

Cultivating a Risk  
Intelligent Culture  
Understand, measure,  
strengthen, and report



# Process follows culture

Organizations wishing to better manage risk should consider establishing a Risk Intelligent Culture.

“A robust and pervasive risk culture throughout the firm is essential. This risk culture should be embedded in the way the firm operates and should cover all areas and activities, with particular care not to limit risk management to specific business areas or to have it operate only as an audit or control function.”

– Institute for International Finance. “Reform in the Financial Services Industry: Strengthening Practices for a More Stable System.” December 2009

There is no “one size fits all” solution to risk management — how an organization manages risk should align with, and support, its strategy, business model, business practices, and risk appetite and tolerance. This is especially true in the financial services industry where significant risk-based decisions are being made throughout organizations on a daily basis.

Essentially, a Risk Intelligent Culture exists within an organization when its employees’ understanding and attitudes toward risk lead them to consistently make appropriate risk-based decisions. Consequently, an organization’s risk culture drives the behaviors that influence day-to-day business practices, and is a significant indicator of whether the organization embodies the characteristics of a Risk Intelligent Enterprise™.<sup>1</sup>

To a large degree, an organization’s culture determines how it manages risk when under stress. For some organizations, their risk culture is a liability. For others, it facilitates both stability and a competitive advantage. To that end, an organization wishing to cultivate a Risk Intelligent Culture should first understand and measure its existing risk culture.



<sup>1</sup> Please see *Resources for a Risk Intelligent Enterprise™* for more information on Risk Intelligent Enterprise management, available on [Deloitte.com](http://Deloitte.com).

# Understanding risk culture

Risk culture encompasses the general awareness, attitudes, and behaviors of an organization's employees toward risk and how risk is managed within the organization. Risk culture is a key indicator of how widely an organization's risk management policies and practices have been adopted.

Having a Risk Intelligent Culture means that everyone understands the organization's approach to risk, takes personal responsibility to manage risk in everything that they do, and encourages others to follow their example. The organization's symbols, management systems, and behavioral norms should be aligned to encourage people to make the right risk-related decisions, and exhibit appropriate risk management behaviors.

The first step is to understand the existing risk culture and measure how well it supports the organization's risk strategy and risk management approach. Deloitte's Risk Culture Framework and corresponding Risk Culture Survey provide a structure and process to help clients in their efforts to achieve this.

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## Key characteristics of a Risk Intelligent Culture

### *Commonality of purpose, values, and ethics*

People's individual interests, values, and ethics are aligned with those of the organization's risk strategy, appetite, tolerance, and approach.

### *Universal adoption and application*

Risk is considered in all activities, from strategic planning to day-to-day operations, in every part of the organization.

### *A learning organization*

The collective ability of the organization to manage risk more effectively is continuously improving.

### *Timely, transparent, and honest communications*

People are comfortable talking openly and honestly about risk using a common risk vocabulary that promotes shared understanding.

### *Understanding of the value of effective risk management*

People understand, and enthusiastically articulate, the value that effective risk management brings to the organization.

### *Responsibility — individual and collective*

People take personal responsibility for the management of risk and proactively seek to involve others when that is the better approach.

### *Expectation of challenge*

People are comfortable challenging others, including authority figures. The people who are being challenged respond positively.

# Measuring risk culture

Exhibit 1. Deloitte Risk Culture Framework



## Risk Culture Influencers

### Risk competence

The collective risk management competence of the organization.

### Motivation

The reasons why people manage risk the way they do.

### Relationships

How people in the organization interact with others.

### Organization

How the organizational environment is structured and what is valued.

Source: Deloitte Consulting LLP

A focused assessment is needed to fully understand an organization's current risk culture and to track progress of cultural change.

Deloitte has developed a broad approach to helping clients assess and measure risk culture based on our Risk Culture Framework. The framework consists of sixteen Risk Culture Indicators aligned to the four Risk Culture Influencers.

Our Risk Culture Survey allows us to measure an organization's risk culture against each indicator. Once an organization's risk culture is understood, we can use the Risk Culture Framework to identify and recommend specific target areas in order to help strengthen it.

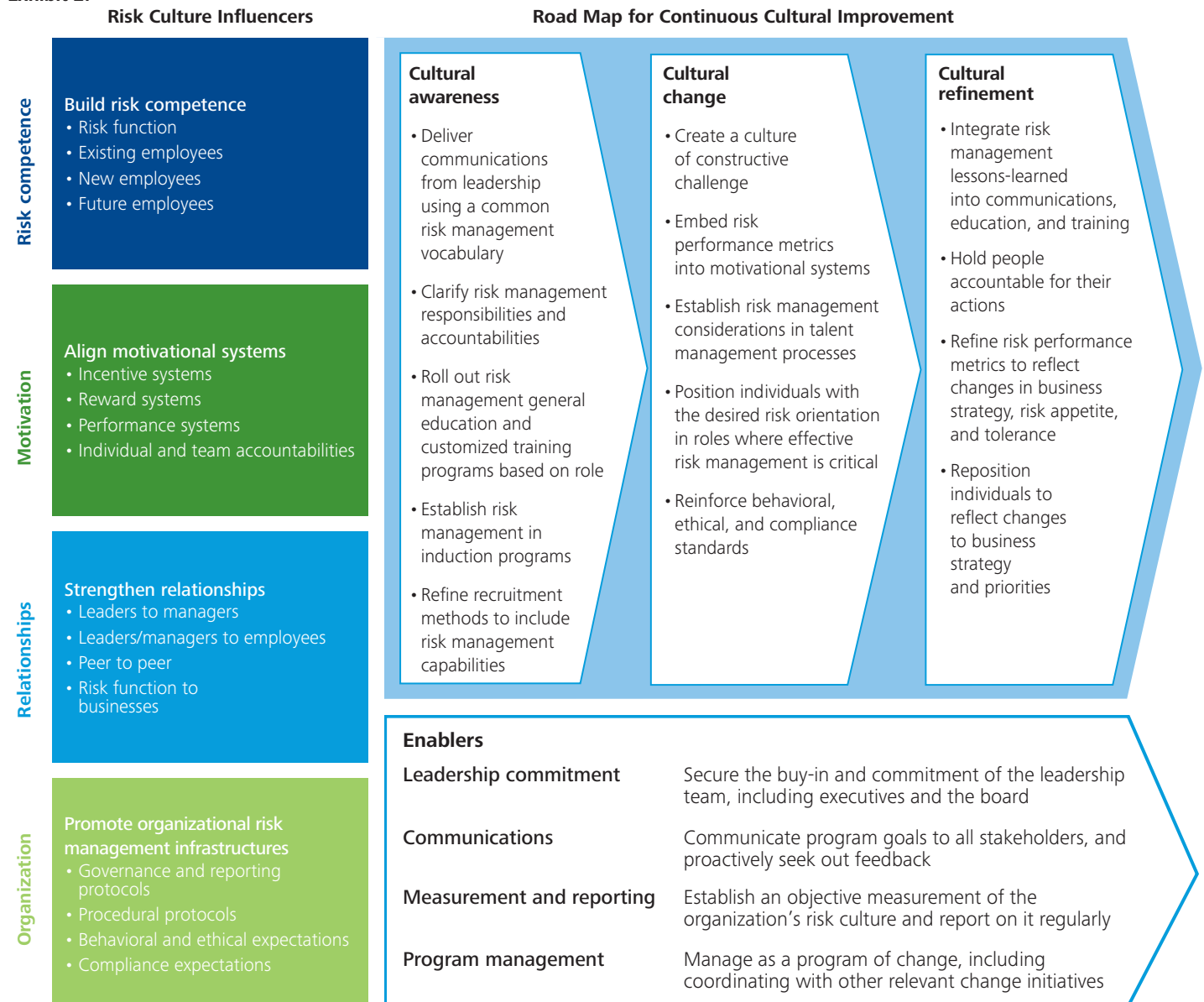
# Strengthening risk culture

## Strengthening an organization's risk culture requires focused effort and the support of leadership.

The organization's initial focus should be on building cultural awareness, predominantly through communications and education. Cultural improvement will likely require meaningful changes to established ways of operating. Once the desired risk culture has been established, the organization should continually refine it to reflect ongoing changes in business strategy.

Finally, it is important to recognize that this road map focuses on the cultural aspects of risk management. The assumption is that all the components of a formal risk management structure have been adopted, or are being implemented, by the organization. A strong and intelligent risk culture requires that this risk infrastructure be in place and be effective.

**Exhibit 2.**



# Reporting risk culture

Organizations should include risk culture metrics in their regular risk reporting to the board and management. These quantitative cultural metrics should also be supplemented with those risk management metrics that are the key leading and lagging organizational cultural indicators.

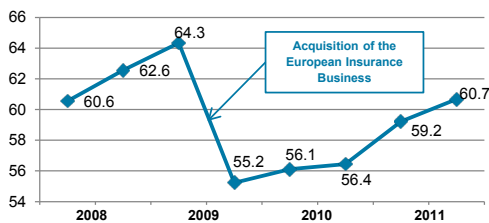
Exhibit 3. Risk Culture Report

## XYZ Corporation — Risk Management Metrics

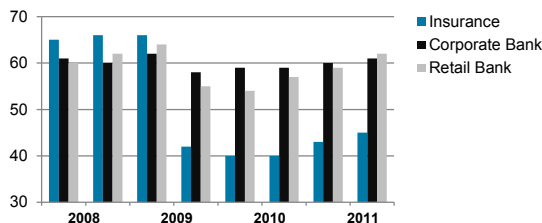
### XYZ Corporation — Risk Culture Metrics

We are continuing to experience the gradual strengthening of our risk culture across the organization as a whole. This follows the significant decline that we experienced in 2009 resulting from the insurance business acquisition in Europe that completed in late 2008. Related to this, we remain significantly below leadership's cultural expectations in our European Insurance business. We still have a number of leadership and management integration-related challenges remaining (notably in France, Spain and Italy). Addressing these is one of our top priorities. In terms of cultural leading practices, Asia Pacific continues to serve as a model and we are in the process of codifying a selection of risk management practices from our Australian business and will pilot them in other geographies in late 2012.

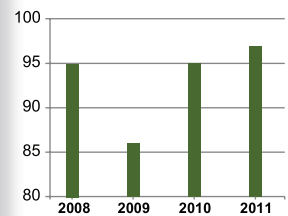
#### Organizational Risk Culture (0-100)<sup>†</sup>



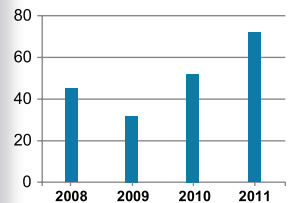
#### Divisions (0-100)<sup>†</sup>



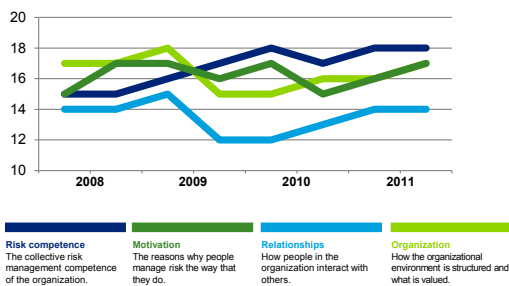
#### Compliance with mandatory training requirements (0-100)<sup>‡</sup>



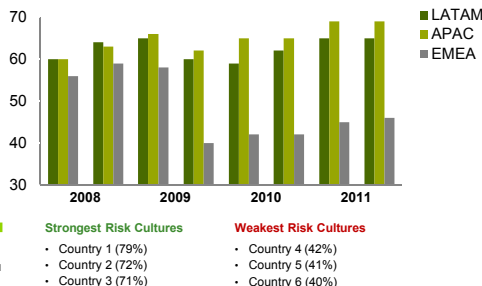
#### Divisional managers with risk weighted performance metrics (0-100)<sup>‡</sup>



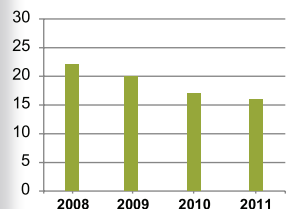
#### Cultural Influencers (0-25)<sup>†</sup>



#### Regions (0-100)<sup>†</sup>



#### Limit breaches<sup>\*</sup>



#### Strongest Risk Cultures

- Country 1 (79%)
- Country 2 (72%)
- Country 3 (71%)

#### Weakest Risk Cultures

- Country 4 (42%)
- Country 5 (41%)
- Country 6 (40%)

† Real-time cultural metric  
‡ Leading cultural indicator  
\* Lagging cultural indicator  
Source: Deloitte Consulting LLP

# Delivering risk culture solutions

We have helped many financial institutions across the globe to measure and strengthen their risk cultures, including in Australia, Canada, the U.K., and the U.S.

## Embedding risk management ways of working

This global insurance company needed an ongoing way for it to measure how effectively its risk management framework was embedded in its employees' behaviors — primarily to show compliance with certain Solvency II and Pillar II requirements. In collaboration with the client, Deloitte designed an objective assessment process with the supporting tools, surveys, and qualitative interview questions based upon Deloitte's Risk Culture Framework. This framework and assessment identified several business units that had been more successful than others at embedding risk management into their employees' behaviors. As a result, Deloitte helped the client identify those effective practices that could be leveraged and replicated in other areas to improve the client's overall risk culture. By actively involving the client's risk team in conducting the initial assessment and analysis, Deloitte imparted the knowledge and skills the client needed to conduct this assessment in the future.

## Enabling a risk transformation program

This financial services organization was in the midst of a risk transformation program addressing its risk management governance, compliance processes, and controls. During this program, leadership identified the need for the organization to improve its employees' risk management attitudes and behaviors. Deloitte helped the client to determine the organization's risk culture score and engaged key leadership, including the Chief Risk Officer, in developing an action plan to improve areas of concern, notably incentives and rewards, communications, and risk awareness and competence. By assessing its risk culture every six months, the organization is in a position to maintain a current and objective measurement of its risk culture, and insightfully gauge the effectiveness of its culture improvement efforts.

## Improving risk management compliance

A review of this financial services organization's compliance with regulations uncovered that it needed to improve how its employees understood, respected, and followed its risk management policies and procedures. Through an overall risk culture assessment, Deloitte provided leadership with an objective measure of its risk culture in its Credit Risk and Market Risk units. With this information, Deloitte helped the client in its efforts to develop specific action plans for Credit Risk to improve its communications and training efforts, and to review its governance model against its trading volume. Within Market Risk, recommendations focused on employing technology to better and more quickly share risk information at the granular and aggregate levels.

## Assessing the impact of enhancements to risk management capabilities

This financial institution had recently increased its risk management capabilities by introducing new risk management leadership roles and processes. The board risk committee wanted to understand if these initiatives were having the desired beneficial impact on the organization's risk culture. Through an overall assessment of the risk culture, that included interviews with the executive team and an organization-wide Risk Culture Survey, Deloitte helped the client in its efforts to develop an internal benchmark to be used to assess current and future changes to the organization's risk culture. Also, with the use of data analytic techniques, Deloitte was able to identify particular opportunities to enhance the organization's overall success by identifying specific way that the organization could better manage its risks.

## Developing a risk culture assessment capability

The Board Audit Committee of this bank required a definitive statement on its risk culture in order to take specific action to improve those areas identified as weak. Deloitte helped the internal audit department develop a repeatable approach to measuring its risk culture to include in its regular audit process. Leveraging the Risk Culture Framework allowed Deloitte to help create a broad, objective, and intuitive two-tier assessment methodology for the internal audit department to first identify areas of possible risk culture weakness within business units, and then to conduct a more in-depth analysis of these areas of concern. The assessment process used employee surveys, behavioral and deep-structured interviews, and data analytics to provide tangible evidence to support its statement on risk culture. After success of the initial pilot, the internal audit department expanded the risk culture audit process to be included in programmed and ad hoc audits across the entire organization globally.

# The Risk Intelligent Enterprise<sup>TM</sup>

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A strong risk culture is a pervasive theme of the nine fundamental principles of a Risk Intelligent Enterprise<sup>2</sup>.

1. In a Risk Intelligent Enterprise, a common definition of risk, which addresses both value preservation and value creation, is used consistently throughout the organization.
2. In a Risk Intelligent Enterprise, a common risk framework supported by appropriate standards is used throughout the organization to manage risks.
3. In a Risk Intelligent Enterprise, key roles, responsibilities, and authority relating to risk management are clearly defined and delineated within the organization.
4. In a Risk Intelligent Enterprise, a common risk management infrastructure is used to support the business units and functions in the performance of their risk responsibilities.
5. In a Risk Intelligent Enterprise, governing bodies (e.g., boards, audit committees, etc.) have appropriate transparency and visibility into the organization's risk management practices to discharge their responsibilities.
6. In a Risk Intelligent Enterprise, executive management is charged with primary responsibility for designing, implementing, and maintaining an effective risk program.
7. In a Risk Intelligent Enterprise, business units (departments, agencies, etc.) are responsible for the performance of their business and the management of risks they take within the risk framework established by executive management.
8. In a Risk Intelligent Enterprise, certain functions (e.g., Finance, Legal, Tax, IT, HR, etc.) have a pervasive impact on the business and provide support to the business units as it relates to the organization's risk program.
9. In a Risk Intelligent Enterprise, certain functions (e.g., internal audit, risk management, compliance, etc.) provide objective assurance as well as monitor and report on the effectiveness of an organization's risk program to governing bodies and executive management.



<sup>2</sup> "Putting risk in the comfort zone: Nine principles for building the Risk Intelligent Enterprise<sup>TM</sup>," Deloitte Development LLP, 2009. Available online at [http://www.deloitte.com/view/en\\_US/us/article/6b929c9096ffd110VgnVCM100000ba42f00aRCRD.htm](http://www.deloitte.com/view/en_US/us/article/6b929c9096ffd110VgnVCM100000ba42f00aRCRD.htm).



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