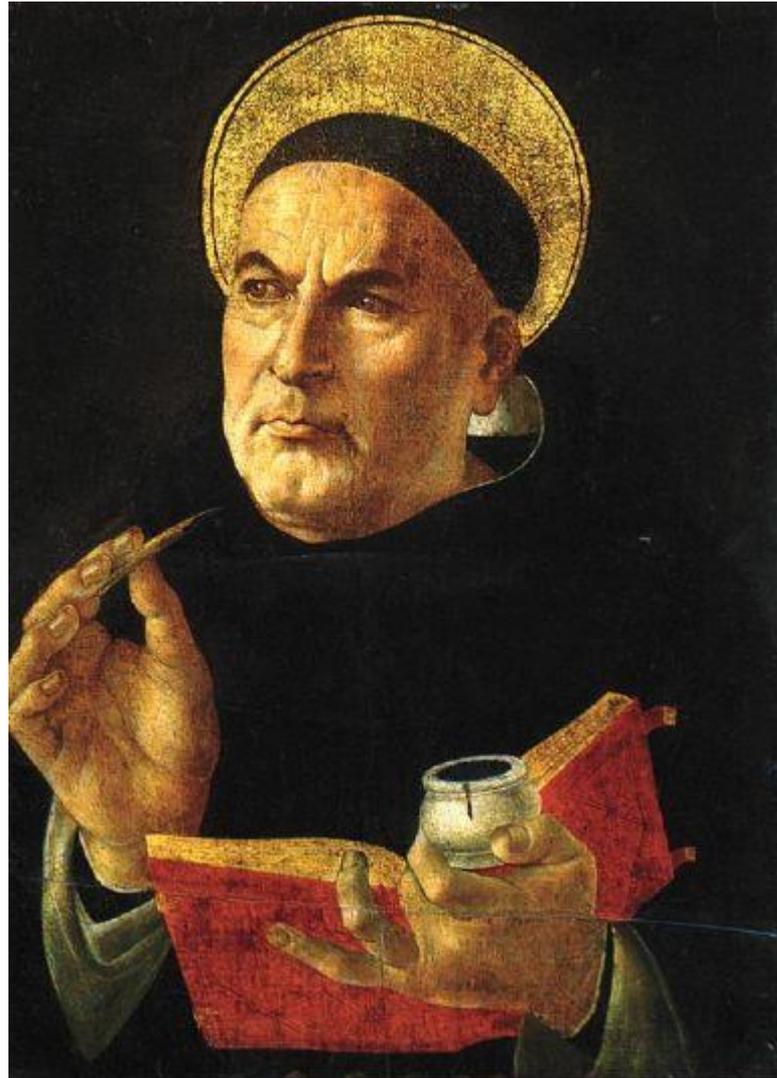


# HR – the real CRO

John Thirlwell

Eliot Partnership breakfast, 9 September 2014

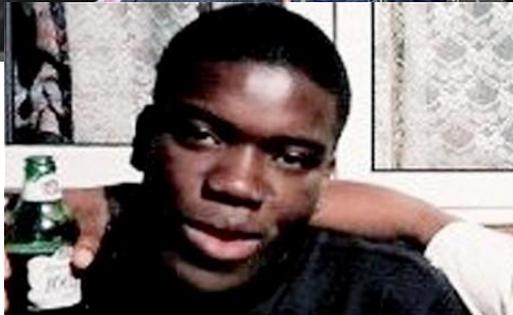
‘The world has never been so full of risk.’



# National security strategy (Oct 2010)

TIER 1	TIER 2
International terrorism	Chemical, biological, nuclear, radioactive (CBNR) weapons
Cyber attacks and large scale cyber crime	Overseas insurgency creating environment for terrorism
Major accident or natural hazard, e.g. extensive coastal flooding, pandemic	Organised crime
International military crisis	Satellite communications disrupted





Failed RBS banker Fred the Shred cost you billions. But he's got legal gag to stop him being called a banker...

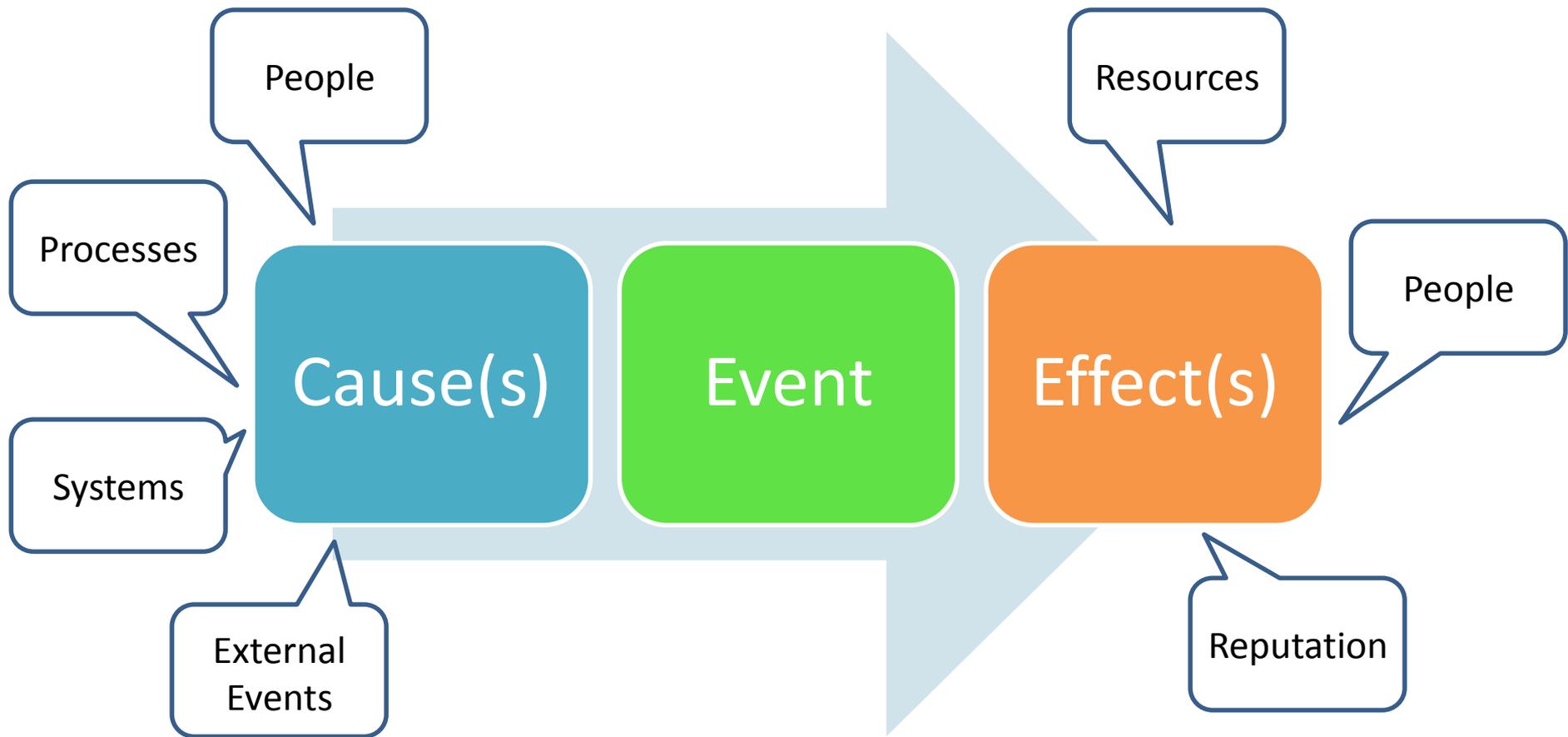
**WHAT A BANKER!**



 ARTHURANDERSEN

# Scope of operational risk

‘The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events’



An attempt to frame the unframeable, to assuage fears about the uncontrollable 'rogue others' and to tame the man-made monsters [of the financial system].

Prof Michael Power, *Organized uncertainty : designing a world of risk management* (OUP, 2007)





Liquidity Risk

Underwriting Risk

Group Risk

Credit Risk

Market/Product Risk

**Operational  
Risk**

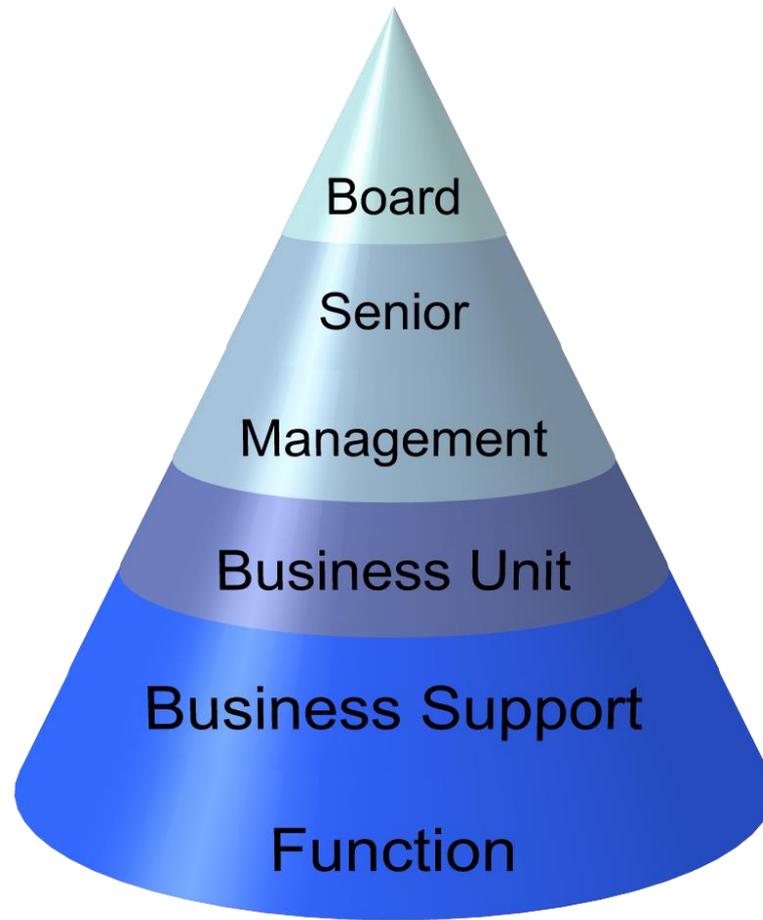
(including Strategic Risk)

Operational risk is inherent in **all** banking products, activities, processes and systems, and the effective management of operational risk has always been a fundamental element of a bank's risk management programme.

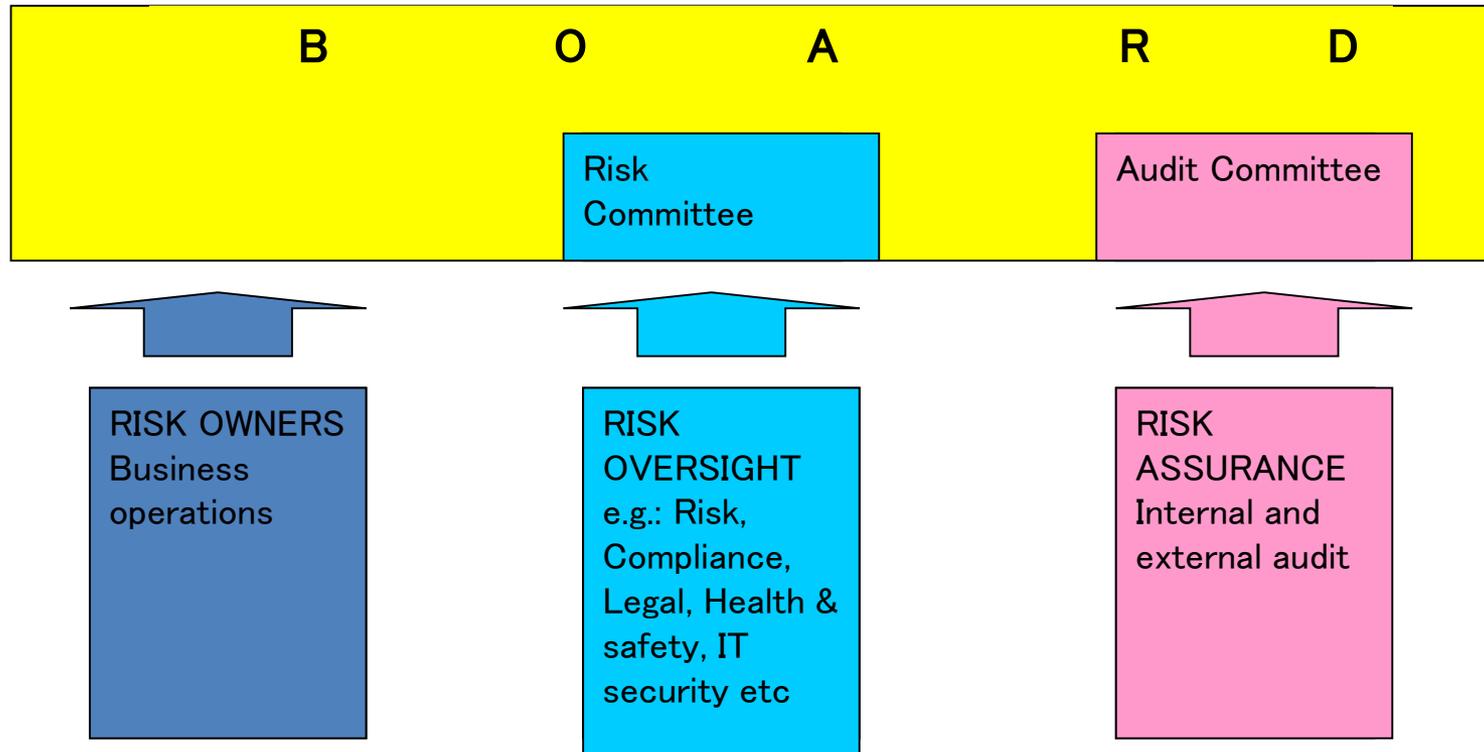
[Sound practices for the management and supervision of operational risk, BIS, 2011]



# Whose risk is it anyway?



# The 3 lines of defence



# The banking crisis

- The trigger: Asset bubble
  - Sub-prime lending
  - Complex instruments (failure to challenge or understand)
- Organisational design and structure
  - Failure to apply good risk management and governance
  - Rating agencies – over-reliance; incompetent
  - Regulators and the regulatory regime (Basel II)
- Economic and strategic imperatives
  - Profit
  - The banking ecosystem: failure to understand systemic risk
  - Electoral imperatives (politicians)
- Cultural and human factors
  - Human behaviour (greed, herd instinct, bullying, hubris, complacency etc) of banks, customers, politicians, regulators

# US Congressional Financial Crisis Inquiry Commission (2011)

‘The crisis was **avoidable**.’

The key conclusions were that there were:

‘**dramatic failures of corporate governance and risk management** at many systemically important financial institutions’

‘**a systemic breakdown of accountability and ethics**’

# Cultural key words – Salz review (Barclays, 2012)

‘There was no sense of **common purpose** . . .  
Across the whole bank, there were no clearly  
articulated and understood **shared values** . . .  
and what should guide **everyday behaviours**.’

[para 2.15]

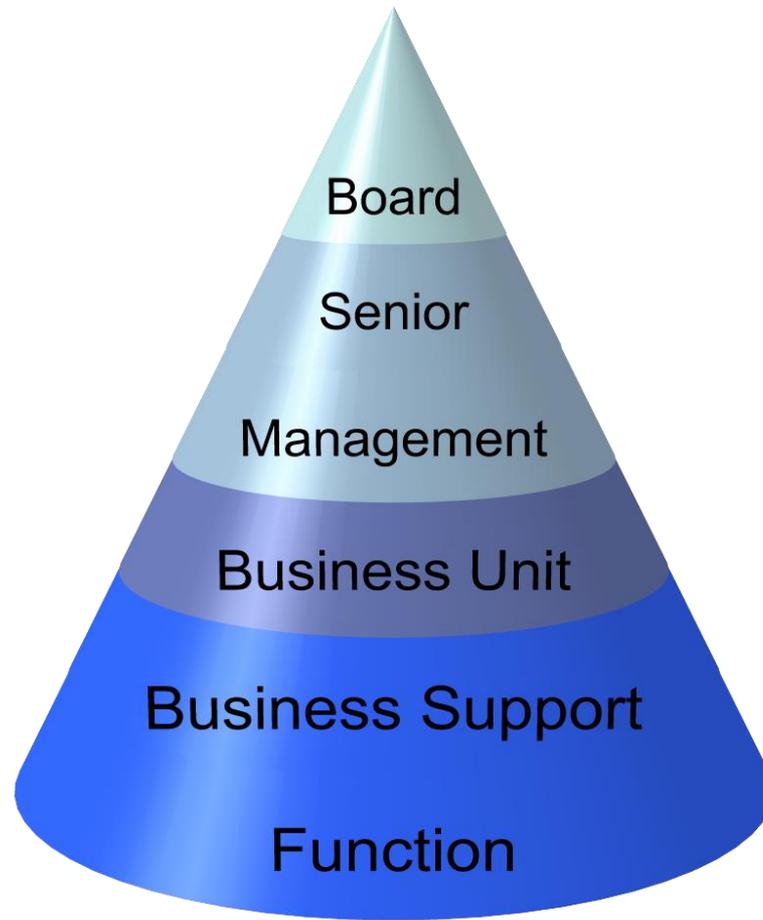
# Effecting cultural change

- Committed leadership
  - Tone from the top

‘It’s alright to talk about the tone at the top, but  
I prefer to talk about the tune in the middle  
and the beat of the feet at the bottom.’

[Prof Mervyn King, chair of South Africa’s King Commission on  
corporate governance]

# Whose risk is it anyway?



‘It’s alright to talk about the tone at the top, but I prefer to talk about the tune in the middle and the beat of the feet at the bottom. If you get your strategy right and you get buy-in you can do extraordinary things. But if you don’t get buy-in you won’t even achieve the ordinary.’

[Prof Mervyn King, chair of South Africa’s King Commission on corporate governance]

# Effecting cultural change

- Clarity of strategy and objectives = common purpose
  - The context for:
    - Risk identification
    - Risk management
    - Risk appetite
    - Risk culture
- Culture and values at the heart of all business decisions

# Effecting cultural change

- Committed leadership
  - Tone from the top / tune in the middle / beat of the feet at the bottom
- Strategy and objectives
- Clear roles and responsibilities
- Open channels of communication

‘Each manager is a fresh obstacle to the flow of truth up the hierarchy of wastebaskets’ [Tim Harland, *Financial Times*, 25/3/10]



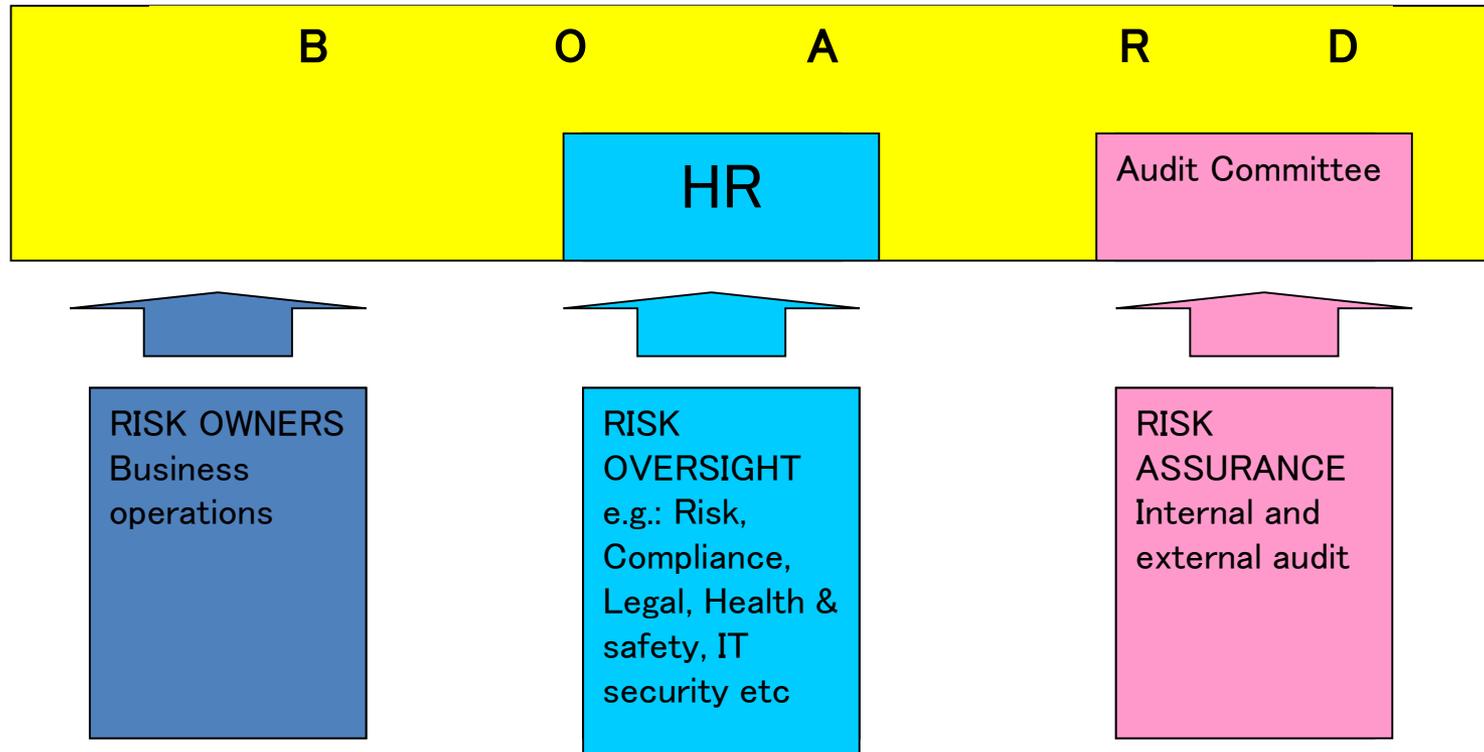
# People risk

Operational risk is the **risk of loss from inadequate or failed** internal processes, **people** and systems or from external events.

# Mitigating people risk

- Objectives and, through them, values and behaviours, are the drivers for key people risk controls:
  - Selection
  - Appraisal and performance management
  - Training and development as long-term investment
  - Reward – what and who are rewarded?
    - Financial – bonus and malus; values
    - Promotion - values
- Succession planning
- People risk and reputation risk
- The role of HR

# The 3 lines of defence



# John Thirlwell

Tel: +44(0)781 382 9362

email: [info@johnthirlwell.co.uk](mailto:info@johnthirlwell.co.uk)

[www.johnthirlwell.co.uk](http://www.johnthirlwell.co.uk)

