

Assessing risk culture: Insights from the banking sector

Risk culture blog part 2

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November 2023



Introduction and contents



In part I of our Risk Culture series, “[Quantifying risk culture – is it possible?](#)”, we shared our point of view on how to assess risk culture. This second blog explores how the banking industry approaches risk culture assessments in practice, covering how risk culture is defined through to how risk culture data points are collected and used to action cultural change.

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01

Definition:

How are banks defining risk culture?
How are they using this definition?



Banks have traditionally dealt with risk as an inherent aspect of their operations, and as a result, risk culture has always been of interest. A strong risk culture enables more than just regulatory compliance, the benefits it brings can be far broader. Building a strong risk culture gives colleagues the confidence to make effective risk-based decisions. It can also help with the earlier identification of issues, fewer incidences or reduced impact of risk events.

Banks are now starting to review the role of data to evidence how strong their risk culture is, which requires a clear definition of risk culture. Banks are defining risk culture by identifying a specific set of behaviours that drive effective risk management. The majority outline these

behaviours in their Risk Management Framework (RMF) and align these to their wider culture and values to ensure that risk culture isn't seen as 'separate' from the overall culture.

Although there is no one right way to define risk culture, a good starting point would be to outline a selection of cultural traits or key behaviours that drive effective risk management. The performance of these can then be tracked over time.

Alternatively, key drivers of these behaviours can be identified (e.g. tone from the top, training, incentives), and a measurement approach built around the strength of these drivers. In this way, banks will be able to collect relevant data to monitor changes in risk culture over time.



Conduct and culture monitoring is integrated into the Risk Management Framework underpinned by a strong risk culture and a three lines of defense model with customers at the centre



FMSB Conduct & Culture MI:
Boundaries of Current Practice,
July 2023



**Organisational Culture and Bank Risk, Bank of England, 2021*

02

Data collection:



What types of data are banks collecting to assess and evidence that their culture supports effective risk management?

In our experience, most banks collect sentiment data to assess their risk culture through employee surveys or stand-alone risk culture surveys (fig 1).

Regulatory demands are increasing and cultural priorities, such as consumer duty and as ESG (Environmental, Social, and Governance) continue to emerge - Banks should be careful not to employ different assessments for each, and instead have one streamlined approach. A good place to start is to review existing engagement surveys and identify questions that could serve as indicators of risk culture. A smaller number of culture metrics can provide leadership with a better focal point.

As we explored in our blog [“Quantifying risk culture – is it possible?”](#), banks are moving towards using unobtrusive indicators of culture - where data is collected and analysed without engaging directly with individuals to minimise bias and preserve objectivity. However, in some banks this has resulted in a high volume of disparate metrics being collected – many of which don’t provide useful insights into culture, nor provide a clear path to action. Risk culture metrics should be carefully selected to ensure they are providing targeted insight on the culture strength, and should be aligned to your definition and the behaviours/cultural traits you are seeking to measure. Metrics should be available across regions and business units, in order to measure culture across the business.

Advanced thinking around data includes the use of indicators informed by behavioural science. Such metrics don’t just collect surface level data on behaviours, but instead probe into deeper behavioural insights, such as motivation, social influences, and habits. For example, how frequently do people challenge each other in a governance committee?

Further, banks are starting to take a data-driven approach to qualitative assessments. This involves first identifying any cultural hotspots through quantitative data, before undertaking a deep dive to understand the underlying issues through focus groups and interviews



Quantitative data

- Employee surveys
- Existing (HR & Conduct) metrics
- Behavioural experiments
- Bespoke risk culture surveys



Qualitative data

- Focus Group
- Interviews
- Observational research

Figure 1. Overview of types of data collected to assess risk culture across banks

03

Analysis and reporting:

What type of data analysis methods are used? How is this reported?



Quantitative metrics cannot always be considered in a binary way. It's not always possible to discern if they are indicating something positive or negative in your risk culture. For example, in the context of whistleblowing – an increase in cases over three months could be interpreted positively as colleagues feeling safe to speak up, or alternatively that other cultural issues are at play. Therefore, it's important to dive deeper and consider trends and the context of quantitative metrics. Some banks use qualitative data to do this, embracing sentiment analysis tools to understand the underlying drivers behind the behaviours being reported.

Additionally, it is helpful to collect data over an extended period to analyse trends. For instance, it may be challenging to conclude what constitutes a 'high' volume of customer complaints if data is collected at a specific point in time where there may be an event driving it, or if it is really indicative of a systemic issue.

From our experience, most banks are still in the early stages of establishing the level and cadence of reporting. Risk culture data is most meaningful when segmented and compared between demographic populations, such a business unit, grade level or by job family group. Viewing data by country or region will help account for cultural norms, making the data more meaningful (fig 2).



04

Ownership and governance:



Who owns the risk culture assessment approach?

Internal audits of culture have historically been the primary way of measuring culture. These, however, assess culture on a backward-looking basis. We are seeing a significant shift as businesses recognise the need to manage their risk culture proactively. The ownership of risk culture frameworks and assessments now often sits within the Risk function, in partnership with HR.

Whilst the second line of defence (2LOD) sets the risk culture framework and oversees it, banks are becoming more aware that the first line of defence (1LOD) is the primary owner of risk culture. This is aligned to regulatory expectations on broader culture, ensuring the front office feels a sense of ownership of its risk culture, and is accountable for driving a strong risk culture from the top. However, the 1LOD assessing their own risk culture creates the danger of 'marking their own homework'. This is where we recommend the 2LOD provide a 'check and challenge' of the 1LOD's risk culture assessment and priorities.

To encourage the collaboration between 1LOD and 2LOD, we suggest including representatives from the 1LOD early in the definition of your approaches. For example, involving them in designing assessment methods allows the 1LOD to identify relevant cultural indicators for their business areas, and collaborate on action plans to address any identified gaps. Some banks have included risk culture as a standing agenda in governance discussions and established 'risk culture' focused committees, attended by all lines of defence.

A key challenge with risk culture assessments is having the capacity and capability to perform them. Some banks have appointed heads of risk culture and set up dedicated risk culture teams; others rely on outsourcing (fig 3). Approaches to owning risk culture assessments vary depending on factors such as the size of the organisation. However, you should consider how the assessment will operate from the outset to ensure it is sustainable. This relies on taking a continuous approach that uses insights to inform its development and focus areas, as opposed to taking a 'one and done' view.

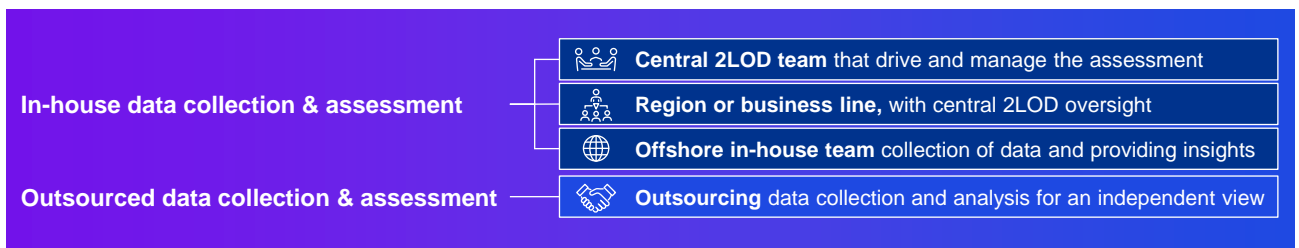


Figure 3. Overview of ownership for risk culture data collection in banks

05

Action:

How are Banks using their risk culture data?



Despite most banks performing risk culture assessments, many only use the data for current state reporting by the 2LOD. Ultimately, although monitoring is useful for reporting and regulatory compliance, the value really comes when banks use the insight to drive risk culture forward (fig 4)

Driving a strong risk culture can not only help prevent or minimise the impact of negative risk events, it can also bring wider benefits to the business. For example, a strong risk culture can empower colleagues to make effective risk-based decisions, ensuring risk appetite is used effectively and ultimately help grow the business.

Our recommendation is that banks use the data they are reporting to identify gaps in risk culture, and to develop change interventions to address these gaps. These cultural change interventions should then be tracked and back tested against the specific risk culture data points identified to assess the impact of implemented interventions.



Figure 4. Overview of how banks use their risk culture assessment data

Points to consider



In conclusion, key points to consider when assessing your organisations' risk culture are:

- Can you access unobtrusive indicators and behavioural science metrics to gain deeper insights, and are you setting thresholds to understand strengths and areas of concern?
- Are you considering the use of technology to improve the analysis of your data?
- Do you have a clear strategy for analysing and reporting on your data over an extended period?
- Who will own the assessment process, and do they have the capacity, skillset, and a degree of objectivity to perform the assessments?
- Are you using the data obtained from risk culture assessments primarily for reporting, or are you leveraging it to drive meaningful change interventions?



How can KPMG support?

If you are curious to find out how you compare with your peers or need help in setting up your risk culture assessment approaches, please reach out to one of our experts to discuss this topic further.



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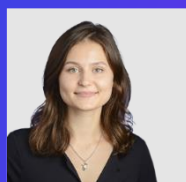
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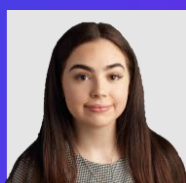
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