

Operational Risk and Incentives

3rd June 2014

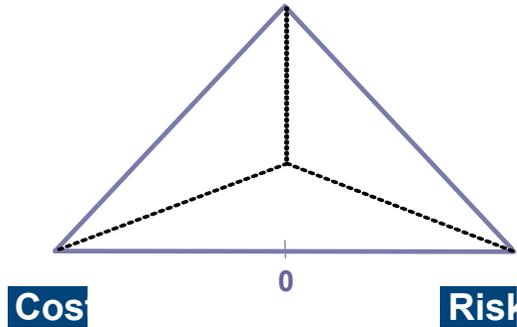
Jennifer Moodie, Director of Operational Risk

Presentation to the Institute of Operational Risk

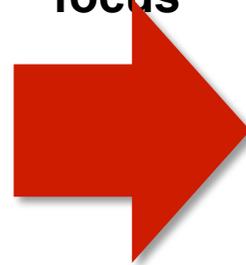
- To understand how incentives can be used to benefit Operational Risk Management
- Provide an overview of Santander UK's approach to use incentives to improve Operational Risk management
- To understand how a “Positive Risk Culture” can be a driver and an enabler for organisations
- To provide an overview of I AM RISK and other San UK campaigns to encourage staff to embrace a “Positive Risk Culture”

Long term risk focus is beneficial for organisations

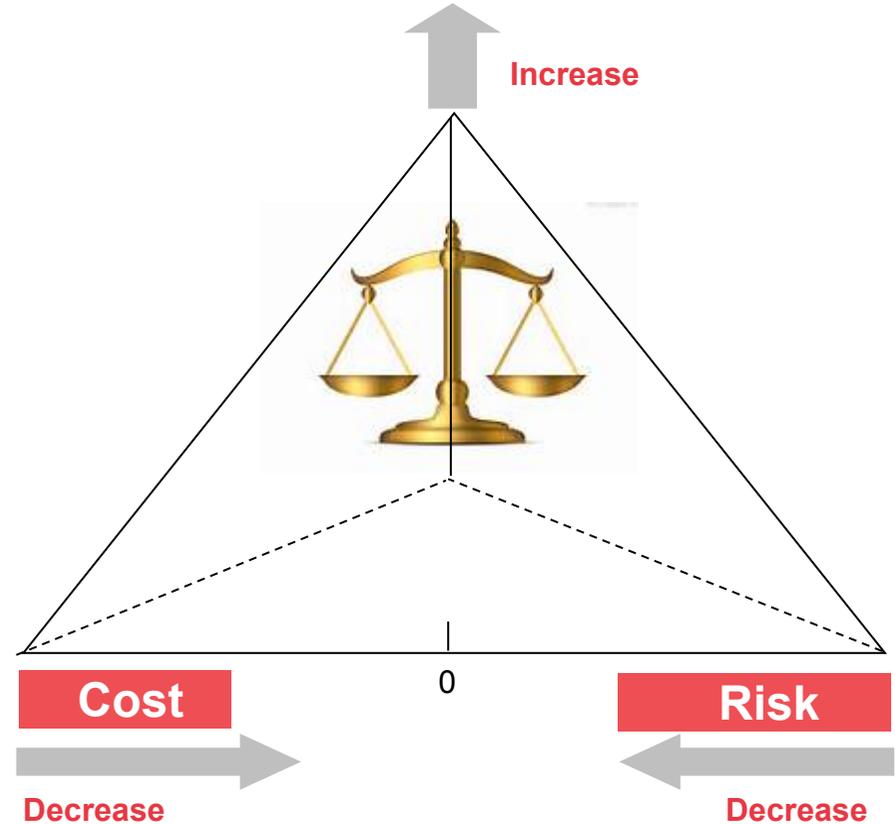
Status Quo
Customer Experience



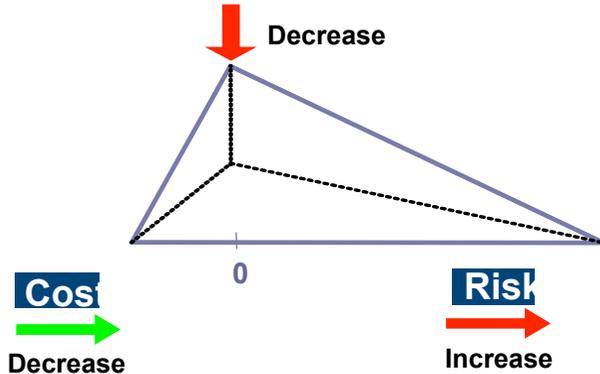
Long term risk focus



Customer Satisfaction

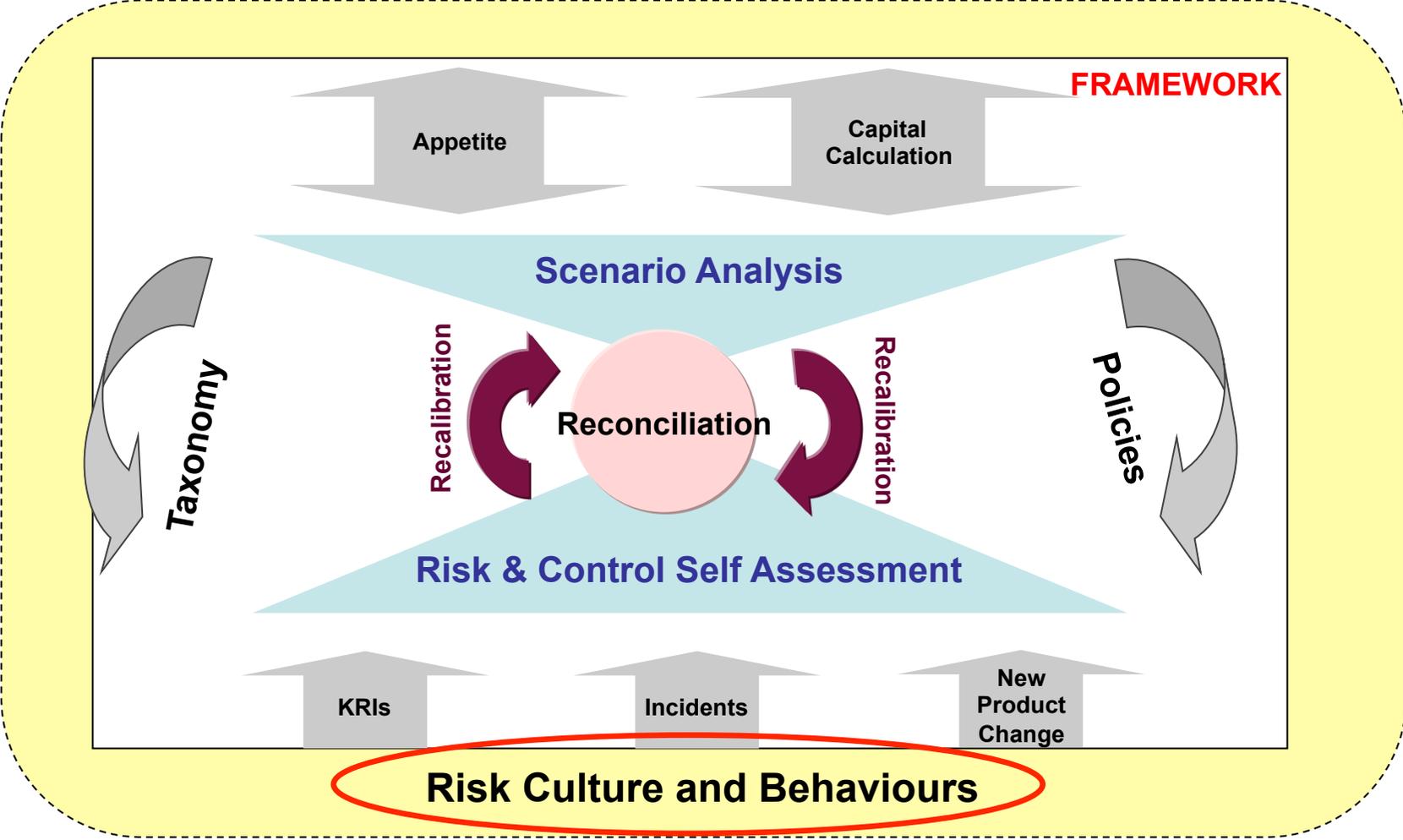


Cost Focus
Customer Satisfaction



How should we incentivise people to focus on a long term risk perspective?

OR Management does not work if people do not speak up



How can we incentivise people to speak up?

Operational Risk Management impacts all stakeholders

5

OUR PEOPLE
from job losses and prosecution

THE BANK
from fines, poor profits
and possible closure

OUR CUSTOMERS
from mis-selling and
poor service

I AM RISK



OUR SHAREHOLDERS
investment and faith in our
business

San UK - I AM RISK Campaign

- To encourage **all employees to act as risk managers** and take an active role in identifying, accessing, managing and reporting risk
- The aim is to **empower everyone to take personal responsibility** to identify, assess, manage and report (i.e. Share and escalate) risks
- An I AM RISK mailbox and helpline have been set up to **encourage all employees to speak up**, and improve what we deliver to stakeholders
- The mail box should act as a 'catch all' for those wishing to raise issues



■ IDENTIFY

■ ASSESS

■ MANAGE

■ REPORT

Education on what a positive risk culture means...

- Training courses on why we should care about “doing the right thing” from an Operational Risk Management perspective
- Integration of risk management into personal development objectives and annual appraisals

Making it as easy as possible to “do the right thing”

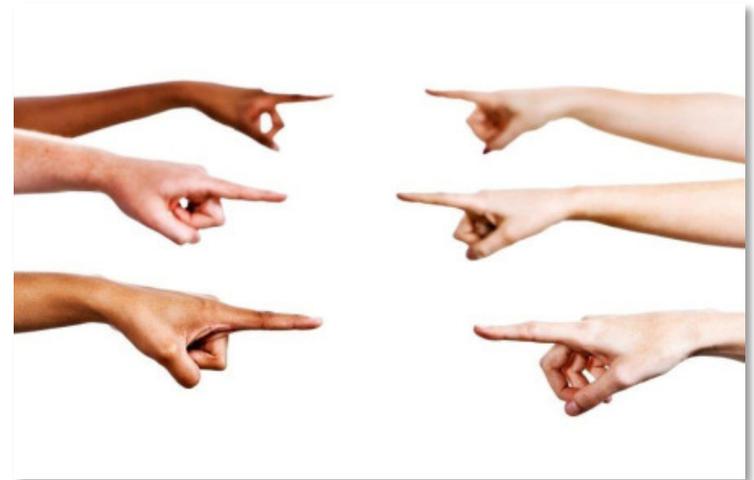
- Availability of multiple communication avenues to raise issues and concerns
- Simple Code of Conduct to provide guidance on good behaviour



Positive risk culture and tangible incentives

What are the tools for incentivisation?

- Incentivisation of “Good Behaviour” through prizes and recognition awards
- Actioning of good ideas to demonstrate people can make a difference by speaking up
- Annual appraisals affected not just by results but by our behaviour
- Communication of the repercussions of not speaking up – shifting away from a blame culture to one that encourages speaking up



San UK is committed to encouraging a positive risk culture which drives best Operational Risk Management practice



- IDENTIFY
- ASSESS
- MANAGE
- REPORT



**What else should we do to
incentivise good OR Management?**