

# ***Removing Barriers to Pathological Risk Behavior: The Art of Effective Communication***

***Association of Federal Enterprise Risk Management  
Summit***

***September 18, 2012***

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- *“Let’s hear from the Business Prevention Unit”*
- *“Here comes Dr. No again”*
  - Comments by President of a major bank to its head of risk at an executive committee meeting
- *“We elected to make a change in the Chief Credit Officer position at this time in order to better align with the direction of the company”*
  - Comment by CEO of a major bank regarding the replacement of the 4<sup>th</sup> Chief Credit Officer at the firm in 2 and ½ years
- *“In order to remain competitive, we must focus on our business objectives. With continued strength in housing and the economy we feel risks are very manageable”*
  - Comment by CFO of a major bank to investors 12 months before the financial crisis

- If your organization has two or more of these symptoms, it's time to get treated
  - Low morale and self-esteem among risk managers
  - Openly derisive comments and attitudes toward risk staff
  - High turnover in risk functions: voluntary and involuntary
  - Increasingly combative and aggressive posture toward risk management
  - Lack of stature of risk management
  - Risk management viewed as a cost center

- How we communicate risk in an organization is directly affected by management's views and other factors
  - Senior management
    - Risk culture
    - Firm performance & competition
    - Incentive compensation structures
    - Cognitive biases
  - Risk management
    - Stature and credibility
    - Balance

- Clear articulation of risk appetite
- Substance over window dressing
- Supportive and constructive feedback
- Balances risk and reward
- Pervasive and consistent across the organization

- Alignment of management incentives
  - Balanced scorecard: Business **and** Risk objectives
  - Fosters healthy collaboration among groups
- Tone from the Top
  - Provides air cover to risk managers
  - Sets the expectations of the entire organization
- Progressive and forward-thinking views of risk
  - Permits an open forum to discuss issues without fear of retribution
- Balanced and measured actions of risk management
  - Prevents an “us versus them” mentality to set in