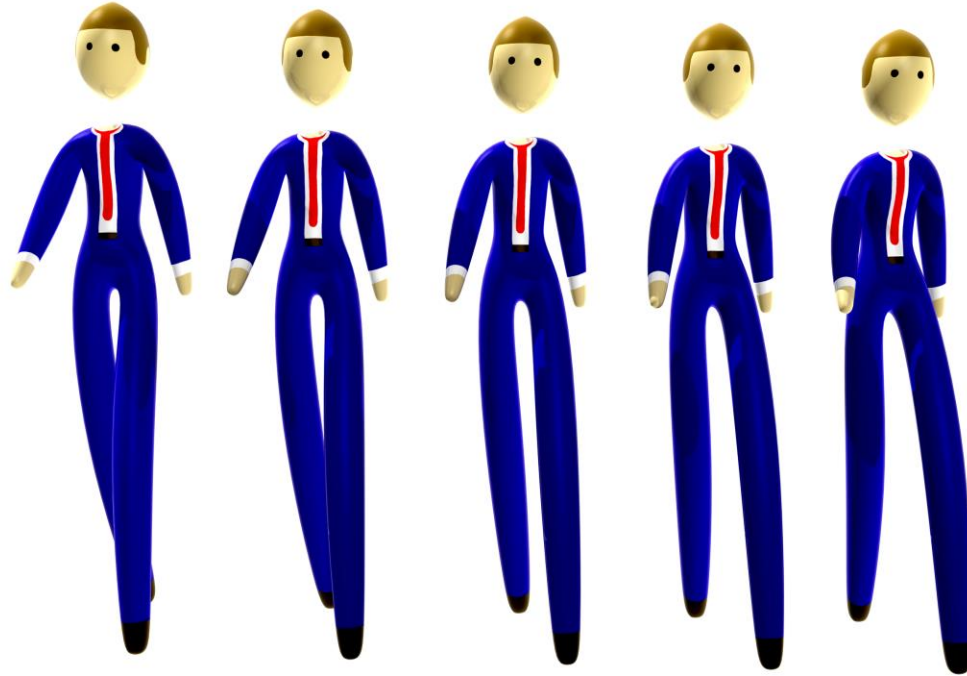
What do we mean by Enterprise Risk Management?



What is risk culture?

- An organisation's risk culture describes the degree to which its culture encourages or limits the taking of risks and the opportunities that arise from those risks.
- *“What marks out a good board is its activism in embedding a strong risk culture throughout the institution. Behaviours, not structure.”*
 - *Dr John Laker, Former Chairman of APRA*

What do we mean by culture?



Artefacts



Espoused values



Tacit assumptions



What is a mature Risk Culture?

- Risk will be part and parcel of each and every conversation and decision.
- When considering strategy, look at the risk appetite and what risks and opportunities will drive the business forward.
- The risk appetite of management and staff align to the risk appetite of the Board.
- Processes and Board mindset drive:
 - the management of immediate risk,
 - the understanding of new and emerging risks, and
 - increasing the resilience and adaptive capacity of the organisation to future (unknown) risks.

What are the observable stages of risk maturity?



Risk unaware...



Reactive / Compliance



Mechanical



Proactive – Risk Ownership



Mature - Distributed Responsibility



Evolution of Risk Culture

	Unaware	Reactive	Mechanical	Proactive	Mature
Individual mindset	unaware	cynical	aware	integrated	risk = opportunity
Group mindset	low trust	risk averse	committed	owned at work group	distributed
Behaviour	reckless	compliant	efficient	effective	strategic
Systems	none	compliance	performance	feedback	growth
Risk function	none	compliance	improvement	partner	empower

Source: A. Brown and material provided by S. Bennett (Enhance Solutions). Adapted from a method by P. Hudson applied to safety cultures.

How do you shape a culture?

- *“If you set out to change the culture, you end up in fog. If you set out to change behaviours, then you’ll change the culture.”*
– Ed Schein



What shapes culture?

1. What a leader attends to, measures, rewards and controls
2. How leaders react to critical incidents
3. Leader role modeling
4. Criteria for recruitment, promotion and retirement
5. Formal and informal socialising
6. Recurring systems and procedures
7. Organisational design and structure.

Case Studies – Risk culture – the good

*Global
Financial
Crisis*



Case Studies – Risk culture – the bad and ugly



Obstacles to a mature risk culture

- *"Most success springs from an obstacle or failure. I became a cartoonist largely because I failed in my goal of becoming a successful executive."*
 - Scott Adams (Creator of Dilbert)



Obstacles to a mature risk culture – (1)

- Death by regulation
- Drinking the kool-aid
- Rubber bands
- Sterility

Obstacles to a mature risk culture – (2)

- The Great Dictator
- Starving child
- Modelamania
- Night blindness

Measuring Cultural Maturity

- Why measure?
 - “What gets measured gets managed.”
 - But.....

Measurement is not separate from the culture

- Culture neutral measurement
- Messages sent through measurement
- What's done with the measurement

Measurement is stage dependent

- Methods of measurement should co-evolve with the culture
- If mature, integrate risk culture survey into broader organisational culture or engagement survey
- Supplemented survey with interviews and/or group discussions to understand the context

Methods of Measurement

- Surveys
- Staff interviews
- Focus groups
- External stakeholder interviews
- Social media review
- Review of operational processes / procedures
- Training

Quantitative + Qualitative = deeper insight

Our Insights

..on the importance of Risk Culture as an element of ERM across multiple industries

The driving force behind best practice risk management across an enterprise is the evolving culture

- Risk ownership
- Social coherence
- Adapting to ongoing change
- *A sound risk culture is a substantial determinant of whether an institution is able to successfully execute its agreed strategy within its defined risk appetite.”*
 - *Financial Stability Board*

There are more similarities than differences across industries / areas

- Behaviour – key driver of culture
- Culture – key driver of risk effectiveness
- Culture is about how global messages (tone from the top) are enacted in local groups (tune from the middle) – Ralph Stacey

Cycles are essential for learning

- *“Human beings, who are almost unique in having the ability to learn from the experience of others, are also remarkable for their apparent disinclination to do so.”*
– Douglas Adams
- *“The seeds of the next crisis are sown in the solution to the previous crisis”*

Conclusions

To optimise return vs risk from a risk culture perspective:

1. Risk integral to every decision
2. Board sets tone
3. Invest in mature leadership
4. Diverse and team best
5. Catastrophe requires resilience – mature risk culture best for this
6. Best practice corporate governance
7. Transparency enhances brand
8. Have organisation “humming”

Recommendations

Take the time to think ... how these findings and insights into risk culture across industries might apply to your organisation

1. Incorporate the objective of having a sound, mature risk culture embedded in your ERM policy
2. Set the desired risk appetite levels relating to risk culture against which measurements need to be compared
3. Conduct a risk culture audit annually - focus on trends, identify actions
4. Get external independent objective assessments
5. Have KPIs/KRIs related to risk culture in performance assessments
6. If can't match risk culture to risks, consider changing risk processes to work with the culture you have

Take-aways

1. Measuring risk cultures will help to navigate the course towards choosing the road we wish to walk down.
2. Three key areas to measure and manage in a risk culture are:
 - Risk ownership
 - Social coherence
 - Adapting to ongoing change – forward looking

"We shall not cease from exploration, and the end of all our exploring will be to arrive where we started and know the place for the first time."

T.S. Eliot

Our Source Papers

1. McGing, S. and Brown, A, 2013, *Board leadership in a complex world – optimising value from risk and opportunity* – Actuaries Institute
<http://www.actuaries.asn.au/Library/Events/SUM/2013/Sum2013PaperAndrew%20Brown%20Sean%20McGing.pdf>
2. McGing, S. and Brown, A, 2014, *Risk Culture Leadership, Measurement & Management – A Comparison across Industries* – Actuaries Institute
<http://www.actuaries.asn.au/Library/Events/FSF/2014/BrownMcGing.pdf>

Questions & Discussion



Contact Details



Sean McGing

0411 229 641

sean.mcging@mcging.com.au



Andrew Brown

0401 874 579

andrew@leadfirst.com.au