

Risk Culture Assessment

Reserve Bank of Australia

1 June 2018

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1. Executive Summary

Background

Risk culture can be defined as the collective behaviours of an organisation's people influencing risk decision making and organisational outcomes. A desired risk culture is one where individuals consistently make decisions in line with the organisation's risk appetite and espoused values.

Our Scope and Approach

The Bank's people were participative, constructive, and candid in sharing their perspectives, which is an indicator of an effective risk culture. The Bank espouses culture in the following five core values: promotion of the public interest, integrity, excellence, intelligent inquiry and respect. These were consistently referenced across all layers of the organisation.

Our Summary Risk Culture Assessment

RBA's people demonstrated a strong focus on values, behaviours and risk culture over the assessment period. For example, Governor and Deputy Governor communications, Risk Management Framework enhancements, and a keen interest in improving willingness to 'Speak Up' at all levels.

We identified the following key risk culture strengths:

- ▶ A strong tone from the top on the importance of values and expected behaviours.
- ▶ Articulated roles and responsibilities for risk management and risk ownership within departments.
- ▶ Focus on enhancing risk transparency and growing awareness of diverse mindsets.
- ▶ Sound Executive Management commitment to raise issues and resolve known issues.
- ▶ An organisational focus on the opportunity cost of 'the gold standard' for risks and controls.

We identified the following risk culture areas for improvement:

- ▶ Some forums designed to facilitate challenge are dominated by a few more senior people, potentially limiting the opportunity of other attendees to express their own views.
- ▶ There is a perceived culture of 'no bad news' supported by examples where targets were typically 100% and returns or status reports were edited to show 100% success.
- ▶ Certain projects are seen as less efficient due to too many layers in governance.

Our assessment found RBA has many risk culture mechanisms in place. We found lower levels of understanding in the Front Line of how these mechanisms operate in practice. Closing this understanding gap could help to improve RBA's risk culture significantly.

We recommend the following three high priority actions:

- ▶ Assess the effectiveness of leader-led communication and other communication mechanisms. Identify opportunities to improve the consistency of key messages. Develop examples of Risk Appetite translating to risk tolerance and limits, with metrics.
- ▶ Encourage leaders to report back to team members where an issue has been raised and explain what decisions are being taken. Create a metric for self-identified risk issues to support encouragement of risk transparency.
- ▶ Mobilise departmental leaders to address the 'silos' perception between the respective teams, and to work together to agree on how issues should be addressed. Improve communications between Front Line and second and third lines of defence.

We also recommend four medium and four low priority actions outlined in Appendix A.

1. Executive Summary (continued)

Broader People & Culture considerations

As risk culture forms a sub-set of a broader organisational culture, through the course of our research, there were some observations drawn on people and culture, which will have an effect on risk behaviours, but also on broader people management across the RBA.

Three of these observations are outlined below:

1. Recent research outlines a 75% decline in NSW student numbers enrolling in economics over the last 25 years.* This may present a risk to the Bank in the future in relation to talent sourcing for the skills traditionally recruited as graduates. Other organisations facing similar talent shortages have commenced planning for alternative sources, and alternative capability profiles to consider for roles. There is an opportunity for the Bank to consider this planning early in preparation for potential talent shortages.
2. Linked to the point above, there were comments raised through interviews and focus groups on the potential tension between innovating to improve performance, the Bank focus on 'Intelligent Inquiry' and the cognitive homogeneity of the workforce. While the Bank no doubt employs top talent across required disciplines, many employees join in early career stages, come from similar professional disciplines and learn Bank ways of working which are incorporated into their roles. Consequently, we observed an opportunity to increase cognitive diversity through a consideration of diverse sourcing of talent, diverse teams and diverse ways of working.
3. Leaders across the Bank in the main progress to these roles through their technical eminence, which is doubtless critical in their role delivery. However, from a people leadership perspective there was feedback from employees that some people leaders rely on HR to deliver people management and that there is a need for leaders to be upskilled in some aspects of people management.

*Source: Jacqui Dwyer, Head of Information Department, Address to the Business Educators Australasia Annual Meeting Sydney – 26 May 2018

Appendix A Summary of Recommendations

Enabler	Recommendations	Priority
Leadership – Tone from the Top	<p>1.1.1 – None</p> <p>1.1.2</p> <ul style="list-style-type: none"> ▶ Review RBA's internal communication strategy and assess the effectiveness of leader-led communication and other communication mechanisms. Identify opportunities to improve the consistency of key messages, and where appropriate, tailor key messages to specific teams to improve relevance of the message. ▶ Develop examples of how the Risk Appetite is translated into risk tolerance and limits with associated metrics, 'Better is Best' and desired residual risk. Include these in training for Departmental management in order for them to provide guidance, expected behaviours and oversight to their teams. 	High
Leadership - Behaviours	<p>1.2.1</p> <ul style="list-style-type: none"> ▶ Review the members of forums to facilitate challenge and identify where dominated by more senior members. Investigate using other methods to collect effective challenge information from all members of forums e.g. voting tools, surveys during or beforehand. <p>1.2.2</p> <ul style="list-style-type: none"> ▶ Review and improve the tools available to encourage all members of staff to report risk events, poor controls or poor behaviours (including those of leadership) transparently and provide challenge to current risk management assumptions. ▶ Review the consistency in application of the Consequence Management Framework and communicate the importance of self-disclosure and intent. 	Medium
Organisational Structure – Roles and responsibilities	<p>2.1.1</p> <ul style="list-style-type: none"> ▶ Reinforce decision-making authority at the Departmental Management and Front Line supervisor levels and identify opportunities to improve empowerment. ▶ Following on from the assessment performed in Recommendation 1.2.2, include a boiler-plate paragraph in policy templates to state that all members are staff are expected to speak up if risks are not effectively managed. ▶ Determine how different teams can meet with each other to discuss the different methods, roles and responsibilities etc. they have in place to identify issues, provide challenge and manage risks. ▶ See recommendation 2.2.2 for risk reporting. 	Low
Organisational Structure – Governance	<p>2.2.1</p> <ul style="list-style-type: none"> ▶ Review the effectiveness and sustainability of the current governance structure. When reviewing individual committees specifically consider purpose, scope, frequency, membership, voting rights and authority. Consider potential for duplication with other committees. ▶ Introduce a mechanism to cascade key messages and outcomes from the Committees. <p>2.2.2</p> <ul style="list-style-type: none"> ▶ Review the format, focus, detail and length of reporting and content provided to each Committee with a greater focus on key messages, exceptions and insights ▶ Review and revise the process for monitoring key actions discussed in Committee papers to record whether these are tracked to timely resolution. 	Medium
Risk Management Framework – Risk Appetite	<p>3.1.1</p> <ul style="list-style-type: none"> ▶ Increase awareness of risk appetite at the Departmental Management layer. ▶ Proactively embed and cascade risk appetite throughout all levels of the organisation through the completion of scenarios / 'what ifs' and examples of how risk appetite translates into risk tolerance/limits and risk culture. 	Low

Appendix A Summary of Recommendations (continued)

Enabler	Recommendations	Priority
Risk Management Framework – Risk Appetite (continued)	<p>3.1.2</p> <ul style="list-style-type: none"> ▶ Define and reinforce the value of risk management at the Departmental Management layer and focus more on key controls for key inherent risks. ▶ Update RBA's definition of risk culture and articulate the desired state in a RCF. ▶ As part of routine review cycle for Frameworks and Policies, embed risk culture by actively considering risk behaviours and incorporating expectations. 	Low
Risk Management Framework – Risk Transparency	<p>3.2.1</p> <ul style="list-style-type: none"> ▶ Encourage leaders to report back to team members where an issue has been raised and what decisions and actions (if applicable) are being taken. ▶ Create a metric for self-identified risk issues to support encouragement of transparency. ▶ Frame risk management in a way that brings out the positives for staff rather than focussing on the compliance aspects. <p>3.2.2 - Refer to Recommendation 1.1.2.</p>	High
Organisational Capability – Responsiveness	<p>4.1.1</p> <ul style="list-style-type: none"> ▶ Use risk acceptance of some risks which are outside of risk appetite to send the message that not every risk has to be within appetite immediately, but with a focus on key inherent risks being managed effectively. <p>4.1.2</p> <ul style="list-style-type: none"> ▶ Reinforce the need for issue owners to actively consider and address root causes and any unintended consequences in issue resolution. ▶ Review and update change management practices to improve the governance framework and oversight over issues management and remediation, the volume of change, assessment of the end-to-end change impacts, change communication and benefits realisation. 	Low
Organisational Capability – Relationships	<p>4.2.1</p> <ul style="list-style-type: none"> ▶ Departmental leaders to address the 'silos' perception between the respective teams, and to work together to agree on how issues should be addressed. ▶ Improve communications between Front Line and second and third lines of defence. 	High
Talent Management - Motivation	<p>5.1.1</p> <ul style="list-style-type: none"> ▶ Define RBA risk accountabilities and behaviours linked to the Bank's Corporate Plan, Values and Risk Appetite ▶ Review and update policies, procedures and mechanisms used for performance management to include and reward on positive risk behaviours in remuneration ▶ Define risk recognition initiatives that drive the right risk behaviours ▶ Run a campaign to drive awareness and engagement of the changes. 	Medium
Talent Management - Capabilities	<p>5.2.1</p> <ul style="list-style-type: none"> ▶ Review the diversity across RBA at the Departmental Management and Front Line supervisor layers and identify the desired state for RBA going forward. ▶ Review the effectiveness of the internal promotion strategy in light of capability perceptions. ▶ Review the risk management curriculum and risk capability maturity and integrate with the employee lifecycle ▶ Include risk management as a core capability in leadership programs. 	Medium

RISK MANAGEMENT COMMITTEE

Minutes of the 71st Meeting Sydney – 12 June 2018

Members Present

Guy Debelle (Chair), Michael Andersen, Chris Aylmer, Gayan Benedict, Jacqui Dwyer, Christopher Kent, Robert Middleton-Jones, Darryl Ross, Susan Woods, Chris Stewart (Secretary)

B Audit

B1 Risk Culture Assessment

The Committee welcomed EY's Risk Culture Assessment of the RBA and its assessment that the RBA looked very positive compared to other organisations while noting that there are some areas for improvement. Of particular note, the Assessment reported there is a strong focus on values, behaviours and risk culture and less variation in these aspects across executive management, departmental management (Department Leadership) and front-line staff at the Bank compared with other organisations EY had observed. The EY staff noted that another factor differentiating the Bank from other organisations was the ingrained ways of working, as well as a strong desire for front-line staff to know how much risk they could take.

In terms of areas for improvement identified by the report, the Committee discussed how communications around risk culture might be enhanced. The general theme would be highlighted at the next Town Hall meeting. But at the same time the Committee noted that there were issues with compiling examples of appropriate risk taking for staff, as risk tolerances appropriately differ across departments and even within departments. This emphasised the need for risk culture discussions to be tailored at a departmental level.

In addition, the Committee acknowledged the need to make sure that discussions were not dominated by more senior people. The Committee agreed that there were inefficiencies introduced by too many layers of governance in some areas. This was attributed to the "pendulum swinging too far" with regards to project management (rather than risk management), staff's heavy emphasis on consultation, and a lack of clarity around the role of some meetings (i.e. information, planning or decision making). Consequently, RM would

review the various range of 'governance' forums, with a particular focus on project management, to address any instances of excess governance [1806-01].

With these considerations in mind, the Committee asked RM to prepare a response to the report for the July meeting of the Audit Committee [1806-02]. EY will provide the Bank with more details about some of the examples that formed the basis for their conclusions and recommendations. Among other ideas, the Committee saw the benefits of:

- Greater consideration of leadership responsibilities, such as active chairing of meetings and explicit discussions around how different priorities might need to be balanced.
- Considering whether there was an opportunity to provide distinct career pathways for managerial and technical experts, while cognisant of not adding to the hierarchy or staff costs.
- Increased communication around risk management concepts, including clarifying language around having 'zero tolerance' to certain behaviours rather than certain types of risk, as well as the Deputy Governor discussing risk management concepts at the next Town Hall meeting.
- Considering whether some of the Bank's internal governance documents could be more focused, without losing or compromising their purpose or their content.
- Embedding risk behaviour statements in goals and objectives. Performance management documents and discussions could, for example, include whether staff's decisions are consistent with the risk appetite of their business area with a view to recognising well considered risk taking, productive responses to events, and lessons learned etc.

NOTE FOR THE AUDIT COMMITTEE – JULY 2018

EY Risk Culture Assessment

Earlier this year the Bank engaged EY to conduct an assessment of the Bank's risk culture. The assessment was based on a review of policies and procedures, outcomes, one-on-one interviews with senior staff and focus groups. It was discussed by the Risk Management Committee (RMC) at its June meeting. EY's report has been circulated to all staff, together with a summary of the RMC discussion.

1. Observations and Recommendations

EY concluded that RBA employees demonstrated a strong focus on values, behaviours and risk culture over the assessment period, while also demonstrating some areas for improvement (a copy of the report is at Attachment A). In introducing the report, EY highlighted the strong focus on values at the Bank, with this focus being shared at all levels of the organisation. EY noted the increased focus on transparency and a growing awareness of the importance of having a diversity of views, as well as a strong desire on the part of the Executive to know about, and address, issues.

Nonetheless, it noted that some processes were deeply ingrained which made change more difficult to achieve. EY highlighted a desire by staff for more guidance from senior management as to what risk-taking was acceptable, in part prompted by recent initiatives by the Bank, such as considering the opportunity costs of seeking a 'gold standard'; this contrasted with other organisations where the challenge was to reduce excessive risk taking. Other areas for improvement identified by EY included: helping staff feel more comfortable challenging ideas; avoiding a culture of 'no bad news'; and reducing the levels of governance. EY complimented Bank staff on their candidness and engagement with EY.

EY made 34 recommendations – the recommendations and specific Bank responses are detailed in Attachment B.

2. The Bank's Response

EY's observations and recommendations were discussed by the RMC at its meeting on 12 June, alongside lessons for the Bank from APRA's report into CBA's risk management practices. High-priority areas that were identified by the Committee include providing greater transparency around risk management concepts, practices and outcomes; providing greater clarity on how these can be translated into day-to-day behaviours; promoting a culture of speaking up; and improving the organisational capabilities and relationships around risk management. Underpinning much of this is more effective communication.

An important priority is to give staff a better understanding of risk management concepts, practices and outcomes so that these can be embedded in behaviours. The Deputy Governor will speak about this and the importance of staff raising issues at the next Town Hall meeting in October (see below). Recent initiatives include circulating a summary of discussions at each RMC meeting to all staff, and providing the risk management papers and minutes to all Heads of Departments together with recent Bank-wide audits. The discussion summaries, in particular, offer an opportunity to make risk management considerations more 'front of mind', recognise the contributions of various departments to the Bank's smooth operations, provide greater insight into how the Bank deals with 'bad news' and highlight positive lessons from incidents. The RMC is also clarifying some of its language, for example, making it clear that it has 'zero tolerance' to certain behaviours rather than certain types of risk. The aim of these initiatives is to provide staff with greater visibility of risk management discussions and help them understand the Bank's risk appetite and tolerances, including the desire for innovation and continuous improvement.

Departments will take the lead in translating the Bank's risk appetite statement into practical guidance and examples for staff. This reflects the fact that the level of appropriate risk-taking depends on the function that is being performed, which differs considerably across the Bank. For example, appropriate risk taking in operational areas such as Payments Settlements and Banking Department will differ from some of the policy areas; risk-taking in the financial markets areas of the Bank is very well defined. The possibility of a Bank-wide risk culture statement was canvassed as part of the discussion of the CBA report, however it was felt that efforts were better spent translating the Bank's risk appetite into appropriate risk taking at a departmental level. Heads of Department will be supported in conversations with their departments by Risk and Compliance Department (RM). The introduction of the Bank's new risk management system in September should also facilitate more active management of, and focus on, key risks and key controls.

The Executive Committee is currently overseeing a program of work designed to improve staff's willingness to speak up, whether it be about fraud, unethical behaviour, personal conduct issues, or concerns in other areas. This has a number of streams, including the creation of a team of properly trained staff who will be able to point staff in the right direction if they wish to raise an issue, employee awareness sessions for all staff (with a particular focus on how issues are treated once raised) and the creation of a new intranet site with appropriate messaging from the Governor and which highlights channels for raising issues. The work is being conducted jointly by RM and Human Resources (HR) and will be completed by the end of September. A staff focus group is also canvassing ideas, particularly from more junior staff, on speaking up, with ideas expected to be discussed by the Executive Committee shortly.

The RMC is also keen on ensuring that discussions are not dominated by more senior people through more active consideration of leadership responsibilities, such as active chairing of meetings. More broadly, the Bank has rolled out leadership training to all management. Among other things, this training has focussed on understanding the shadows that leaders cast, which is particularly relevant in terms of addressing any gaps between senior management's intentions with respect to feedback and messages, and how staff perceive this feedback.

Initiatives to help address EY's suggestion of deepening interdepartmental relationships and building organisational capabilities around risk management include a review of the operation of the RMC and the Executive Committee and support areas engaging more with their stakeholders to show how issues are being resolved, including through greater use of balanced scorecards and partnership 'health checks'. RM is reviewing its language and procedures to avoid its work being seen as 'policing the Bank'. In addition, the RMC has recently emphasised to all departments the need to escalate issues early when issues are not being progressed, such as when more than one department is involved in producing an incident report.

The RMC noted the suggestions from EY to embed risk management behaviours through updating some roles' position descriptions and performance management documents. Following on from the risk management framework work that was presented to the Audit Committee last November, position descriptions and relevant governance documents are being reviewed to ensure clarity of roles, responsibilities and reporting lines, with particular reference to second-line activities. Departments will update these documents, where appropriate, to: highlight the importance of staff being willing to tackle and defend difficult or controversial issues; challenge set points of view; speak up rather than sweeping issues 'under the carpet'; and achieve risk and compliance outcomes. In progressing this work, the RMC has emphasised the importance of recognising both well-considered and poor risk-taking decisions and responsiveness to events.

The Committee also saw merit in a range of other initiatives, though no formal work plan has yet been established. These include inviting external experts to talk about their perspectives on risk management (facilitating cross-department engagement as well as building internal capabilities) and better embedding risk management concepts into the Bank's management training.

The Bank will assess the effectiveness of these initiatives in a year's time, before undertaking a larger reassessment of our risk culture in about three years.

Risk and Compliance Department
20 July 2018

ATTACHMENT B

RBA Responses to Recommendations in EY's Risk Culture Assessment

EY Recommendation	RBA Initiatives and Observations (R) – Recent initiative (F) – Forthcoming initiative (O) – Other observations
Leadership	
1.1.1. Tone from the top - No recommendation	
1.1.2 Practical application of risk appetite and tolerances - Review RBA's internal communication strategy and assess the effectiveness of leader-led communication and other communication mechanisms. Identify opportunities to improve the consistency of key messages, and where appropriate, tailor key messages to specific teams to improve relevance of the message. - Develop examples of how the Risk Appetite is translated into risk tolerance and limits with associated metrics, 'Better is Best' and desired residual risk. Include these in training for Departmental management in order for them to provide guidance, expected behaviours and oversight to their teams.	<ul style="list-style-type: none"> - Audit and Risk Management Committee papers and minutes have been circulated to all Department Heads since April (R) - A summary of the RMC meetings has been circulated to all staff since April (R) - The Deputy Governor will speak at the next Town Hall meeting in October on risk management and lessons from the EY report (F) - Department Heads will take the lead in translating the Bank's risk appetite into acceptable risk taking, with support from RM – Dec 2018 (F) - More visibility is to be given to the Bank's risk management framework via avenues such as the launch of the new Risk Management System (RMS) in September 2018 and 'lunch and learn' sessions (F)
1.2.1 Behavioural expectations - Review the members of forums to facilitate challenge and identify where dominated by more senior members. Investigate using other methods to collect effective challenge information from all members of forums e.g. voting tools, surveys during or beforehand.	<ul style="list-style-type: none"> - A review of the operation of the Risk Management Committee commenced in May (R); a review of the operation of the Executive Committee has been commissioned by the Governor – Dec 2018 (F) - At the Management Offsite in March, it was agreed that there was a case for fewer and better meetings. The communications team is leading a six month communication program to assist Bank staff in improving the effectiveness of meetings (R) - An initiative is currently underway to: establish a team of properly trained staff who will be able to point staff in the right direction if they wish to raise an issue; run employee awareness sessions for all staff (with a particular focus on how

	<p>issues are treated once raised); and create a new intranet site with appropriate messaging from the Governor which highlights channels for raising issues. The launch will be completed by September (R)</p>
<p>1.2.2 Unintended consequences of behaviours</p> <ul style="list-style-type: none"> - Review and improve the tools available to encourage all members of staff to report risk events, poor controls or poor behaviours (including those of leadership) transparently and provide challenge to current risk management assumptions. - Review the consistency in application of the consequence management framework and communicate the importance of self-disclosure and intent. 	<ul style="list-style-type: none"> - Revised definitions of events, including incidents and near misses, will be incorporated in the new RMS which goes live in September (R) - Refer to the initiative in 1.2.1 above (R) - The Bank-wide Town Hall meeting will be used to highlight the importance of taking an active approach to risk management, including reporting - Oct 2018 (F) - Performance of senior managers and above is measured in terms of key competencies relating to: planning & execution; communicating & influencing; critical thinking & judgement; people engagement; managerial leadership; and adapting & responding (O)
Organisational Structure	
<p>2.1.1 Roles and Responsibilities</p> <ul style="list-style-type: none"> - Reinforce decision-making authority at the Departmental Management and Front Line supervisor levels and identify opportunities to improve empowerment. - Following on from the assessment performed in Recommendation 1.2.2, include a boiler-plate paragraph in policy templates to state that all members are staff are expected to speak up if risks are not effectively managed. - Determine how different teams can meet with each other to discuss the different methods, roles and responsibilities etc. they have in place to identify issues, provide challenge and manage risks. - See recommendation 2.2.2 for risk reporting. 	<ul style="list-style-type: none"> - Position descriptions and relevant governance documents are being reviewed to ensure clarity of roles, responsibilities and reporting lines with particular reference to second-line activities where appropriate – Jun 2019 (R) - RM has made itself available to attend management meetings with departments/groups since June to discuss outcomes of RMC meetings, risk concepts and share risk management insights related to recent developments. This offer has been taken up by Financial Markets Group (R)

<p>2.2.1 Governance Arrangements - Structure</p> <ul style="list-style-type: none"> - Review the effectiveness and sustainability of the current governance structure. When reviewing individual committees specifically consider purpose, scope, frequency, membership, voting rights and authority. Consider potential for duplication with other committees. - Introduce a mechanism to cascade key messages and outcomes from the Committees. 	<ul style="list-style-type: none"> - RM has an action item to review the Bank’s governance fora, with a particular focus on project governance (and working groups that support Steering Committees) – Mar 2019 (F) - The Governor has been providing feedback on Executive Committee meeting discussions in his weekly email since his appointment - As noted previously, a Bank-wide summary of RMC deliberations has been provided to all staff since April 2018 (R)
<p>2.2.2 Governance Arrangements - Reports</p> <ul style="list-style-type: none"> - Review the format, focus, detail and length of reporting and content provided to each Committee with a greater focus on key messages, exceptions and insights. - Review and revise the process for monitoring key actions discussed in Committee papers to record whether these are tracked to timely resolution. 	<ul style="list-style-type: none"> - As noted previously, the reviews of the operation of the Executive Committee and Risk Management Committee will consider the appropriateness of the documentation provided to these bodies (F and R) - The Executive Committee is promoting use of a 2+5 format for notes (F) - Action items are explicit and are considered as a separate agenda item in most forums (O)
<p>Risk Management Framework</p>	
<p>3.1.1 Risk appetite awareness</p> <ul style="list-style-type: none"> - Increase awareness of risk appetite at the Departmental Management layer. - Proactively embed and cascade risk appetite throughout all levels of the organisation through the completion of scenarios/ ‘what ifs’ and examples of how risk appetite translates into risk tolerance/limits and risk culture. 	<ul style="list-style-type: none"> - As noted previously, Department Heads will take the lead in translating the Bank’s risk appetite into acceptable risk taking – Dec 2018 (F) - Individual audits and Risk Management Committee papers and minutes have been circulated to all Department Heads since April (R) - The summary of the RMC meetings which is circulated to all staff provides a communication vehicle for risk-related messages (R) - The Deputy Governor will speak at the next Town Hall meeting in October on risk management and lessons from the report (F) - A recent change to the Bank’s fraud control policy has clarified the language around having ‘zero tolerance’ to certain behaviours, rather than certain types of risk (R) - Scenarios and ‘what if’ analysis is currently undertaken with departments as part of regular business continuity discussions (O)

3.1.2 Risk management awareness

- Define and reinforce the value of risk management at the Departmental Management layer and focus more on key controls for key inherent risks.

- Update RBA's definition of risk culture and articulate the desired state in a Risk Culture Framework (RCF).

- As part of routine review cycle for frameworks and policies, embed risk culture by actively considering risk behaviours and incorporating expectations.

- The number of risks in the Bank's consolidated risk register is expected to fall from around 870 to around 340 following implementation of the new RMS in September. This will facilitate a focus on *key risks* and *key controls* (R)
- RM will use the implementation of the RMS to provide greater clarity and training around the Bank's risk management framework and the application of the three lines of defence model – September 2018 (R)
- RM will develop regular staff awareness forums and explore options to invite external risk management experts to speak at the Bank – Jun 2019 (F)
- Owners of frameworks and policies are being asked to consider how risk considerations can be better embedded in these documents as part of their routine review cycle – Jun 2019 (R)
- The deployment of a RCF was considered by the Executive Committee. However, it was felt that the focus should be on translating the Bank's risk appetite into appropriate risk taking at the Departmental level rather than create another high-level document (O)

<p>3.2.1 Risk transparency</p> <ul style="list-style-type: none"> - Encourage leaders to report back to team members where an issue has been raised and what decisions and actions (if applicable) are being taken. - Create a metric for self-identified risk issues to support encouragement of transparency. - Frame risk management in a way that brings out the positives for staff rather than focussing on the compliance aspects. 	<ul style="list-style-type: none"> - Refer to the initiative in 1.2.1 above (R) - The Bank-wide summary of RMC meetings is an opportunity for socialising how issues have been dealt with. Communications about risk management will also be framed in a way that highlights the positives for both staff and the Bank, where it makes sense to do so (R) - Departmental leaders to be encouraged to look for opportunities to talk about how risk management concepts help their departments perform their roles, and report back to their staff on the benefits of raising issues and how these are being addressed following discussions at the Audit Committee, Executive Committee and Risk Management Committee – Mar 2019 (F) - The new RMS will allow staff to ‘click through’ high level dashboards to more granular data. This should facilitate improved debate, challenge and discussion – September 2018 (R) - Given current avenues and the introduction of the new RMS, the development of a metric of self-identified risk issues is not a high priority. However, Departments will be asked to keep track of when risk issues are raised (O)
<p>3.2.2 Reducing hesitation in raising issues</p> <ul style="list-style-type: none"> - Review RBA’s internal communication strategy and assess the effectiveness of leader-led communication and other communication mechanisms. Identify opportunities to improve the consistency of key messages, and where appropriate, tailor key messages to specific teams to improve relevance of the message. - Develop examples of how the Risk Appetite is translated into risk tolerance and limits with associated metrics, ‘Better is Best’ and desired residual risk. Include these in training for Departmental management in order for them to provide guidance, expected behaviours and oversight to their teams. 	<ul style="list-style-type: none"> - Refer to the initiative in 1.2.1 above (R) - As noted above, Departmental leaders will be encouraged to look for opportunities to talk about how risk management concepts help their departments perform their roles (F) - The Bank-wide summary of RMC meetings is an opportunity for socialising how issues are dealt with – April 2018 (R) - A review of definitions around ‘incidents’, ‘events’ and ‘near misses’ will help ensure a consistent approach across the Bank. At the same time, the implementation of the new RMS should make incident reporting less onerous – September 2018 (R) - At its meeting in June, the RMC clarified that the incident information that it wished to see related to possible control weaknesses rather than human error (R)
<p>Organisational Capability</p>	

<p>4.1.1 Responsiveness to issues</p> <ul style="list-style-type: none"> - Use risk acceptance of some risks which are outside of risk appetite to send the message that not every risk has to be within appetite immediately, but with a focus on key inherent risks being managed effectively. 	<ul style="list-style-type: none"> - The Bank-wide summary of RMC deliberations can highlight how risks outside of the Bank’s risk appetite are managed (R) - Changes are also being made to policies, such as those related to fraud, that draw a distinction between accepting a certain risk but having a zero tolerance for certain behaviours (F) - The new RMS should facilitate more active management of risks and the adequacy of controls (R)
<p>4.1.2 Overinvestment in controls</p> <ul style="list-style-type: none"> - Reinforce the need for issue owners to actively consider and address root causes and any unintended consequences in issue resolution. - Review and update change management practices to improve the governance framework and oversight over issues management and remediation, the volume of change, assessment of the end-to-end change impacts, change communication and benefits realisation. 	<ul style="list-style-type: none"> - The focus of the new RMS is on <i>key risks</i> and <i>key controls</i>. The system will also link, and allow for more regularly analysis of risks, incidents and controls – September 2018 (R) - The change management processes at the Bank, such as those relating to IT systems and projects, are reviewed regularly (O)
<p>4.2.1 Cooperation and silos</p> <ul style="list-style-type: none"> - Departmental leaders to address the ‘silos’ perception between the respective teams, and to work together to agree on how issues should be addressed. - Improve communications between front line and second and third lines of defence. 	<ul style="list-style-type: none"> - A number of departments now formally include consultation summaries in notes that require approval by Assistant Governors (R) - With particular reference to incident reporting, the June RMC highlighted the need for Departments to escalate issues to departmental management early (R) - An explanation of the three lines of defence model and how it is applied at the Bank will be a form part of the risk management forums run by RM – Jun 2019 (F) - Second line responsibilities will be specifically identified in relevant position descriptions – Jun 2019 (F) - IT is improving communication to Bank staff on support requests, especially where resolution involves both first- and second-level support teams. This includes updates on support requests and departmental ‘health checks’ (R)

Talent Management**5.1.1 Motivation around risk management**

- Define RBA risk accountabilities and behaviours linked to the Bank's Corporate Plan, Values and Risk Appetite
- Review and update policies, procedures and mechanisms used for performance management to include and reward on positive risk behaviours in remuneration
- Define risk recognition initiatives that drive the right risk behaviours
- Run a campaign to drive awareness and engagement of the changes.

- Bank-wide summary of RMC deliberations to underline the importance and benefits of risk management and share the good news stories (R)
- Deputy Governor to speak at the next Town Hall meeting on the importance and benefits of risk management – Oct 2018 (F)
- Departments are reviewing position descriptions and performance management documents to ensure adequate emphasis is placed on the Bank's risk appetite and risk management framework where appropriate – Jun 2019 (F)
- Rather than develop another high-level document linking accountabilities and behaviours to the Bank's Corporate Plan, Values and Risk Appetite, the focus is on department-based discussions given the benefits of making these conversations as specific as possible (O)

5.2.1 Risk management capabilities

- Review the diversity across the RBA at the Departmental Management and Front Line supervisor layers and identify the desired state for RBA going forward.
- Review the effectiveness of the internal promotion strategy in light of capability perceptions.
- Review the risk management curriculum and risk capability maturity and integrate with the employee lifecycle.
- Include risk management as a core capability in leadership programs.

- Work is underway within the Employee Resource Groups to ensure that the Bank can measure diversity across its many dimensions (O)
- Recent training initiatives have included a leadership development program for Managers (previously provided to the Bank's Executives and Senior Managers) (O)
- HR is developing a training program for more junior staff with management responsibilities (O)
- The Bank is comfortable with the effectiveness of its internal promotion regimen (O)