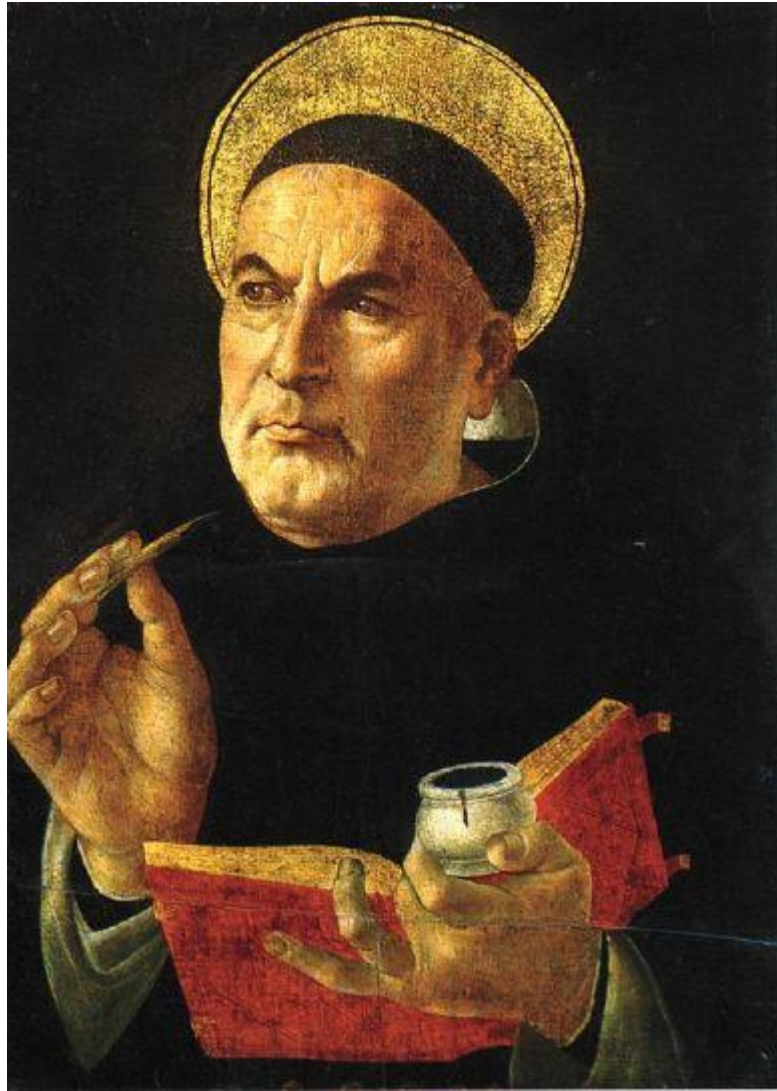


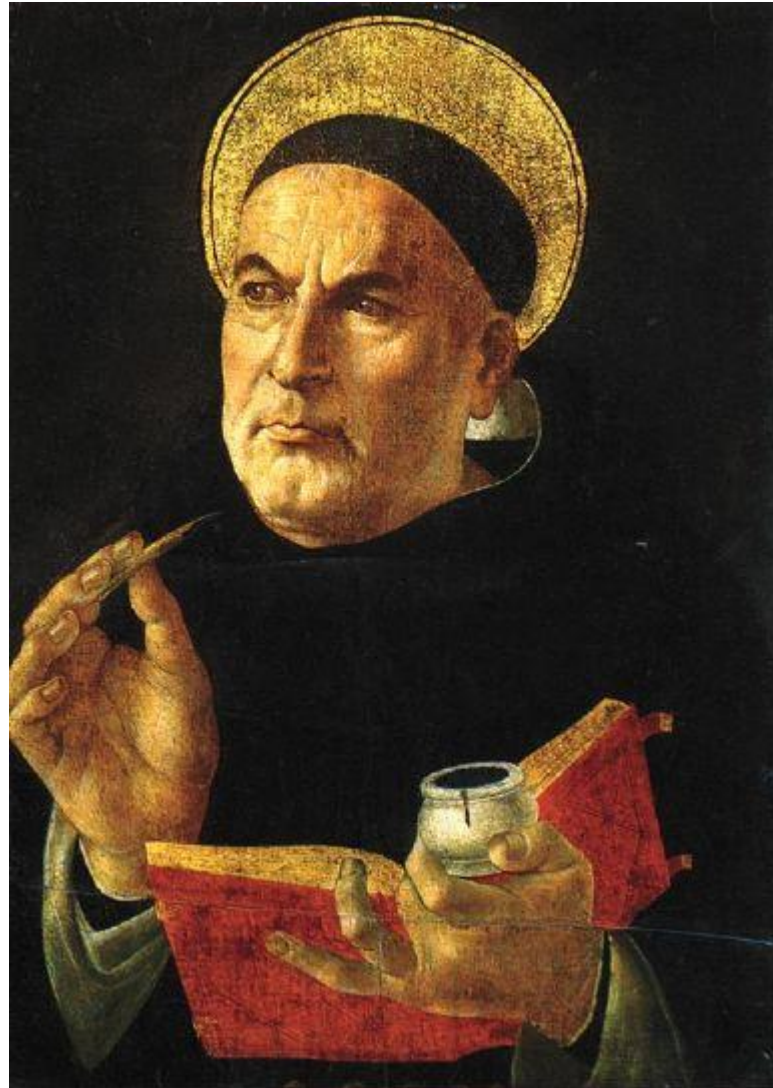
Risk management for mutuals

John Thirlwell

AFM conference, The Belfry, 17 October 2012



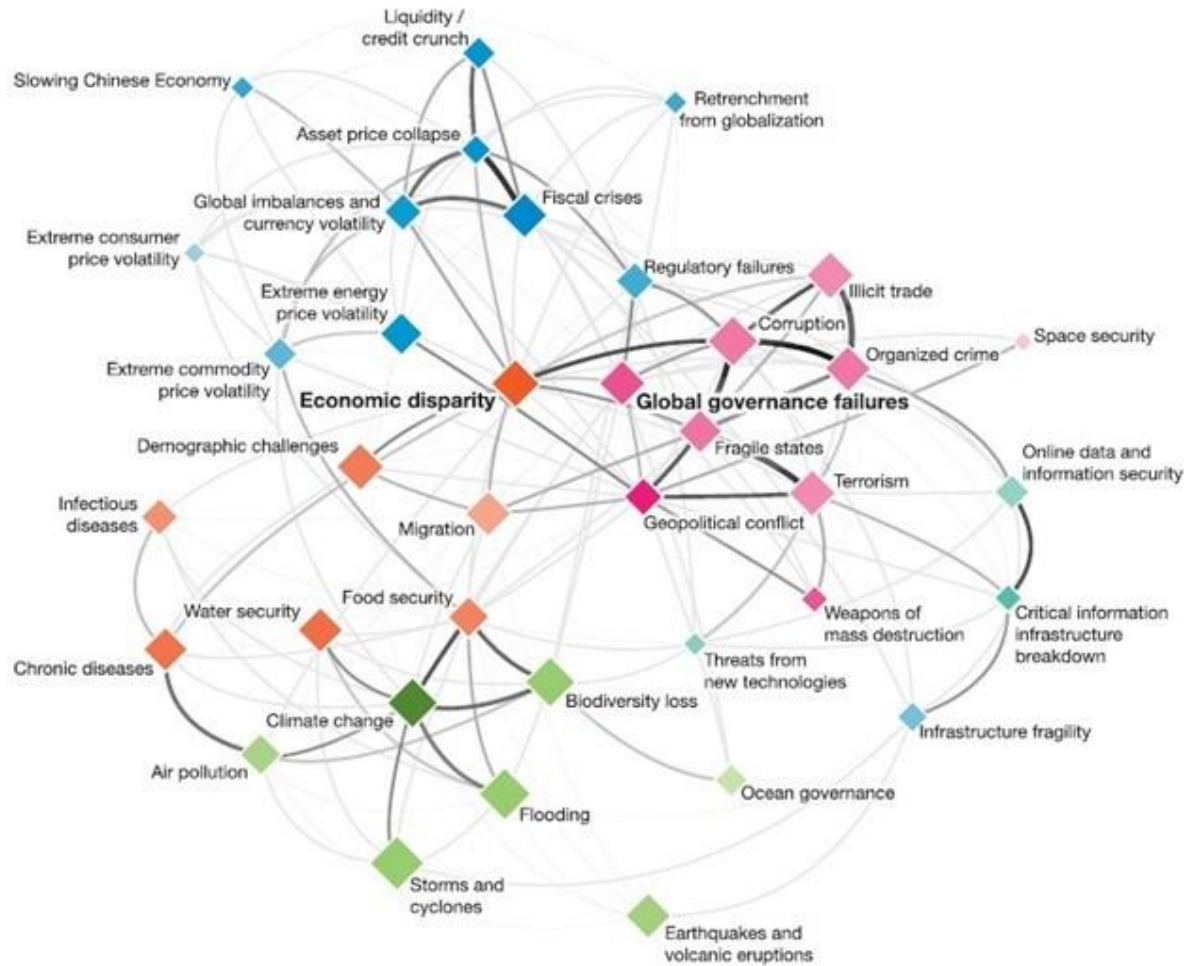
‘The world has never been so full of risk.’



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

Risk interconnections map



Felix qui potuit rerum cognoscere causas
(Vergil, *Georgics*)

Felix qui potuit rerum cognoscere causas.
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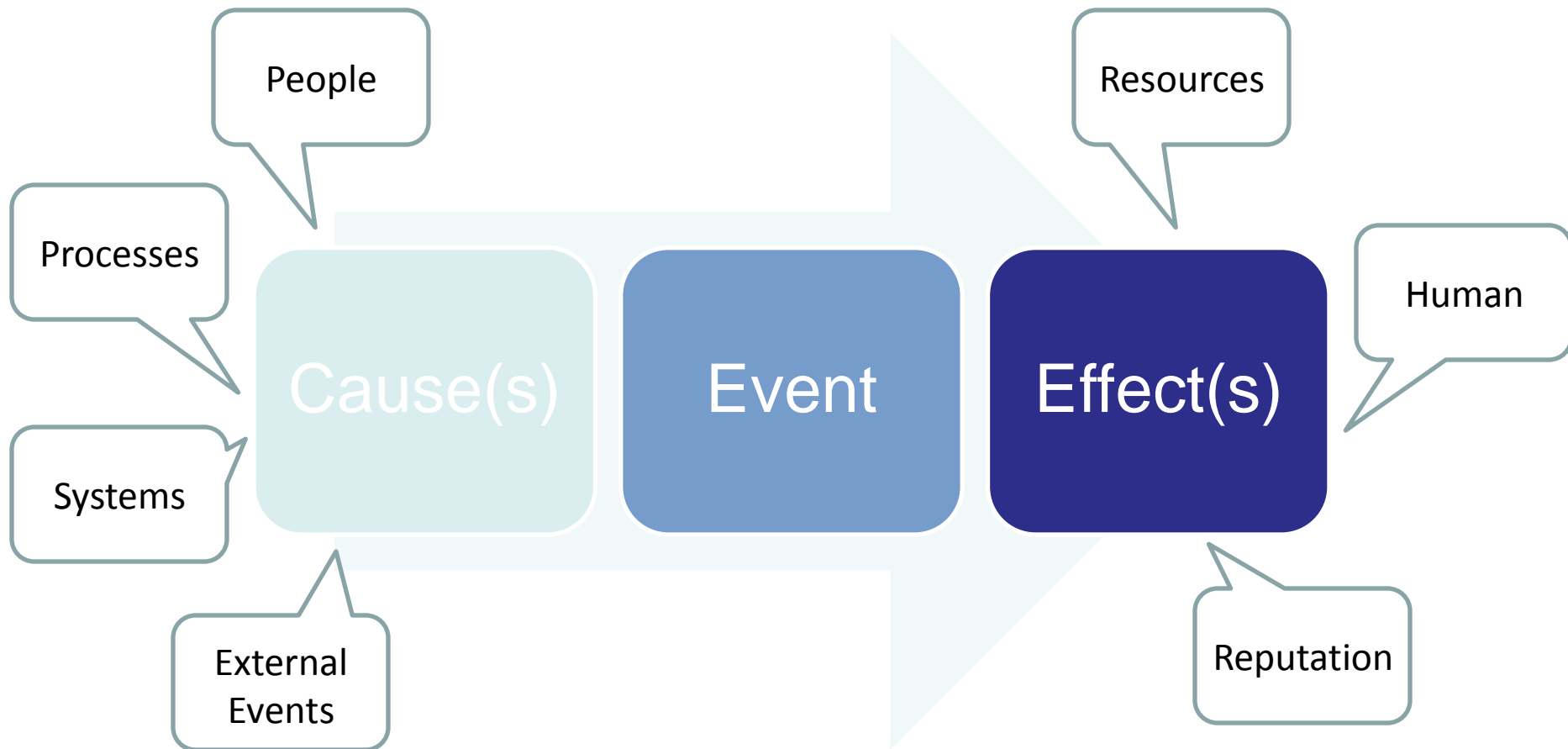
It is the cause, my soul, it is the cause.
(Shakespeare, *Othello*)

Operational risk

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

- excludes strategic and reputational risk

The Risk Chain



Agenda

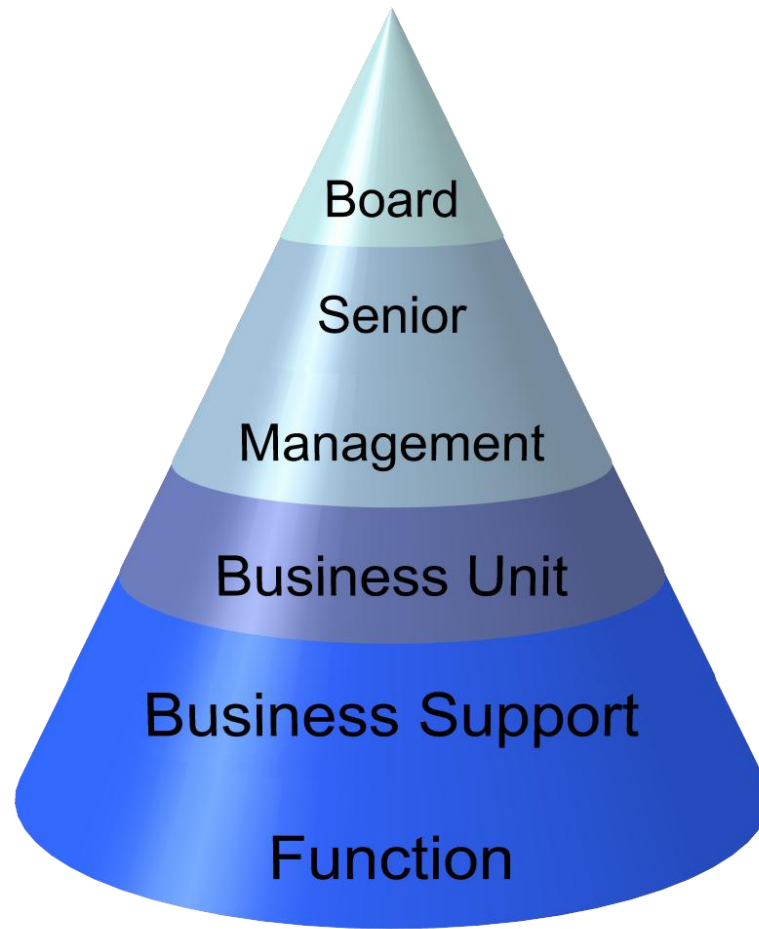
Risk management

- getting the framework right
- getting the culture right
- getting the people right
- because we're worth it

and mutuals

- The board
- Roles and responsibilities (and accountability)
- Whose risk is it anyway?

Whose risk is it anyway?



- The board
- Roles and responsibilities (and accountability)
- Whose risk is it anyway?
- **Reporting**

Each manager is a fresh obstacle to the flow of truth up the hierarchy of wastebaskets



Agenda

Risk management

- getting the framework right
- getting the culture right
- getting the people right
- because we're worth it

and mutuals





Embedding a healthy risk culture

- Committed leadership
 - Tone from the top



Embedding a healthy culture

- Leadership
 - Tone from the top / tune in the middle

The tune in the middle

Fantasy For Orchestra © 2000 Paul R. Heckerl

♩=144; Movement 1

Flute
Oboe
English Horn
B♭ Clarinet
Bass Clarinet
Bassoon
Contralto Saxophone
French Horn 1
French Horn 2
B♭ Trumpet 1
B♭ Trumpet 2
Trombone
Bass Trombone
Tuba
Timpani
Percussion 1: large bass drum, piatti
Percussion 2: large tam tam, tambourine shaker, trap, lambertine shaker
Percussion 3
Percussion 4
Percussion 5: cymbals, snare drum
Harp
Piano
Violin 1
Violin 2
Viola
Cello
Bass

1

Embedding a healthy risk culture

- Leadership
 - Tone from the top / tune in the middle
- **Strategy and objectives**

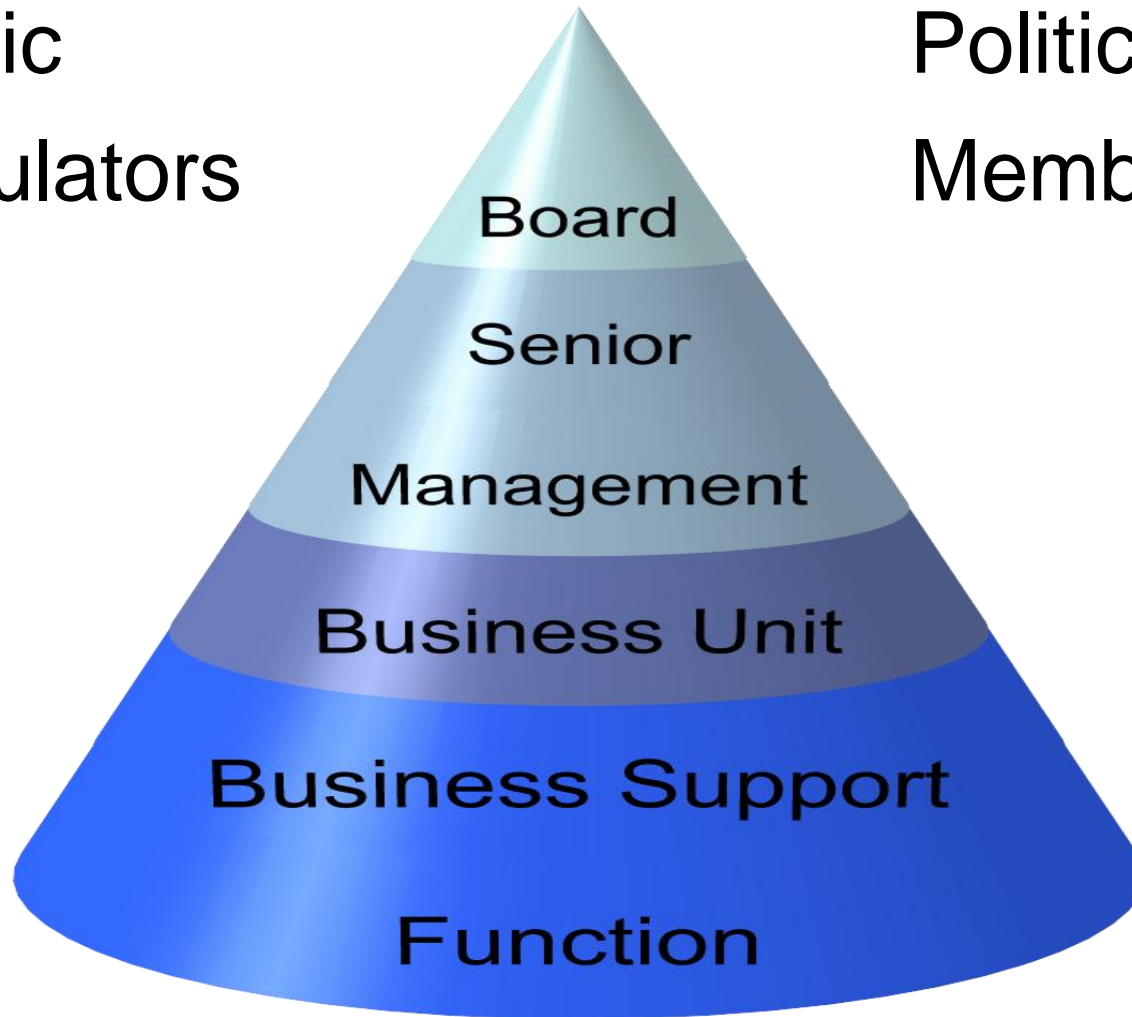
Whose risk appetite is it anyway?

Public

Regulators

Politicians

Members



Embedding a healthy risk culture

- Leadership
 - Tone from the top / tune in the middle
- Strategy and objectives
- Values and excellent behaviours

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**’

Embedding a healthy risk culture

- Leadership
 - Tone from the top / tune in the middle
- Strategy and objectives
- Values and excellent behaviours (risk culture)
- Clear roles and responsibilities
- Openness, transparency and communication



Risk and culture

- Leadership
 - Tone from the top / tune in the middle
- Strategy and objectives
- Values and excellent behaviours (risk culture)
- Openness, transparency and communication
- **Reward**

Agenda

Risk management

- getting the framework right
- getting the culture right
- getting the people right
- because we're worth it

and mutuals

Mitigating people risk through behaviours

- Behaviours are the drivers for key people risk controls:
 - Selection
 - Induction and training
 - Appraisals and performance assessment
 - Reward
- Managing behaviours also mitigates reputation risk, often a people risk issue
- The HR function

Agenda

Risk management

- getting the framework right
- getting the culture right
- getting the people right
- because we're worth it

and mutuals

Because we're worth it

- Better informed decisions
- Better understanding of risks and risk events – past, present and future
- Better protection if something goes wrong (+ early warning)
- Culture is a source of competitive advantage (can copy technology and products, can't copy culture) – your DNA is unique
- So it's worth it

Agenda

Risk management

- getting the framework right
- getting the culture right
- getting the people right
- because we're worth it

and mutuals

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