In June 2013, RMA and Protiviti conducted a joint survey of 65 financial institutions that yielded interesting results in terms of how organizations perceive risk culture.

Although there isn’t a single, uniformly used definition of risk culture, for purposes of the survey RMA and Protiviti defined it as “the set of encouraged and acceptable behaviors, discussions, decisions, and attitudes toward taking and managing risk within an institution.”

Risk culture reflects the shared values, goals, practices, reinforcement mechanisms, and attitudes that embed risk into an institution’s decision-making processes and risk management into its operations. The majority of the respondents (74%) believed their organizations’ definitions of risk culture generally or substantially matched the one above.

But although risk culture is widely recognized as critical to effective corporate governance and risk management, the financial services industry continues to struggle in its attempts to translate the concept into tangible results. The survey found...
a definite lack of clarity around risk culture that continues to challenge organizations. A quarter of the respondents did not even have definitions of what risk culture means to their organizations. This factor alone likely contributed to the participants’ top five challenges in integrating risk culture within their organizations:

- Other key challenges noted by participants were 1) consistency of messaging throughout the entire organization in all locations, 2) integration with growth and strategy, 3) the need for board and management support, 4) employee resistance to change, and 5) developing an understanding of risk culture that can grow and change with the organization.

The study also found low adoption of the practice of evaluating risk culture, as only 37% of respondents said they do so. Questions also remain around risk culture’s tangible results. Of the respondents that do evaluate risk culture, only 24% said their assessment systems over the past 12 months had prevented significant and/or material events from negatively affecting their businesses. Another 32% of that group said a negative event had probably been prevented, and an additional 32% had no idea if their assessment system had prevented anything.

While tangible results and evaluation of risk culture are still lacking, companies are starting to see some of risk culture’s benefits:
- Risk appetite can be pointed to as evidence of risk culture, and the vast majority of respondents have risk appetite
Implementing risk culture is a journey. Only through significantly more work can the profile and benefits of risk culture be enhanced.

statements. Of those that do, a large majority believe their risk appetite statements either help or substantially help communicate and reinforce risk culture expectations.

- “Tone at the top” is one element of a strong risk culture. The majority of respondents believe their organizations’ boards and executive management are effective or very effective in promoting the risk culture of their organizations. Most respondents believe that the tone at the top coming from executives and senior management offers clear and consistent communications and actions that set expectations for employee behavior.

As for integration, less than one-third of respondents believe risk culture is fully integrated into their organizations. The majority believe it is only a component of the risk management work stream. In addition, even though the majority of organizations have risk appetites, a third believe their organizational complexity allows certain units to operate outside of established boundaries.

The survey respondents noted the following top-five organizational indicators of an effective risk culture:

- Rank Item
  - Level of executive management sponsorship and ownership of management
  - Effectiveness of risk committee and governance processes
  - Evidence of key corporate business decisions taking risk and solvency into consideration
  - Quality of board discussion of risk issues
  - Adoption and use of risk appetites and tolerances

Another positive indicator of risk culture noted by participants was the openness and willingness to discuss risk in a noncombative environment, in order to better prepare the organization for the future.

On the other hand, in order to properly manage risk, banks need to raise the profile of risk awareness and risk management. Only 10% of respondents believe competency in risk awareness and risk management is widely recognized as an entry-level requirement for all levels of management. And more than half believe a risk management competency is either not recognized or exists only in isolated pockets within their organizations.

In addition, barely more than half of respondents believe that risk management is integrated into their organizations’ performance-management processes and that management is supportive of those who consider the institutions’ long-term interests. However, the vast majority—89% of respondents—believe risk management is perceived positively within their organizations, even though these risk professionals have slightly different roles depending on the organization. In another positive finding, 88% of respondents noted that the sponsors of risk culture were members of executive management, most commonly CEOs or CROs.

Two-thirds of respondents believe their organizations encourage the timely communication of material risk information, have clear escalation criteria and processes, and possess adequate whistleblower provisions. In addition, all respondents have codes of conduct, and 70% believe these codes help or substantially help strengthen relationships with stakeholders such as regulators and shareholders.

Meanwhile, 63% of respondents believe employees at their organizations are empowered to own and manage risk, while 71% believe employees involved in commercial credit and lending understand what risk they own and what that means. Thus, there is opportunity at many organizations to improve on culture, despite other survey results showing that respondents feel that adequate cultures are already in place.

Whether evaluated as part of employee engagement surveys, formal risk assessment programs, or overall corporate culture programs, progress in benchmarking an organization’s actual risk culture is needed to make strides in achieving the desired result.

Implementing risk culture is a journey. Only through significantly more work can the profile and benefits of risk culture be enhanced. The entire bank needs to recognize the value of a risk management program that is fully integrated and permeates the corporate culture.

Defining, implementing, sustaining, and measuring risk culture is a work-in-progress at organizations. Individuals tasked with this initiative need to work with the existing organizational culture to build a successful risk culture that is embraced by the entire institution.

RMA and Protiviti are grateful to all the participants in the survey. Identities were masked, and each participant received a full report of the survey results. For more information about RMA studies or to learn how you can participate in future surveys, contact Stacy Germano, RMA associate director, Enterprise Risk, at sgermano@rmahq.org.

We have developed a dynamic online tool to capture and report on the state of risk culture. To find out how your organization’s risk culture compares with the survey benchmark, go to rmahq.org/riskculturesurvey.