Building a Proactive Risk Management Culture

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Presented by Mark Fink-Chief Risk Officer, Barclays Bank

Introduction

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Why do we need a more proactive culture?

- Banks and other Financial Institutions are seeing greater Risk volatility than ever before.

- As a result of a more rigorous governance environment worldwide (Basel 3 etc) the levels of capital are increasing, in part to bring further confidence to investors, customers and the market generally.

- These governance requirements tend to reward those organisations that have more proactive / effective Risk Management through lower capital costs

- Banking as an industry is going through a period of rapid transformation, both from new entrants into the market and the development of new technology. This means that costs within the industry will have to fall.

- It's logical to conclude therefore that actually having a more efficient, proactive approach to Risk Management should be a competitive advantage.

Risk Management Approach

- Like many organisations we now run our business using an Enterprise Risk Management policy which makes it clear that "**All employees regardless of their positions, functions or locations must play their part in the firm's risk management.**"

- In many ways this is a step change from banking 10 – 15 years ago when front office staff were only focused on sales and a few people in the Risk and Compliance departments had responsibility for the bank's Risk.

- Now, all colleagues have a specific responsibility for allowing the firm to operate within its Risk Appetite.

- Risk Appetite is very much a top down approach with Board setting the level of Risk the organisation is prepared to accept in the conduct of its activities

- These responsibilities are defined in terms of the role of the employee in the 'Three Lines of Defence'.
    - 1st Line – Revenue generating and or client facing functions
    - 2nd Line - Risk & Compliance
    - 3rd Line – Internal Audit

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The impact of technology on Risk Management

- In the face of ever more sophisticated business environment one of the major tools to be really proactive is in a greater use of technology to understand, predict and minimise Risk.
- However, the use of technology goes beyond just better reporting, credit scoring and early warning signs.
- Risk data is now the driving force in the development of products and of business intelligence in terms of how those products are sold.
- Regulators are now expecting much more from Banks and Financial Institutions around issues such as future vulnerability, through stress testing.
- We have all seen from other markets how the ability to execute stress testing has a direct impact on confidence levels for those organisations
- It is not hard to foresee that the future employees of a successful Risk function are more likely to modellers and specialists in data mining and analytics than experienced hands at credit risk.

Setting the right Cultural tone

- Culturally, the business has seen a number of changes since the financial crisis of 2007/8. In particular decisions are now taken through a more distinct customer lens reflecting some of the following:

  - Responsibilities around Conduct Risk.
  - A deeper awareness of Reputational Risk
  - A clear set of values across the Company

- This is all underpinned by a set of questions that guide the decisions we take to reflect the interests of all our stakeholders, customers, staff, shareholders and the communities in which we operate.

  - How are we making a profit (directly or indirectly)?
  - How are we being transparent and clear in our communication and dealings with customers and stakeholders?
  - How are we creating long term value?
  - How are we creating shared value, where win-win occurs to Barclays, the customer and society at large?
  - Is this the right thing to do?

How to build a Risk culture in practice

- Culture changes when people are held accountable for decisions and actions rather than just implementing a set of policies.

- For us, performance is assessed not just on the **what** but also **how** it is achieved with an equal balance across both metrics.

- Performance Metrics need to be set that reflect risks incurred as well as just the top line.

- Colleagues need to be encouraged to highlight and raise Risks in a proactive fashion, recognising “doing the right things” and conversely holding people accountable when issues are not reported or reported late.

- As we build a deeper understanding of the risks we take as an organisation we get better at managing and mitigating those risks.

The role that Risk must play in building that culture.

- The mind-set of Risk needs to reflect collaboration and shared goals. Historically Risk has been seen as the opposition, there to frustrate.

- When things go wrong the response has to be one of support and to avoid an over reaction when an issue is raised.

- The focus needs to be on proactivity rather than just reacting when things go wrong with Risk being facilitators of the business.

- There needs to be an understanding between front and back office of their respective deliverables, even if they are not the same thing.

- Everyone has a role, but Risk can lead in seeking to take emotion out of difficult decisions e.g. using data and metrics, measures, triggers and actions.

Conclusion

- As the culture of the organisation matures with respect to Risk management, this permeates out to customers, clients, regulators and shareholders who then see this reflected in everything that is done.

- The risk never goes away, however, the business just gets better at understanding it, measuring it and ultimately managing it and this then translates into better performance .

- The logic for a more proactive risk management culture should show through in the following ways:
  - Fewer risk events
  - Lower Risk exposures
  - The workplace feels more collaborative, less “us and them”
  - Risk is priced more effectively
  - Decisions get quicker. And better.

- All of this should translate into better financial metrics as well. Namely:
  - Reduced costs
  - Lower risk losses (impairments / provisions)
  - Reduced capital costs.

Questions?

Thank you