



Encouraging positive risk culture through reward and recognition

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Since the introduction of the Risk Culture Profiling Tool in 2015 QBE customers and AIRMIC members have benefitted from the insight gained on risk culture in their organisations. One area that has consistently stood out as the lowest performing in our evaluation ratings is that of Reward and Recognition. This is the section of the tool that looks at how employees are incentivised to adopt and demonstrate behaviours that support a positive risk culture.

As reflected in the two lowest ratings (highlighted below*), discussions with QBE customers indicate that whilst there is a general acceptance of the need to instigate change, this aspect is not seen as enough of a priority amongst many other pressing risk management needs. A shortage of practical guidance doesn't help the cause so the aim of this Guidance Note, and this series of publications in general, is to provide practical resources that can be adopted by those with limited in-house risk resources.

Risk culture highs and lows

Lowest RCPT ratings

> 3.5*	We ensure incentives are aligned to our risk culture and values
> 3.9*	Risk culture is embedded within our performance reviews at all levels
> 4.2	We demonstrate the value of our continuous improvement activities.

Highest RCPT ratings

> 5.4	We avoid having a blame culture
> 5.2	Our senior management team demonstrates adherence to the same expectations for integrity, risk governance and risk culture as all other employees
> 5.1	<p>I) Our senior management team ensures that a positive risk ethos prevails;</p> <p>II) Our core values are embedded in the operational activities of the organisation;</p> <p>III) A positive risk culture is embedded in our core service / product delivery operation.</p>

* Ratings are correct as at September 2019 and are based on voluntary self-assessments using a scale of 1 (little activity) to 7 (mature development). The results reflect responses from 38 organisations in the following sectors: Architecture, Engineering, Legal, Healthcare, Retail, Facilities Management, Transportation, Financial Services, Real Estate, IT Security, and Leisure.

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Having the right link between rewards and risk culture is essential, but seems to be lacking in some organisations. Risk Managers should take the initiative to open discussions with their management colleagues in analysing rewards and incentives and devising and launching effective incentives that really will reduce risk.

This is a critical area to address in order to build a robust risk culture, as reward is such a key driver and impacts on every individual in the organisation. Expectations for behaviours do though need to be clearly defined, be achievable, and be transparent in the link to reward, otherwise the initiative to encourage the right behaviours could be undermined.

"Ensuring that rewards and recognition are linked to the organisation's risk culture is central to successful risk management outcomes - the real benefits of a strong risk culture depend on organisation-wide alignment of aims."

Mark Butterworth, CONDIE Risk

To help organisations develop their incentive and performance frameworks in a way that supports a robust risk culture, this paper promotes two resources:

1) Checklist for developing a Reward Structure

Offering some key principles and considerations for developing a strong incentive framework to encourage behaviours that reflect core values and support a robust risk culture. Any or all can be adopted but it is recommended that at least one in each of the 10 sections is addressed.

2) Performance Review Framework

Considering behaviours in six core areas to assess how well everyone is following the organisation's benchmark risk culture behaviours. The whole framework can be adopted as is or extracts taken and built into an existing performance assessment.

To obtain access to the Risk Culture Profiling Tool using QRisk, QBE customers should refer to their usual QBE contact, their broker, or send a request to the QBE Risk Solutions Team at: rs@uk.qbe.com. Further details can be found on QBE's dedicated Risk Culture microsite.

The tool has been developed in association with AIRMIC, and members can also access Airmic's detailed guide 'The Importance of Managing Corporate Culture' and register to receive an invitation via its website.

The next Guidance note in this series will address the area of Continuous Improvement which, as can be seen from the Risk Culture Highs and Lows, also appears in the bottom three RCPT ratings.

With thanks to Mark Butterworth of Condie for his content and valuable insight.

Contact

Deborah O'Riordan
Practice Leader, Financial Lines
+44 (0)20 710 5552
+44 (0)77 8673 4542
deborah.o'riordan@uk.qbe.com

QBE European Operations

30 Fenchurch Street
London EC3M 3BD
tel +44 (0)20 7105 4000
QBEurope.com

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Top 10 checklist for an incentive framework

Key principles Practical considerations

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| > 1. Senior management commitment | <ul style="list-style-type: none">> Set organisational values and interpret with clear behaviour expectations Establish policies which reflect those behaviours in the language used> Include behaviour outcomes in Risk or Objective Registers> Promote a clear policy of incentives that support all the above> Educate Managers on reward structure and monitor activity and results> Ensure finances allow for reward objectives. |
| > 2. Clear reward & recognition policies | <ul style="list-style-type: none">> Review existing incentive structures. Do they encourage the behaviours you want to see or inadvertently undermine core values and culture?> Build ad-hoc reward systems that are not linked to pay: e.g. Company awards special project involvement, social and/or award events, voucher schemes, time off, travel, public recognition etc.> Recognise (privately) those who speak up about poor behaviour. |
| > 3. Link process controls to risk culture | <ul style="list-style-type: none">> Identify cross-functional objectives and rewards to reduce silo conflicts> Explain the objectives of documented policies and procedures and ensure these reflect desired behaviours and the intrinsic value in these. |
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Key principles Practical considerations

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| > 4. Recruitment for Model Behaviours | <ul style="list-style-type: none">> Promote desired behaviours through job advertisements> Extract relevant behaviours from the Performance Review Framework and interview for evidence against these> Explain choices when hiring and promoting, citing key behaviours as a basis> Ensure job descriptions or role objectives include the desired behaviours. |
| > 5. Embedded thinking | <ul style="list-style-type: none">> Publicise stories of model behaviours through a range of communication channels (intranet, newsletters, annual reviews, meeting agendas etc.) including benefits and rewards> Communicate regularly on topical issues explaining why they resonate with your organisation's values and incentives> Provide training on expected risk behaviours and supporting incentives – at induction, during refreshers and for ad-hoc sessions. |
| > 6. Realistic Targets | <ul style="list-style-type: none">> Ensure targets do not encourage illegal, unethical or negligent behaviour> Avoid pay and bonus structures linked purely to output> Set objectives that address the means as well as the ends. |
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Top 10 checklist for an incentive framework (continued)

Key principles Practical considerations

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|---|---|
| > 7. Clear Disincentives | <ul style="list-style-type: none">> Don't reward or promote individuals if core values are breached – even if the targets for output or are met or exceeded
> Make clear the disincentives and disciplinary policies of the organisation and explain actions taken accordingly. |
| <hr/> | |
| > 8. Aligned Performance Review Process | <ul style="list-style-type: none">> Ensure the performance review criteria reflect desired behaviours (see the checklist in our separate Performance Review Framework)
> Include reference to the way in which outcomes are achieved rather than purely the outcome. |
| <hr/> | |
| > 9. Supportive Oversight | <ul style="list-style-type: none">> Ensure that where they exist, separate oversight teams such as Compliance, HR, Health & Safety, Finance etc., watch out for signs that staff may feel incentivised to contravene model behaviours
> Capture breaches of behaviour and address the need to change incentives. |
| <hr/> | |
| > 10. Audit Behaviors | <ul style="list-style-type: none">> Ensure that audit criteria, processes and reporting show clear consideration of desired RC behaviours and report clearly on these
> Publicise and/or reward teams demonstrating good behaviours. |
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Performance review framework

Behaviours supporting a positive risk culture

This framework considers how the organisation's risk culture has been demonstrated during the period under review.

Benchmark behaviours can be extracted and added to an existing performance review framework or the whole framework adopted in its entirety. As with any new process, this is intended as a starting point for development, and content can be adapted to suit an organisation's own values and culture. If content is streamlined to start, it is recommended that a minimum of 2 or 3 behaviours that most accurately reflect the preferred traits are retained in each of the six core areas.

To use this checklist, evidence (for and against) each of the six core themes should be completed. It is not intended for examples to be provided for every individual item as evidence might be suitable for more than one behaviour and more than one area. Once summarised, development plans should be made to enhance the employee's knowledge and skills.

Key Role Objectives (to set the context for the review)

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

Current Key Performance Indicators

Example Benchmark behaviours

Risk Leadership

- > demonstrates positive support for the risk culture in the organisation;
- > shows integrity and transparency of purpose;
- > is influential with colleagues if under pressure to meet targets;
- > instigates risk discussions where necessary;
- > doesn't over-promise or mis-sell to colleagues or customers;
- > is a role model for good risk culture behaviours.

Evidence

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Performance review framework (continued)

Example Benchmark behaviours

Evidence

Risk Leadership

- > risk is not always avoided; informed risk taking is adopted, within appetite and tolerances;
- > understands the importance of informed risk taking as a key element of building a sustainable organisation;
- > creates and innovates within the risk appetite and tolerance boundaries;
- > uses escalation channels when appropriate.

Knowledge sharing

- > is open to risk discussions as part of the role;
- > shows a high level of teamwork;
- > shares experiences about risk with both junior and senior staff;
- > cascades and interprets risk guidance.

Compliance

- > behaviours and role delivery demonstrate the risk culture values of the organisation;
- > readily adheres to the risk management framework;
- > ensures ethical and fair treatment of customers, colleagues and other stakeholders;
- > compliance/essential training is up-to-date;
- > audit or other independent review requirements are completed or in-hand.

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Performance review framework (continued)

Example Benchmark behaviours	Evidence
<p>Learning and development</p> <ul style="list-style-type: none">> self-development plans aim to expand awareness of risk issues and relevant skills;> attends events and reads communications about risk;> collaborates in unfamiliar areas or with different stakeholders and learns about the organisation.	
<p>Risk competencies</p> <ul style="list-style-type: none">> shows fluency in the risk culture language of the organisation;> has a continuous improvement mindset;> is proactive in instigating improved ways of working to improve risk control, gain efficiencies and risk reduction;> applies risk learning in appropriate situations;> is a competent role model for the operation of risk controls.	

Overall risk culture performance summary

Development action plan