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# Risk Culture

Klaas DeVries

Aboobaker Jussab

Athina Vitsela

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# Agenda

- What is risk culture?
- Risk Culture Framework
  - Leadership
  - Understanding/Awareness
  - Governance
  - Competency
- Q/A session



# Introduction



**Klaas DeVries**  
Actuarial & Risk  
Director, FSA

**M** [+44 \(0\)7587 621025](tel:+44207587621025)  
**E** [Klaas.S.DeVries@uk.gt.com](mailto:Klaas.S.DeVries@uk.gt.com)



**Aboobaker Jussab**  
Actuarial & Risk  
Associate Director, FSA

**M** [+44 \(0\)20 7728 2292](tel:+442077282292)  
**E** [Aboobaker.Jussab@uk.gt.com](mailto:Aboobaker.Jussab@uk.gt.com)



**Athina Vitsela**  
Actuarial & Risk  
Senior Manager, FSA

**M** [+44 \(0\)20 7728 3103](tel:+442077283103)  
**E** [Athina.Vitsela@uk.gt.com](mailto:Athina.Vitsela@uk.gt.com)





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# What is Risk Culture?

# Poll 1: What does risk culture mean to you?

# Risk Culture

Risk Culture is defined as the values, beliefs, knowledge, attitudes and understanding about risk shared by a group of people with a common purpose, displayed as behaviours or decisions taken.

Here are a few examples of explanations of what Risk Culture means.

Key component of the wider Risk Management Framework

Enables management to weigh risk-return implications and potential risk trade-offs in decision making

Organisation's culture dictates the Risk Management Framework and approach taken to risk



# Why is Risk Culture important?

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20 October 2022

## MS Amlin Underwriting fined nearly £10m for governance and risk management failings

By Christopher Cundy

MS Amlin Underwriting Limited (MSAUL) has been fined £9.7m (\$10.8m) by the UK regulator for governance and risk management failings between September 2014 and December 2019.

The Prudential Regulation Authority (PRA) said the London insurer, which operated as managing agent to two Lloyd's syndicates during the period, said the problems related to its oversight of underwriting, underwriting controls and management information. Issues relating to data quality, and risk management strategies and systems were also cited.

MSAUL suffered major losses in 2017 – the costliest Atlantic hurricane season to date – which

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## The PRA imposes record fine of £87m on Credit Suisse for serious risk management and governance failures in connection with Archegos Capital Management exposure

Many organisations are reviewing their risk culture to ensure their attitude towards managing risks is aligned with their strategic objectives. Understanding of the importance of managing risks, and everyone's responsibilities in doing so play a critical role in ensuring a 'positive' risk culture is prevalent across the organisation.

From a regulatory perspective, awareness around risk culture has evolved significantly over recent decades. Regulators expect firms to ensure not only financial stability, but also operational stability and resilience. They expect a holistic Enterprise Risk Management approach to be taken.

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30 January 2024

## Apra imposes A\$50m capital add-on for Auto & General Insurance

By David Walker

Australia's insurance regulator has imposed an extra A\$50m (\$33m) capital requirement and a remediation programme on Auto & General Insurance (AGI) after finding deficiencies in its risk management.

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# Risk Culture Framework



# Risk Culture Framework

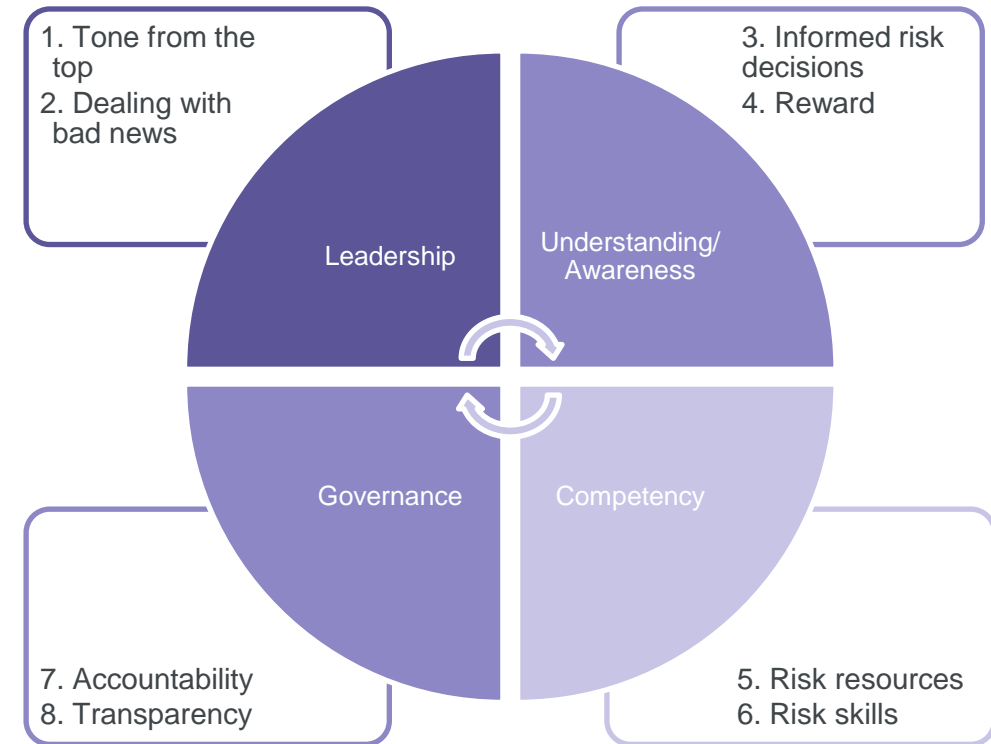
Effective Risk Culture Framework is one that enables and rewards individuals and groups for taking the right risks in an informed manner.

Our approach is aligned with best market practices, and we have utilised the principles highlighted by the Institute of Risk Management.

Our Risk Culture Framework helps influence the Risk Culture within any organisation. The diagram simplifies a complex and interrelated set of relationships into a high-level approach to the various influences on Risk Culture.

Our Risk Culture Methodology leverages eight aspects of Risk Culture, grouped into four themes - key indicators of the 'health' of a Risk Culture, aligned to an organisation's business model and strategic intent.

*We acknowledge that risk culture is less about substantive testing and more about exploring the understanding or perceptions of risk culture across and deep into an organisation.*



# Risk Culture Framework

## Leadership

- Sets the fundamental principles for risk culture by establishing the organisation's values, ethics and risk appetite.

## Understanding/Awareness

- Extends beyond setting a business strategy and considers how people behave in an organisation.

## Competency

- Set of demonstrable risk characteristics that enable and improve the efficiency of managing risks across an organisation.

## Governance

- System of processes and practices by which a company is enabled and empowered to ensure all risks and matters are considered appropriately.





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# Mini Poll

## Poll 2: Which of the following options best describes the CRO's and the Risk Function's presence in your organisation?

1. The CRO is invited to relevant Committees and observes the discussion.
2. The CRO and the Risk Function staff are actively participating in relevant committees and key decision-making meetings while maintaining their independence.
3. The CRO is not invited to relevant Committees.



### Poll 3: How is the business engaging with the Risk Function in the decision-making process?

1. There is no need to engage with the Risk Function in the decision-making process.
2. When the Risk Function is made aware of a situation which they deem important, a Risk Opinion is provided.
3. The CRO and the Risk Function are engaged early on in decision-making processes and Risk Opinions are sought when necessary.



**Poll 4: Competency in risk management is recognised as an important skill and my organisation invests in that.**

1. True
2. False



## Poll 5: Who do you think is accountable for risk in an organisation?

1. The Risk Function
2. CEO & Chair
3. The Business (1<sup>st</sup> Line)
4. Everyone





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# Insights



# Leadership

Leadership plays a critical role in defining and influencing organisations with a positive risk culture

## Tone from the top

- Leaders should lead by example and reinforce the importance of appropriately managing risks to meet company objectives
- When an organisation's Board and executive leadership team set a clear direction for risk taking, risk and mitigations (controls) are better understood and bought
- Risk orientation sessions may be used to communicate the expected risk culture

## Dealing with bad news

- Senior management actively encourages and welcomes 'bad news' to be raised and shared
- Those raising the issues should be celebrated and treated fairly
- Emphasis on fixing the issue rather than placing blame
- Management and staff feeling safe raising issues leads to an efficient control environment

Organisations with strong leadership presence, direction and actions as exemplars can lead to strong risk cultures not only in quiet times, but also in times of stress, and transformations. Clear and risk informed leadership strategies, objectives and communication, fosters a risk-aware and promotes resilience in an organisation's culture.



# Understanding/Awareness

Critical area to building a positive risk culture is to have thorough risk understanding and awareness embedded throughout the organisation

## Informed risk decisions

- Do leaders seek out and demand quality risk information as part of decision-making processes?
- Awareness of risk implications is considered in business decisions
- CRO and Risk Function have regular interactions with the business which strengthens credibility of Risk Function
- Business should engage early with Risk function allowing risk to be fully considered

## Reward

- Key motivator impacting all individuals within an organisation
- Leaders reward appropriate risk-taking decisions and behaviours
- Effective risk culture should reward positive behaviours and consider how negative risk-behaviours are addressed and minimised
- Linking reward with appropriate risk behaviours is not always apparent in an organisation – area of development

There is a correlation between successful longer-term business decisions and the level of engagement between the 1st and the 2nd line. Where risk culture is linked with reward there is greater understanding, awareness and appetite to promote and display a positive risk culture.



# Competency

Good risk resources can be game-changers in proactively managing risks and embedding a positive Risk Culture.

## Risk Resources

- If the Risk Function is supported by senior leaders, Risk Functions reach deeper into the organisation
- When the Risk Function clarifies and communicates its role the level of understanding of Risk Management improves in an organisation
- Efficiencies could be gained from stronger risk activities being performed in the 1st line of defence

High level of risk competency across the organisation supports the organisation in achieving its strategic objectives. Employees feel empowered and well-equipped to add value to the business.

## Risk Skills

- Risk skills are sometimes concentrated within the Risk Functions only. Increased risk training to the business can enhance the level of understanding of risk related activities
- Mechanisms that demonstrate commitment from the 1st line to managing risk, following prescribed risk practices and supports the consideration of risk in day-to-day matters will encourage positive risk culture



# Governance

Corporate governance is a high priority for companies, with the increased regulatory importance placed on Risk Management.

## Accountability

- Accountability should be clear across the organisation; however, we have observed that deeper into organisations, it becomes less clear who has accountability for risk and controls at operational levels
- Clear demarcation of responsibility, and accountability for managing risk across the three lines would enhance understanding and create a deeper embedded positive risk culture

## Transparency

- Risk reporting should be transparent and communicated appropriately across an organisation
- Risk-dedicated governance forums improve transparency as risk matters are allocated greater amount of time for discussion/oversight
- Executive Committee meetings ensure that Risk Opinions are sought, and oversight and challenge are provided if necessary

There is a correlation between the Governance theme (Accountability and Transparency aspects) and the 'Informed risk decisions' aspect which we explored in the previous slide.





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# Summary

# Summary of examples

## Positive examples

Behaviour	Consequence
Direction is set by leaders and communicated consistently	Everyone is clear on expectations and feel empowered to challenge when necessary
Risk-informed practices are embedded in all processes	Employees work collaboratively
The Risk Function's role and remit is endorsed by senior management	The Risk Function is perceived as a valuable contributor to strategic thinking
Risk information is communicated up and down the organisation	When risks crystallise, key points are communicated

## Negative examples

Behaviour	Consequence
Leadership expectations on risk management are not clear	Employees' action on managing risk vary and are subjective
There is no clear link between risk behaviours and reward	Appropriate risk-taking behaviours are not recognised and are not rewarded.
Competency in risk management is not recognised as a skill for everyone	Not everyone recognises how they contribute to the organisation's risk profile
Accountabilities and responsibilities are not consistently defined	There is a 'blame culture'





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# Risk Culture Case Study

# Case Study

We were requested by a UK and global General Insurer to conduct a Risk Culture review as there has been increased interest from the Prudential Regulatory Authority (PRA) due to the significant and rapid growth of the client.

## What we did

- We performed an initial review of the Risk Management Framework and Risk Culture to assess the impact on the firm's ability to take strategic risk decisions, deliver on commercial objectives and meet legal and regulatory obligations. We conducted a company-wide survey to establish a view of 'relative Risk Culture hot-spots, to inform where we then performed more detailed analysis using interviews and workshops.
- Our deliverable provided examples of positive Risk Culture, and a set of recommendations to improve risk culture against a view of what 'positive Risk Culture looks like'.

## Value Added

The identified areas of improvement resonated with the Senior Leadership team and the Board. Our observations and benchmarking exercise provided clarity on what best-in-class practices look like and the value added. Our work also assisted the client to develop a targeted and prioritised set of actions to enhance Risk Culture across the organisation.





# Questions

# Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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