



Session 21: Building a Strong Risk Culture

Moderator:

Presenters:

Liz Berger

Adam Hamm

[SOA Antitrust Disclaimer](#)

[SOA Presentation Disclaimer](#)



ERM Enterprise
Risk Management
Symposium

Insight Into The Future



Canadian
Institute of
Actuaries



Institut
canadien
des actuaires



SOCIETY OF
ACTUARIES



Enterprise
Risk Management
Symposium

Risk Culture

Session 21
Presenters

Friday, April 20
Adam Hamm

9:30 - 10:45 a.m.
Liz Berger

Presenter – Adam Hamm



Adam Hamm

Adam is a Managing Director with Protiviti, and is focused on serving clients within the financial services industry concerning risk, compliance, and cybersecurity matters. He has deep knowledge of financial services regulation with hands on experience in all insurance supervision and policy related matters. Prior to Protiviti, he spent the last nine years as North Dakota's elected insurance commissioner. During that time, he also held numerous high-profile national positions including President of the National Association of Insurance Commissioners (NAIC), Principal on the United States Financial and Banking Information Infrastructure Committee (FBIIC), Member of the United States Financial Stability Oversight Council (FSOC) and Chairman of the NAIC's Cybersecurity Task Force. Adam also spent ten years as a prosecutor and civil litigator.

Presenter – Liz Berger



Liz Berger

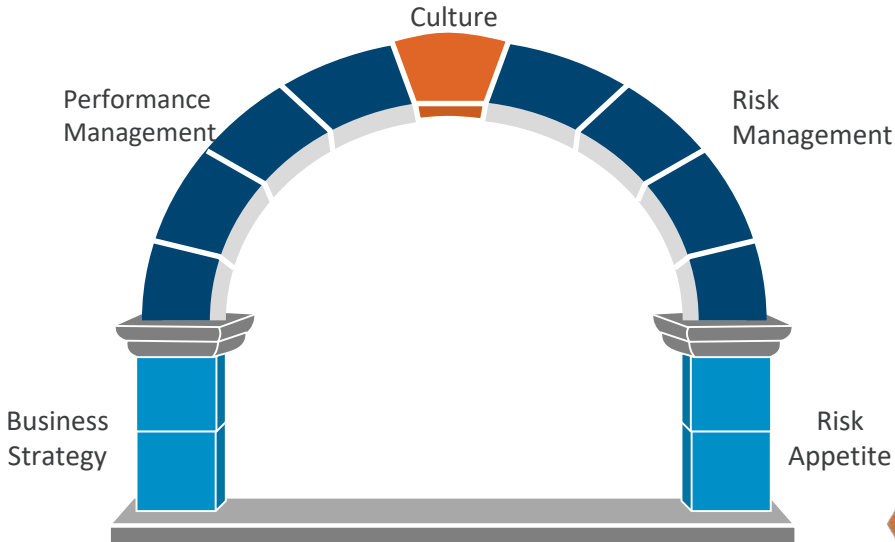
Liz is an Associate Director in our Internal Audit and Financial Advisory practice with more 10 years of experience in internal audit, fraud, and risk management. She has experience in the execution of financial, operational, and regulatory audits, forensics, consulting, and due diligence, on behalf of global financial services clients. Liz delivers quality professional services and has built strong relationships with executive management, external auditors, and regulatory agencies.

Agenda

Topical Area	Page Number
What is Risk Culture?	6
Why Assess Risk Culture?	7
Risk Culture Approach	8-11
Addressing Conduct Risk	12

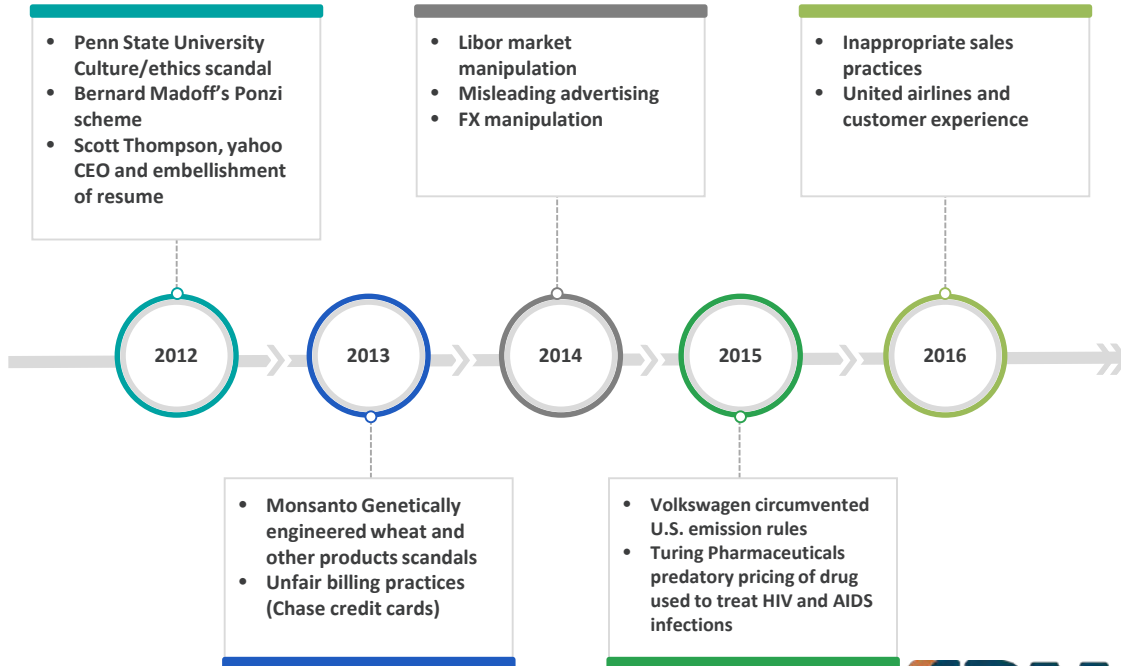
Our Perspective on Risk Culture

Culture is the keystone that holds things together, providing a source of strength or weakness for the organization. An actionable risk culture helps balance the inevitable tension between (a) creating enterprise value through the strategy and driving performance on the one hand and (b) protecting enterprise value through risk appetite and managing risk on the other hand. In effect, it balances the push between strategy and risk appetite



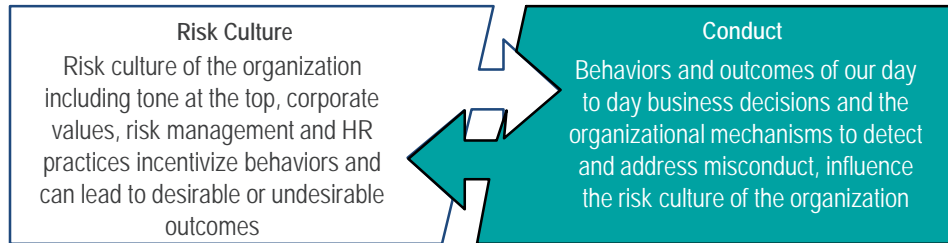
Timeline of Ethics and Conduct Issues and Regulatory Focus

Historical events in the industry that have occurred in the wake of increasing regulations have led to increased focus on risk culture and conduct of organizations.



Managing Culture and Conduct Risk

- In most organizations risk culture and conduct risk management is reactive in nature
- Established what “good looks like” along with mechanisms to assess current state against desired risk culture and implementing proactive measures including strong control framework and actionable metrics to identify and address conduct issues are essential to move from being reactive to proactive in building a strong risk culture and managing conduct issues



Establish **desired risk culture**, and assess **current state against desired state** to reinforce adoption of behaviors, practices, internal controls/compliance mechanisms that are conducive to **limiting opportunities for misconduct**



Implement **key controls** across first and second line functions and **monitoring mechanisms with actionable metrics** and reporting to identify and address conduct risk



Strong mechanisms and desired behaviors for a robust risk culture with proactive identification of potential for conduct risk

Risk Culture Assessment Framework

Risk culture is assessed across the three areas as outlined below and results are reported against these key measures that can be used by management to influence and drive risk culture.



Risk Culture Mechanisms

Tone at the top: Engagement of board, Embedding culture attributes into the fabric of the organization, strategic planning processes, clarity of purpose and consideration of risk in decision making

Communication practices: Frequency and level of communication top-down and bottom up, culture of learning from the past, effective challenge

Polices & Procedures: Code of conduct, whistleblower hotline and effectiveness of policies and procedures

Governance Framework & Risk Orientation: Risk appetite, roles and responsibilities, tools and technology

Accountability: Ownership, risk related goals and tolerances, Committee charters

Risk Transparency: Escalation processes, 'speak up' culture, RCSA, risk reporting

Incentives and Rewards: Alignment of incentives with risk management, balancing rewards with consequences of failures

Employee Life Cycle Management: Hiring practices, career pathing, development plans, exit process and feedback loops

Training and Competence: Board and employee training relative to risk, talent review, succession planning, lessons learned communications

Approach to Risk Culture Assessment

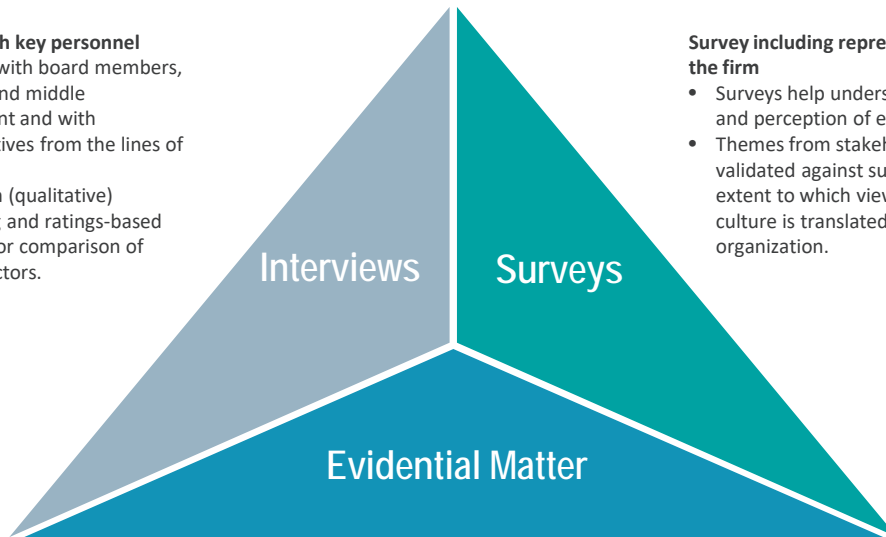
Organizations should consider a three pronged approach to risk culture assessment. Evidential matter combined with findings from stakeholder interviews and survey results to provide a forward-looking view of the organization's ability to effect a sound risk culture

Interviews with key personnel

- Interviews with board members, executive and middle management and with representatives from the lines of defense.
- Utilize open (qualitative) questioning and ratings-based questions for comparison of selected factors.

Survey including representative employees from the firm

- Surveys help understand employees' awareness and perception of expected behaviors.
- Themes from stakeholder interviews will be validated against survey results to gauge the extent to which views are consistent and risk culture is translated throughout the organization.

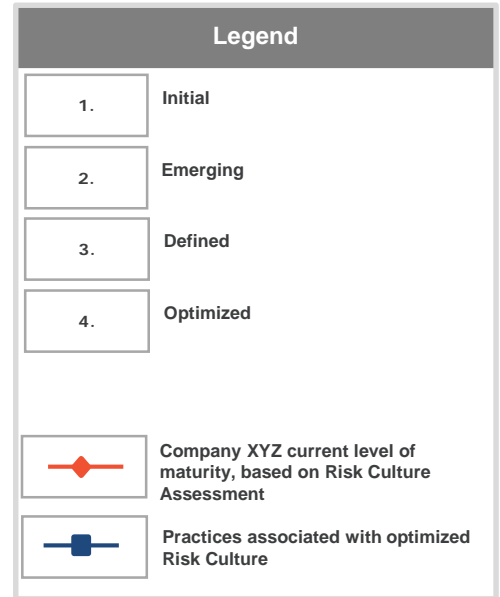


Evidential Matter

- Relevant data metrics including risk management framework, historical risk and conduct related complaint data, issue escalation and resolution data.
- Engagement surveys, HR data/reports related to incentive compensation, whistle-blower reports, turnover data, ethics hotline reports, unstructured social media data, employee demographic data, and performance management data.

Risk Culture - Maturity Assessment

We have built a maturity model that is based on the Group of 30 banking conduct and culture



Conduct Risk

Organizations need to ensure alignment of firm and employee interests with the customers and market participants at large. Organizations are currently reactive to conduct related issues. Focus needs to be placed on building robust risk and control frameworks that could help detect and prevent misconduct in the organization.

Policies and Procedures

- Translating business processes into policies, procedures, work instructions that can be operationalized in the business

Roles and Responsibilities

- Establish clear roles and responsibilities across the three lines of defense to prevent and detect misconduct

Internal Controls, Training and Communication

- Key controls should be embedded within business processes to manage conduct risk.
- Comprehensive training programs should be in place to raise awareness of potential conflict of interest that could result from firm strategy.

Compensation and Performance Management

- Employee incentives should be aligned with customer satisfaction