

EMPOWERING YOUR PEOPLE TO MANAGE RISK

A white paper on employee training
around risk and compliance.



“RISK COMES FROM NOT KNOWING WHAT YOU’RE DOING”

- WARREN BUFFET

EXECUTIVE SUMMARY

THE REWARDS OF EFFECTIVE RISK MANAGEMENT

We think Warren Buffet hit the nail on the head, but how do you change or shape the culture of an organisation, so everyone knows what they should be doing, when and why? It’s a question vital to all banks and financial sector organisations.

That’s because expectations around risk management are changing fast. It’s not enough to follow a few simple rules anymore. Behaviour and attitude need to be assessed and possibly changed from top to bottom.

If it isn’t done, many banks will continue to face high costs and losses in the form of escalating litigation and increasingly huge financial penalties.

Individuals bear responsibility for their behaviour, true. But as far as regulators are concerned, organisations have a duty to inform employees and to set agendas and cultures.

How, then, do you educate and engage employees? How do you make compliance part of your culture?

01.

IDENTIFYING RISK

INTRODUCTION

WHY RISK MATTERS NOW MORE THAN EVER

How do you change or shape the culture of an organisation? It's a question vital to all banks and financial sector organisations – because expectations around risk management are changing fast. It's not enough to follow a few simple rules anymore. Behaviour and attitude need to be assessed and possibly changed from top to bottom.

If it isn't done, many banks will continue to face high costs and losses in the form of escalating litigation and increasingly huge financial penalties.

Organisations have a duty to inform employees and to set agendas and cultures.

How, then, do you educate and engage employees? How do you make compliance an integral part of your culture?



MANAGING RISK IS A TASK FOR EVERYONE

Managing risk is central to any business, no matter the sector. It has always been crucially important in the financial sector, but more so now than ever before due to increased regulation and media scrutiny. Managing risk effectively helps you protect customers, shareholders, your employees and ultimately, a business' reputation.

Everyone in a financial organisation carries responsibility for managing risk effectively and if they get it wrong, everyone loses. So it's essential all your people understand their responsibilities and accountabilities with regards to risk. Putting clear and transparent rules and policies in place is a fundamental step to protecting your business.

However, the key to successful implementation of risk policies is to ensure your people *take action* rather than merely think about whether to take action. For this to happen, you need a clear communication strategy and training programme.

EXPECTATIONS HAVE CHANGED

It's no longer enough to publish a Risk Policy or have a set of rules on the fridge door in the office kitchen. It's not enough to ask people to sign an annual disclaimer saying they understand their role in risk prevention. Put simply, if you don't provide employees with the tools, training and support to ensure they follow a risk policy through, then you could fall foul of the regulators. That could bring hefty fines.

For the average employee, knowing the organisation has a Risk Policy they're meant to observe doesn't lead to action. Indeed there are 'grey areas', which employees will encounter daily in their business dealings, and which regulators may not provide guidance for. The result? You're left exposed.



These grey areas evolve constantly, sometimes rapidly, driven by changes in macro and micro economic conditions, regulatory change, customer expectation, technological advances and developing patterns of domestic and international trade.

Whenever new regulations do come into force, it's essential employees can react appropriately. There's a strong likelihood they'll keep doing what they've always done because no-one has told them otherwise.

Employees need to be proactive and make the right decisions, but for this they need the right information and support.

EVERYONE IS RESPONSIBLE FOR RISK

It's likely that most people in your organisation recognise, or at least acknowledge, the importance of risk management. If you encounter complacency, however, it's worth asking yourself some simple questions:

- *How sure are you that employees will take the necessary steps to escalate what they see to be a significant threat to your organisation's reputation?*
- *How sure are you that they know what a potential threat is or looks like?*
- *Do they see social media as a threat or as a personal right to freedom of expression?*
- *Do they understand their individual accountability?*
- *How can you as an employer protect them from making mistakes, which could lead to dismissal or even a prison sentence?*
- *How do you identify 'grey areas' and what do your employees do when they come across them in their day-to-day dealings?*
- *How fast can you communicate a regulatory change and provide evidence it's being acted on?*

02.

MINIMISING RISK

HOW TO MINIMISE ORGANISATIONAL RISK

When financial sector organisations set out to communicate core messages around risk policies and guidelines, typically they face three core challenges:

1. How to win hearts and minds.
2. How to ensure consistency across the workforce.
3. How to know if employee communications are being heard loud and clear.

The answer is to tackle these with planned and proven training and communications programmes.

ENGAGE EMPLOYEES WITH 'STORIES THAT MATTER'

Communication needs to be effective and powerful, connecting with everyone from Board-level to junior employees. This calls for stories that provide clear and consistent messages around acceptable conduct. The tone, language and content of these stories need to make an impact across the organisation, and be clear and succinct enough so that all can understand.

ENGAGE WITH NEW JOINERS AND LOYALISTS EQUALLY

Whether employees have been in the same role for twenty years, are new to the firm, or moving positions regularly, everyone needs to exhibit appropriate behaviour. This means there needs to be consistency in the codes and standards of behaviour applied throughout the organisation.

MEASURE AND REPORT ON THE SUCCESS OF COMMUNICATION INITIATIVES

Your risk communication programmes are vital tools in helping to minimise reputational damage. This makes it essential to recognise and use best practice when it comes to communications, not only to measure success of programmes, but also to report back on this success to the leadership and the workforce as a whole.

LEADERSHIP IS VITAL

To succeed, communication programmes need the unwavering support of business leaders, middle managers and frontline supervisors. It's essential to assess in advance the amount of behavioural change needed and for the central team and divisional leaders to establish clear priorities and boundaries.

**IF YOU DON'T PROVIDE EMPLOYEES WITH
THE TOOLS, TRAINING AND SUPPORT TO
ENSURE THEY FOLLOW A RISK POLICY
THROUGH, THEN YOU COULD FALL FOUL OF
THE REGULATORS.**

RESPONSIBILITY LIES WITH THE INDIVIDUAL, BUT...

Many firms believe it's the individual who shoulders the responsibility for their own understanding of policies and procedures. However, regulators may disagree. If you don't provide adequate training and communication, regulators may take the view that you're not preparing your employees. That can lead to fines or even prison sentences for those held accountable.

While establishing documented business standards does play an important role in demonstrating and reinforcing acceptable conduct, it's not enough to just publish these on the intranet or have them in a file in the Compliance office.

Firms need to show they've taken all steps necessary to ensure their people understand and demonstrate good conduct in all their business transactions. It's also vital to ensure employees understand their responsibilities regarding principles and rules.

Regulators are no longer satisfied with tick-lists. Instead, the expectation is that firms can demonstrate their accountability in protecting their assets and prove that employees know their responsibilities and can act accordingly.

PRINCIPLES OR RULES?

Both principles and rules are needed in the modern workplace, but it's important to understand and clarify the difference between the two.

Rules typically address specific situations and are easier for an employee to apply. They are prescriptive and require relatively little judgement to implement.

Principles are more abstract. They are important in influencing behaviour and creating individual accountability, and typically provide a reference point when more detailed rules or guidance aren't available. Employees, however, need to be able to interpret their meaning.

There's another distinction which is important: both rules and principles may be internal – established by the organisation itself; or external – set by a regulator. This will influence how particular rules and principles are prioritised and communicated, and the extent to which they're embedded in the firm's own values or code of ethics.

TAILOR YOUR TRAINING AND DEMONSTRATE COMPLIANCE

When designing a risk compliance communications programme, it's important to know what behavioural changes you want to see. Solutions can include initiatives such as:

- workshops
- live discussions of real case studies relevant to the firm
- bespoke intranet-based training modules.

Above all, any communication programme needs to be practical and relevant to real-life situations. People learn differently, so your solution has to consider a mix of group learning with individual reinforcement and practical application.

Because the regulators demand proof that employees know their responsibilities, you should make sure your people confirm, yearly or even six-monthly, their understanding of the relevant internal and external standards. There are different ways of doing this but the most effective is a mixture of online learning, with group discussion and practical exercises whenever the situation allows.

Your performance cycle has a key part to play. HR can help by creating incentives and rewards to encourage the right behaviours. You should also assess individuals regularly and take action to address inappropriate behaviour.

Leaders also have a vital role to play. They should exemplify any programme and incorporate messages around risk into daily conversations. They need to understand the risk agenda, the timelines, the changes to regulations and how they impact their respective teams. This is manageable with better collaboration between the senior team and those charged with managing risk.

What is needed, then, is top-down, face-to-face training, starting with the Board, then senior management to middle management, and on to supervisors and the workforce as a whole. This should include practical sessions to review how existing rules, codes and standards apply in specific situations.



...MIDDLE MANAGERS ARE INSTRUMENTAL IN CREATING A POSITIVE RISK CULTURE ACROSS THE ORGANISATION.

BOARD OVERSIGHT OF RISKS

Boards and senior management need to establish expectations over standards of behaviour. Much has changed since 2008, and business leaders and their boards have been instrumental in driving cultural change.

However, there's still a question mark over whether they can, in practice, identify the gaps between their stated values and what's actually happening. The challenge is to:

- create the right culture and expectations – to communicate the story to employees
- demonstrate how the parts come together to deliver effective oversight
- maintain a feedback cycle.

Part of the answer is to increase the role of middle management.

INCREASED ROLE FOR MIDDLE MANAGEMENT

Middle management is often overlooked in communication planning for risk initiatives. Too often the temptation is to communicate company messages through the CEO's speeches and assume that's enough.

In practice, middle managers are instrumental in creating a positive risk culture across the organisation. Their advocacy of risk policies and rules helps employees both to understand what's expected and to actually follow the guidelines each day.

FRONT OFFICE SUPERVISION IS YOUR FIRST LINE OF DEFENCE

The role of supervisors shouldn't be underestimated. This segment of the workforce is often targeted with messages rather than engaged in discussion. This is a mistake because:

- supervisors are closer to actual transactions and clients
- they're better placed to observe misconduct by colleagues
- they often have better intuition and product understanding, allowing them to recognise misconduct when it occurs.

You should encourage supervisors to speak out when they witness misconduct and ensure whistleblowing is embedded within your culture.

03.

HOW AVVIO CAN HELP YOU

HOW WE CAN HELP

We've worked with many Risk and Communication teams, helping to resolve misunderstandings and create clear communication and e-learning programmes to bolster traditional risk practice.

Our approach to 'Managing Risk' communication programmes helps employees identify and understand the key risks inherent in their particular business activities. Our initiatives also help establish mutual respect between the Board, leaders, employees and the risk team.

Because of the nature of their expertise and technical knowledge, risk teams often find themselves isolated from, and sometimes ignored by, the rest of the organisation. We can help improve relationships to make it easier for the risk team to do its job.

WE PROVIDE ENGAGING COMMUNICATION SOLUTIONS

Our programmes and solutions provide three lines of defence:

1. Interactive and timely communications that lead to a recognised level of competence in your business
2. Bespoke communication programmes – for example, to explore oversight of conduct, prudential, operational and market risks in a language your people are comfortable with
3. Internal audits to provide honest and open feedback from employees. This helps you make better decisions around communications to ensure long-term, measureable interventions.

NEXT STEPS

To find out more contact;

Duncan Gardner – d.gardner@replyltd.co.uk

Freddie Gielen – f.gielen@replyltd.eu

Oleg Lebedev – o.lebedev@replyltd.eu

Maria Scarcella – m.scarcella@replyltd.it

www.avvioreply.co.uk

www.avantagereply.com

