

Risk Mitigation and Culture

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The Importance of (Risk) Culture

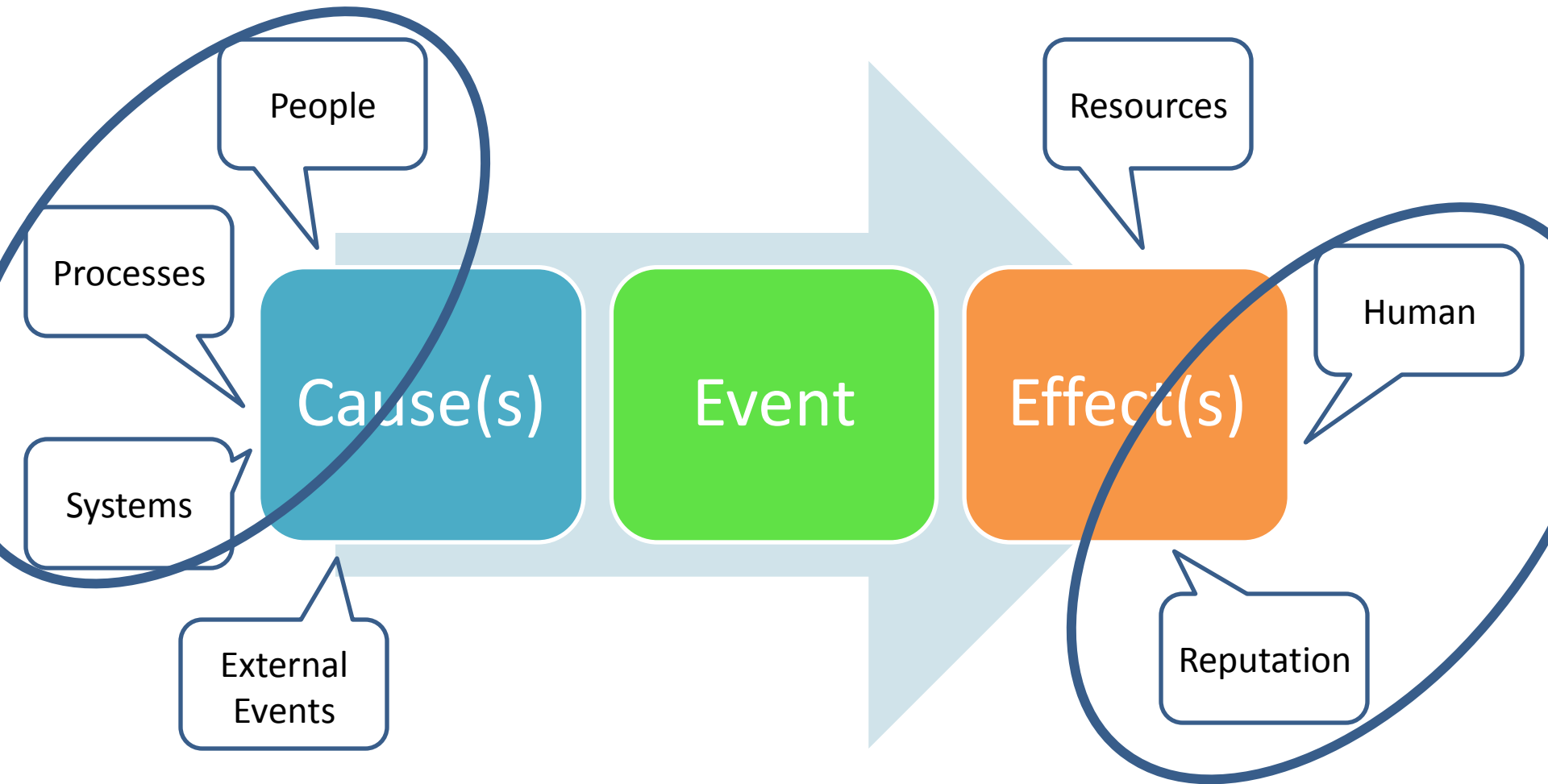
“In contrast to JPMorgan Chase’s reputation for best-in-class risk management, the whale trades exposed a bank culture in which risk limit breaches were routinely disregarded, risk metrics were frequently criticized or downplayed, and risk evaluation models were targeted by bank personnel seeking to produce artificially lower capital requirements.” (Permanent Subcommittee on Investigations 2013)

"Barclays became complex to manage, tending to develop silos with different values and cultures. Despite some attempts to establish Group-wide values, the culture that emerged tended to favour transactions over relationships, the short term over sustainability, and financial over other business purposes. " (Salz Review 2013)

“The strategy set by the Board from the creation of the new Group sowed the seeds of its destruction.. the strategy created a new culture in the higher echelons of the bank. This culture was brash, underpinned by a belief that the growing market share was due to a special set of skills which HBOS possessed... Parliamentary Commission

“The financial crisis of 2008 has rocked trust and confidence in the industry at all levels of society, including many of those who work within the industry itself. ‘Culture’ has been mooted by many as a **root cause** of the damage done and a programme of cultural change has been proposed as the course of action to **aid recovery**.” (Salz Review 2013)

Culture and Risk Mitigation



Cultural Roots of Effective Mitigation



Key Considerations

Information and Organisational Structure	<ol style="list-style-type: none">1. Encourage informal interaction between managers to promote risk awareness and trust2. Develop robust risk communication aligned with risk appetite3. Value objective risk analysis and soft skills
Integration Between 1st and 2nd Lines	<ol style="list-style-type: none">1. Risk management should be viewed as value adding2. Do you spend too much time in compliance mode?3. Integrate risk and performance management – all staff should be pro-actively managing risk
Risk Function Footprint	<ol style="list-style-type: none">1. Promote a balance between risk and opportunity2. Embed risk and opportunity awareness in decision making3. Use time with other functions and departments wisely
Documentation vrs Behaviours	<ol style="list-style-type: none">1. Encourage creativity so staff can adapt to uncertainty2. Accept dissent and consider different points of view3. Avoid excessive documentation and red tape

Want to Know More?: LSE/Plymouth Research Project

- Funded by ESRC, CII, CIMA and Lighthill Risk Network. Supported by Financial Services KTN.
- Aim is to develop a diagnostic toolkit to facilitate the evaluation and management of risk culture.
- Working with CROs from a range of financial institutions to develop the toolkit.
- Interim results link:
<http://www2.lse.ac.uk/researchAndExpertise/units/CARR/pdf/Risk-culture-interim-report.pdf>

Thank You

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