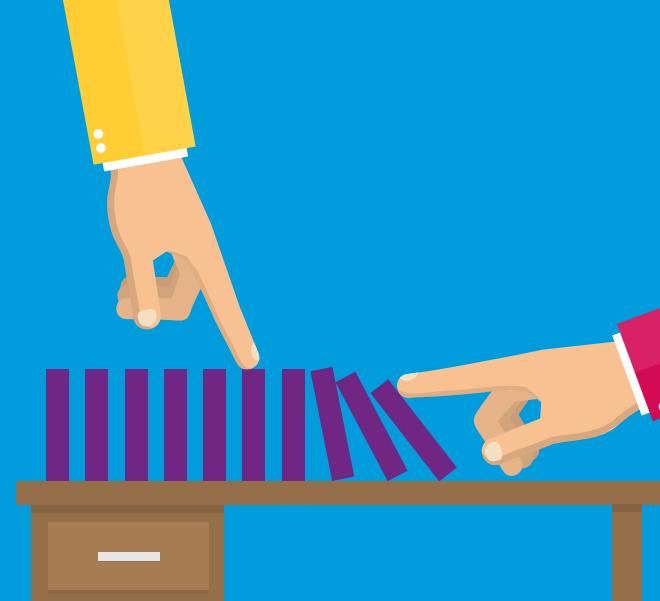


Fostering risk culture

#RiskMatters



Taking risks is fundamental to the growth of countries, economies, organisations and even individuals. However, an uncertain and volatile environment exposes the organisation to various types of risks and challenges which are often uncontrollable or hard to manage. Hence, risk management plays a vital role in meeting primary objectives whilst managing the risks with adequate controls in place.

The ongoing COVID-19 pandemic has paved its way to unprecedented changes for organisations across the world. This resulted in emergence/accentuation of risks such as data leakage due to WFH models, cyber security threats due to relaxation of access/security controls, liquidity and market volatility, business pressures and resultant deviation from ethical practices etc. While organisations were quick to mitigate the risks by deploying necessary control measures, a robust risk culture is more necessary than ever, as employees are ever more relied upon to make critical ethical decisions every single day.

A strong risk culture is an indispensable pillar for leading organisations. It is relevant to all parts of the organisation and not only to the risk managers. When it goes wrong, the repercussions can be devastating and far reaching.

Some of the recent scandals point towards misconduct or deviations/deficiencies in the risk culture which resulted in significant financial and reputational implications for these organisations.

- LIBOR scandal wherein interbank lending rates were manipulated by a host of global financial institutions
- Ongoing political scandal of a 'Malaysian strategic development company'
- A leading automaker's emission scandal wherein vehicles were fitted with software-based 'defeat devices', which were designed to wrongfully pass the federal emissions tests
- 'A leading US-based Financial Services company' opened several savings and checking accounts on behalf of its customers without their permission.

Need for a robust risk and integrity culture

- Sustainable growth and market reputation
- Resilience during challenging times and transformations
- Engaged and gratified employees and customers
- Attract and retain qualified talent with right behavior/attitude.

Key influential elements of risk culture

While there are many factors that contribute to risk culture, some of the key influential elements are listed below:

- **Leadership** – Strong vision; right tone at the top; lead by example to influence people's behavior
- **Decision making process** – How rational decisions are made, debated and communicated effectively
- **Values and behavioral norms** – Support the organisation's vision and encourage active participation at all levels
- **External** (e.g. market conditions) and **internal** (e.g. deteriorating capital, significant debt, ambitious growth plans) pressures.



○ How robust is your risk culture? – Few questions to consider C

What you achieve or how you achieve – What matters more?



Do you follow the herd mentality or challenge the status quo?



Do you consistently hold your people accountable and responsible for bad behavior/misconduct?



Do you hire resources with right behavioral competency?



Are you measuring/ analysing employee behavior and outlier performances?



Do you promote effective diversity, equity and inclusion?



Are you setting unrealistic deadlines, aggressive sales targets, poorly structured incentive systems?



Do you evaluate suitability of candidates (professional competency, honesty including professional qualifications and work experience) assigned key responsibilities?



Are you investing adequately in your people and promoting a risk-based organisational culture?



Do you reward behaviors that support values and expectations, even if that means failures?



Have you deployed data and behavioral analytics to assess the risk and performance culture?



Fostering risk culture

- Continuous and open leadership communications
- Mechanisms for employees to raise concerns and effective resolution mechanisms
- Balancing accountability and collaboration amongst teams
- Creation of role for Chief Behavioral Officer
- Upliftment of three lines of defence mechanism
- Institute a reward mechanism to encourage desired risk management behavior
- Zero tolerance for unethical or unacceptable behavior.



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