# Risk Culture

## Introduction

**Academics, regulators, investors and the public have become increasingly aware of the links between culture and risk. As such, culture is top of the agenda for Boards and is included today in most discussions involving strategy and risk. The prominent nature of culture in today's world is further reinforced by the environmental, social and governance ("ESG") agenda and its emphasis on good governance.**

While many organisations recognise the need to manage or change culture, they don't always know where to start or how to tackle the problem. An organisation's culture must be considered through both a people and risk lens, to ensure a unified approach.

## Considerations for Firms

In the financial services industry, weak culture has been associated with notable regulatory breaches and incidents of fraud. As a result, European banking supervisors have increased their focus on risk culture. Today, culture is increasingly integral to banking supervision, for example when evaluating the strength of governance and risk management. Particularly, culture reviews by specialised supervisory teams are becoming increasingly common. These can be targeted at specific financial institutions or may reflect thematic topics, such as the treatment of vulnerable customers.

The purpose of a culture review is to start a dialogue, understand best practice and improve other supervisory activities. These reviews usually look for evidence that diverse opinions are being expressed, that voices from all levels of the organisation are heard and that leadership teams are in favour of change and challenge. Reviews utilise staff surveys, supplemented by interviews with leaders, key individuals and focus groups with employees. Board minutes are often reviewed to better understand the Board dynamic and culture.

Financial services firms don't need to wait to be audited to consider their culture. There is a compelling business case for a strong risk culture. Risk culture underpins firms' controls and may determine how employees handle risk — both independently and collectively. Research has shown that a strong risk culture can result in an increase in:

- **Financial performance;**
- **Internal incident reporting;**
- **Staff engagement and retention;**
- **Brand reputation; and**
- **Innovation.**

Such advantages are leading to financial services firms taking greater ownership of the risk culture in their organisation. This includes setting out a clear vision for the firm's culture, identifying Key Performance Indicators, monitoring these and launching initiatives for improvement. Boards are increasingly recognising a robust risk culture as key to implementing focused strategies that add value for all stakeholders.

# How KPMG Can Help

**In today's climate, financial services firms cannot overlook the ever-increasing importance of culture. KPMG's culture professionals can help firms transform regulatory compliance and consumer / investor protection into a strategic business advantage. We take the time to understand how your firm works and tailor our methodologies to your requirements by:**

- Using our Behaviour and Culture Toolkit. Our scientifically validated model (which has been adopted by the Dutch National Bank), assesses the culture and behaviours of your organisation (including benchmarking to peers);
- Designing a behaviours and culture framework to allow you to conduct regular reviews and assessments;
- Raising awareness of risk culture at all levels (in-depth interviews, Board dynamic scans, focus groups);
- Identifying culture and behaviour drivers that link to both qualitative and quantitative Management Information to aid assessment;
- Conducting culture reviews as part of the internal audit plan; and
- Implementing a tailored training programme across the organisation.

These methodologies give financial services firms a powerful tool for measuring the strength of their culture, recognising weaknesses and their causes, and achieving tangible improvements.

# Contact us


**Gillian Kelly**
Partner and Co-Head of Consulting, KPMG in Ireland
t: +353 87 744 1120
e: gillian.kelly@kpmg.ie

**Yvonne Kelleher**
Managing Director
Risk Consulting
t: +353 87 050 4349
e: yvonne.kelleher@kpmg.ie

**Shane Garahy**
Director
KPMG in Ireland
t: +353 87 050 4848
e: shane.garahy@kpmg.ie

**Donata Halpin**
Associate Director
Risk Consulting
t: +353 87 050 4417
e: donata.halpin@kpmg.ie

Rosalind Norton
Associate Director
Risk Consulting
t: +353 87 111 5982
e: rosalind.norton@kpmg.ie


**kpmg.ie**




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