



Managing Risk in a Volatile Landscape

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MANAGING RISK IN A VOLATILE LANDSCAPE

How has the financial crisis changed the way we take risks and manage them? What does a healthy risk culture look like – and how do we create one? Just some of the questions RBS InFocus put to a panel of seasoned risk professionals at London's Soho Hotel.

Ian Wylie, editor, InFocus

Can I begin by asking: What has changed in the landscape of risk management – how would you tell the story of what has changed in the past three or four years?

Alan Pratten, managing director, clients and development, Heath Lambert

It depends on the sector. If you are in oil and gas there is 10 times more debate in terms of management of health and safety, following the BP oil spill. If you turn to financial services, regulation is now a massive issue. The Financial Services Authority employs three times the number of people it did three years ago. Do we follow what has happened in the US and get to a point where advisers do not advise because of regulatory risk? What does that mean for you as a director or an officer of an organisation?

Elaine Heyworth, head of risk management, property and workspace development, Everything Everywhere

Everybody is talking about risk, whether it is insurance and banks or petrochemicals or grocery shopping. The subject of risk has just elevated.

Dennis Cox, chief executive, Risk Reward

For the executive boards we are speaking to now, risk is no longer the meeting they have just before lunch. We always felt that we spent so much time producing papers that nobody really read. But boards of directors now realise that they have risk very clearly in their sight, and people are looking for them to take ownership of their risk management. That is scaring both non-executive and executive directors, and I do not think the skills are necessarily always there within those teams.

Carolyn Williams, head of thought leadership, Institute of Risk Management

People are increasingly saying to themselves: 'What could be

our BP? What could cause an incident of that size, that nature, that damaging to reputation?' and working backwards from that.

Paul Howard, head of group insurance and risk management, J Sainsbury

I don't think things have changed dramatically. I think good, well-managed organisations have always considered risk. I think there might be a higher profile externally, absolutely, but I think ultimately you can take away the risk from risk management and say it is just good management.

Andrew Harrison, managing director, energy and infrastructure, RBS Corporate & Institutional Banking

That's a good point, but for some organisations, such as BP and RBS, the unthinkable did happen and that has raised the profile of risk in general and brought it to the very forefront of the management and leadership agenda.

Paul Howard There was a disconnect between accountability and responsibility as well.

Mark Spicknell, head of business operational risk, RBS Corporate & Institutional Banking Part of the problem may have been a lack of clear definitions about who is accountable, what responsibility means, and what the penalties are that go with that.

Elaine Heyworth I think one of the biggest mistakes was splitting regulatory into three different areas: FSA, Bank of England and the Treasury. When you start splitting accountabilities and responsibilities, people are never quite sure who is in charge. In our business, we always have one leader, which means we can manage most crises well. If you have three people trying to own it, it just becomes a mishmash.

Mark Spicknell Chief executives are

switching on to the fact that they are accountable, and that is why it becomes a board agenda item. They are discussing it much more than they previously have.

Alan Pratten But how do you get the risk in the trenches up to the boardroom as quickly as possible? I think it is a massive issue for a board member to actually evaluate this huge wad of information that comes to you. I think that is a big issue for our clients.

Mark Spicknell In our business, risk management reports would previously be used as a performance measure – which meant that sometimes people would not escalate an issue, because of the impact it may have on them or their department – when in reality it's better to bring these things out into the open to get them aired and dealt with.

Dennis Cox Another change is that we are now living in a world where you are wondering what you are going to see when you turn on the television. Did we expect to see an earthquake in Japan? Did we foresee the Middle East unrest? The coverage of these events has created a higher level of uncertainty. And I think sometimes we spend so much time on the small things that we miss the big things.

Andrew Harrison

The catalyst that has changed the whole dynamic is social media.



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Facebook, Twitter, the internet are all uncontrollable. News is available instantaneously – but the news that comes through is often raw and with no government or editorial oversight.

Ian Wylie But, as people who want to identify, assess and measure risk – is it not better for you to have access to all that extra information?

Paul Howard It is, but the real challenge is: what are the filters? There is so much noise, and there is so much good stuff, but we have a finite capacity.

Dennis Cox And the way the markets move now is so much more volatile. For a business, that makes it really hard to plan. For example, what is the oil price going to be like in two weeks' time, let alone a year's time?

Ian Wylie Before we depress ourselves with paranoia about all these acute events over which we have no control, how do we embed a healthy culture of risk awareness within our organisations?

Paul Howard By not ignoring the external environment, as challenging as it may be. Keep horizon-scanning so that your threat radar reflects things that are happening. It is incredibly difficult to be right on everything, but (you should maintain) a wide perspective – not just on your sector or organisation, but looking as widely as you can.

Elaine Heyworth There is also an element of making it personal to everybody – 'if this was a member of your family, how would you feel if you treated them badly as a customer, or if you heard they got treated badly as a customer?' Some employees think risk management is scary. We need to demystify risk by making people realise that every time they get out of bed and don't trip on their slippers, they are doing risk management.

Andrew Harrison It is easy to create a risk culture that always says no; it is very difficult to create one that says yes. It is easy to pick out the risks, but actually very difficult at times to ask, on balance, where do I sit? Finding risk

professionals who are able to do that and have the confidence to do that is probably the key to success.

Dennis Cox It comes back to the point about social media – it's about becoming more nimble. Some organisations have built structures that stop them moving forward. They just cannot get the product out fast enough. The nimble organisations are going to be in a much better position, but it puts more pressure on their risk guys.

Mark Spicknell We need to be careful that we don't create a regime where risk frightens everyone. Risk is there to be managed; it is not to be avoided. So we are trying to be really clear on what appetite levels we are prepared to set, what things are important to us, tying that into the business strategy as well, rather than just looking backwards and reacting to events.

Alan Pratten And I think it's important to encourage a nonblame culture – which is a lot easier said than done, particularly in more aggressive firms.

Elaine Heyworth I think visibility of the risk manager is important. If you go in front of your senior VPs and they recognise you, they will take what you are saying to them that much more seriously. I know risk people who are astonishingly good but very quiet and very shy. They just do not get the visibility that I do because I am in people's faces. Sometimes, it takes personality to get you in front of the senior executives.

Carolyn Williams It's something the Institute of Risk Management is going to be looking at: competency frameworks and learning how to talk simply about something you know a lot about. We're trying to provide an education that gives people the background and the knowledge, but the skill is then to make it simple.

Mark Spicknell I agree that risk communities can generate huge reports, a huge amount of metrics – which are good to have in your back pocket. But what you really need to be able to do is pull out the key things that will be of interest to the board. I think it's also

important to be out on the shop floor, listening to the noise and getting feedback. It's actually when you are out on the frontline talking to the people that you get that sense of where the risks are, what is coming along the track that could hurt your organisation.

Elaine Heyworth The people on our risk and steering committee do not come from a risk department. It's made up of risk specialists from each of our business areas. So it's people who understand their business areas – not a bunch of risk-based specialists. That brings a lot more credibility.

Ian Wylie What are the skills a risk professional will need?

Carolyn Williams Communication skills are absolutely key. Boards now have a responsibility to understand the risks they are facing and they are going to need help with that, and whoever looks after risk must be able to communicate from board level right down. But that has to be built on a solid knowledge of the tools, techniques and approaches.

Dennis Cox There is nothing that replaces experience and knowledge. You cannot just get it from a book. You do not have to be the expert on everything – you just have to know where to get it from when you need it. Having the communication lines, the ability to influence, and the ability to be really unpleasant when you have to – they're important attributes, too. If I go to a firm and they love their head of risk, I am wondering, are they just saying yes to everything, and are they really balanced? Sometimes you do have to take unpopular stances, and you have to have a thick enough skin to be able to do that.

Paul Howard But I think it very much depends on what your team looks like at the moment, and you do not want people that all come from the same background. It is absolutely essential to have a really good range of people from a range of sectors – you will ultimately arrive at better decisionmaking.

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