Behaviour Therapy for Business and Risk Managers

Summary: In theory, meetings between the first and second line of defence (i.e. between process owners and risk managers) are harmonious exchanges of ideas for the greater good of the bank. That is in theory. In practice such meetings can be pointless or even harmful to the bank's risk management capability. The underlying cause for this is a lack of trust which is fed by disappointing results and a failure to communicate. Such dysfunctional relationships can be turned around, but only by taking away the causes. This requires sincere efforts from both parties. We describe the required behaviours of both Business Managers and Risk Managers to achieve that.

Dear reader,
In every relation, the simple truths sometimes need to be said out loud. In the case of the relations between risk managers and business, one such simple truth is that OpRisk management is more about communication and trust rather than about measuring techniques. The second truth is that the communication and trust between risk managers and process owners often leaves much to be desired. OpRisk managers typically have two modes of operation. They interpret communication as either mass marketing[1] or as formal reporting to committees. The topic of this newsletter focuses on a more fundamental aspect of communication and trust: the direct debate between the ORM function and business units (i.e. the process owners).

What must OpRisk Managers do?
There can be no doubt that the biggest obstacle to a healthy relationship between OpRisk management departments and the business lies in a (perceived) lack of added value in that relationship. It is squarely the responsibility of the OpRisk management function to show what that added value is. That requires more than just pointing to policies or procedures. That would reduce OpRisk management to a compliance issue and would limit the OpRisk management practice to setting ground rules without deep involvement in the business.

In fact, showing what the added value of OpRisk management is cannot be done by *saying* anything. It can only be done by *showing* that added value in practice. That is done by addressing real problems, by actively supporting process owners and by providing an independent set of eyes. All that requires a level of trust between business and OpRisk which in many banks is just not there. Below, we present a set of behaviours OpRisk Managers must demonstrate in order to (re)build that trust.

What must Business Managers do?
Business managers in their turn cannot afford to ignore the risks that are buried in their products, their processes, their systems or their strategic, tactical and operational choices. But how many process owners genuinely believe that building a good relationship with OpRisk management helps them do that? The lack of trust, which is often palpable, can only be remedied if the business also

[1] Such as the ubiquitous screensavers and poster campaigns throughout the bank exhorting employees to be vigilant about risks and to be law-abiding. They have their use but it falls far short of the two-way nature of communication we address here.

displays appropriate behaviour. At the very least, the business managers should be good corporate citizens - not because the policy tells them to but because it will achieve better risk adjusted returns.

The OpRisk Management – Business trust continuum

The various behaviours we expect from risk managers and process owners reinforce each other. To be successful for the bank, the requirements as set out above should become normal behaviours and business-as-usual. Schematically, the continuum presented below shows how these behaviours reinforce each other. As befits a continuum, it does not start or stop at any specific point but in this case, is seems fair to expect Risk Management to kick-start the cycle. The best foundation for that is a first-class working knowledge of the business processes, followed by organising better and more relevant meetings, which is something every OpRisk department can start to do today.

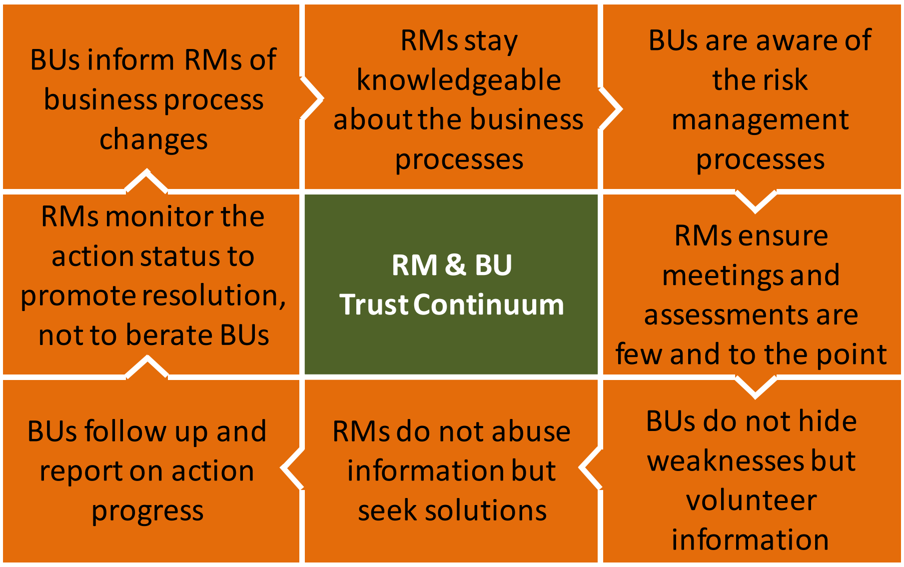

Fig 1. Maintaining trust between Risk Managers (RMs) and Business Units (BUs)

But just as the continuum can be kick-started from anywhere, it can also be halted at every step. Risk managers who abuse the BU's trust or who are not seen to be part of the solution quickly turn off BU managers. Likewise, a BU that hides information, does not follow up or report on progress, keeps OpRisk in the dark about business changes or does not bother with the risk management processes violates all the Basel principles of Sound Operational Risk Management.

Conclusion

To get the best out of the bank's OpRisk management efforts, there must be a sufficient level of trust between the first and second line of defence. The good news is that what promoting that trust requires investment in behavioural changes rather than funding. The bad news is that behaviours do not change overnight. Which is all the more reason to start on behaviour therapy for both business managers and risk managers today.