

**Risk culture insights from annual reports: a big
six South African banking group study**

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PREFACE

This mini-dissertation is the final deliverable in the Centre for Applied Risk Management (UARM)'s taught master's degree programme. The mini-dissertation was written in article format and consists of three sections: Research project overview, Article, and Reflection.

This mini-dissertation is the student's work. The student was responsible for the final concept, set-up, execution of the research project and writing of the mini-dissertation. The members of the supervisory team contributed in an advisory and technical support capacity on study conception and design, analysis and interpretation of data and critical revision of the manuscript. The mini-dissertation was language edited before submission.

The main study supervisor gave the student permission to submit this mini-dissertation for examination.

ABSTRACT

This exploratory study investigated the insufficiently researched topic of risk culture insights from annual reports by addressing the fundamental question: *How useful is annual-report-based risk-related information for assessing the risk culture maturity of the big six South African listed banking groups?* This is a significant question for banking group (bank) investors, depositors and other commercial stakeholders without direct access to company senior management and internal risk information. This study provides a method to identify inappropriate risk management behaviours and practices that may subject stakeholders to exposures inconsistent with their return objectives and risk tolerances. By undertaking a qualitative document analysis of banks' integrated and other publically available annual reports, risk-related data were benchmarked against the Financial Stability Board (FSB) framework for assessing risk culture. This study concludes that information presented in annual reports could be only partially linked to the FSB risk culture principles. Thus, annual reports tend not to permit the effective assessment of the banks' respective risk cultures. I therefore advocate that banks consider the research findings to evaluate and enhance the risk information in their annual reports. Furthermore, voluntary disclosure of information supporting institutional compliance with the FSB risk culture indicators in integrated reports will demonstrate commitment by banks to a sound risk culture. The investigation forms the basis for similar assessments within the financial services environment, and provides a yardstick against which risk-culture-related disclosure can be gauged. Despite its limitations, the study challenges others to add to this paper's contribution to risk culture research.

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RESEARCH PROJECT OVERVIEW

Research problem statement

Weaknesses in risk culture promoted irresponsible risk taking by financial institution employees (FSA, 2011). Such misconduct negatively impacted organisations, their investors and national economies, ultimately contributing to the 2008 financial crisis (Bushman, Davidson, Dey, & Smith, 2018; G30, 2015). Assessing companies' risk cultures could identify inappropriate risk management behaviours and practices that subject stakeholders to unacceptable financial exposures. Such evaluation is difficult without direct access to company senior management and internal risk information. Nevertheless, it may be that publically available financial, integrated or similar annual reports could provide information useful for assessing the risk cultures of financial institutions.

However, the risk-culture-related value of information in the annual reports of banking groups (banks) is uncertain. I could not find any published academic studies on risk culture insights from annual reports, which has therefore led to the current unique academic study investigating this under-researched area of risk culture. The present study was also motivated by my interest and experience in the financial services industry, developed over many years as a partner at one of the Big Four audit firms. The research project results are expected to be relevant to the study's intended audiences and can assist bank stakeholders to ask the right risk governance questions of listed company leaders.

Intended audiences

The current research is directed at banks' commercial and other stakeholders as described in Table RPO 1.

Table RPO 1: *Intended study audiences*

Audience	Area of interest
Commercial stakeholders / providers of financial capital	
<ul style="list-style-type: none">• Equity investors and analysts• Investment counterparties• Debt funders• Depositors• Business partners	

Table PRO 1 (cont.): *Intended study audiences*

Audience	Area of interest
Other stakeholders	
<ul style="list-style-type: none"> • Academics 	<p>The risk culture debate amongst academics is ongoing. Because this is a unique study examining the risk culture of banks, the research results could add to the academic debate, especially as it relates to financial institutions. This study should also be seen as an invitation to academics to build on this study's tentative but instructive research results.</p>
<ul style="list-style-type: none"> • Listed entity directors 	<p>Those charged with governance are responsible for a company's risk management and therefore its risk culture. The current study's findings can guide directors with an independent assessment of the usefulness of their annual report risk-culture-related disclosures.</p>
<ul style="list-style-type: none"> • Regulators 	<p>Regulators are accountable to the public for promoting financial sector stability by preventing systemic risk. The study results provide an indication of how bank stakeholders could perceive risk-culture-related reporting adequacy. In these circumstances, regulators might be encouraged by the public to legislate enhanced risk disclosures in annual reports.</p>

Selected journal

Because of the geographical context of this study, I initially considered it appropriate to publish my research paper in a South African journal. Editors of eight topic-relevant journals from the January 2018 South African Department of Higher Education and Training list of approved South African journals were therefore contacted to gauge their appetite for publishing this study's results. The journals were *Acta Commercii*; *Journal of Contemporary Management*; *Journal of Economic and Financial Sciences*; *Management Dynamics*; *Meditari: Accountancy Research*; *Southern African Business Review*; *Investment Analysts Journal*; and the *South African Journal of Economic and Management Sciences*. Of these, six editors provided encouraging responses, indicating that they found the research topic interesting and would engage further once the article had been finalised. The editors of the last two publications did not respond to my enquiry.

On reflection, however, given this study's findings, together with the global interest in the risk culture of financial institutions by academics, regulators and industry associations such as Sheedy and Griffin (2017), the Australian Prudential Regulatory Authority (APRA, 2016), and the Institute of International Finance (IIF, 2013), I selected the more international *Journal of Banking and Finance* as my journal of choice. This choice was informed by the journal's focus on theoretical and empirical research in banking and other domestic and international financial institutions and markets, as well as its publication of papers dealing with risk management and analysis.

In 2017, the journal was ranked 35th of 255 globally published academic finance periodicals by SCImago Journal & Country Rank based on the SJR metric of 1.503 (SCImago, 2018), and 85th of 353 journals in the business and finance, and economics categories on the basis of an impact factor (IF) of 1.931 published by Clarivate Analytics (Elsevier, 2018). Although different in that the SCR metric is influenced by the ranking of the citing journals, while the IF is not, both the SJR and IF metrics measure the number of times an average paper in a particular journal is cited during the preceding three and two years respectively. Owing to its high status, I realise that more work may be needed on my paper for acceptance by the selected journal. The guide for authors is available at:

<https://www.elsevier.com/journals/journal-of-banking-and-finance/0378-4266/guide-for-authors>.

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ARTICLE

Risk culture insights from annual reports: a big six South African banking group study

1. Abstract

This exploratory study investigated the insufficiently researched topic of risk culture insights from annual reports by addressing the fundamental question: *How useful is annual-report-based risk-related information for assessing the risk culture maturity of the big six South African listed banking groups?* This is a significant question for banking group (bank) investors, depositors and other commercial stakeholders without direct access to company senior management and internal risk information. This study provides a method to identify inappropriate risk management behaviours and practices that may subject stakeholders to exposures inconsistent with their return objectives and risk tolerances. By undertaking a qualitative document analysis of banks' integrated and other publically available annual reports, risk-related data were benchmarked against the Financial Stability Board (FSB) framework for assessing risk culture. This study concludes that information presented in annual reports could be only partially linked to the FSB risk culture principles. Thus, annual reports tend not to permit the effective assessment of the banks' respective risk cultures. I therefore advocate that banks consider the research findings to evaluate and enhance the risk information in their annual reports. Furthermore, voluntary disclosure of information supporting institutional compliance with the FSB risk culture indicators in integrated reports will demonstrate commitment by banks to a sound risk culture. The investigation forms the basis for similar assessments within the financial services environment, and provides a yardstick against which risk-culture-related disclosure can be gauged. Despite its limitations, the study challenges others to add to this paper's contribution to risk culture research.

Keywords: Annual reports, Document analysis, Financial institutions, Financial Stability Board, Risk culture maturity, Risk disclosures, South African banking groups

2. Introduction

There is wide consensus that, preceding the 2008 financial crisis, traditional quantitative capital, liquidity and other largely mechanistic supervisory and risk management measures did not allow for adequate appreciation of the importance of qualitative risks to banking groups (banks) and their stakeholders (Ashby, 2011; Coluccia, Fontana, Granziano, Rossi, & Solimene, 2017; de Haan, Nuijts, & Raaijmakers, 2015; DNB, 2015; FSA, 2011; G30, 2015). One can expect that such qualitative, and often behaviour-based, risks tend to reflect weaknesses in risk culture. Risk culture influences individuals' day-to-day actions and business decisions and has an impact on the risks taken on in an organisation and, by implication, its ultimate performance (FSB, 2014). Risk cultures that are not adequately aligned with organisational objectives tend to foster imprudent and excessive risk taking as demonstrated by Bear Sterns and Lehman Brothers. Such misconduct by management and other insiders contributed to significant negative outcomes for financial organisations, their investors, depositors and for national economies, ultimately leading to the 2008 global financial crisis (APRA, 2016; Bushman et al., 2018; Fetisov, 2009; G30, 2015; IIF, 2013; Mishkin, 2011).

Since the financial crisis, banking supervisory bodies gave specific attention to risk culture in an attempt to mitigate behavioural risks related to risk management in banks. For example, the Financial Stability Board (FSB) provided banks with guidance on how to assess their risk cultures (FSB, 2014). In addition to the banks managing their risk cultures, commercial stakeholders, such as equity investors and analysts, investment counterparties, debt-funders, depositors, and business partners also need to evaluate the maturity of the behavioural risks connected to the banks they deal with as evidenced by their risk cultures. These stakeholders do not always have access to senior management and internal risk information and will need to obtain their information elsewhere. One could ideally expect risk-related data disclosed in annual integrated, financial, risk or other annual reports (described in Appendix A), to provide useful information on a financial institution's risk culture. However, the risk-culture-related value of information in bank annual reports is uncertain and no published academic studies could be found on risk culture insights from such reports.

To address this problem, this qualitative study investigated the following central research question: *How useful is annual-report-based risk-related information for assessing the risk culture maturity of the big six South African listed banking groups?* To answer this research question, risk-related data disclosed in annual reports were benchmarked against the FSB (2014) framework for assessing risk culture using a rating scale designed for this study. This has led to a unique academic study investigating this under-researched area of risk culture. The research and its findings make an original and meaningful contribution regarding the value of risk-related information in annual reports for risk culture assessment. Although directed at banks' commercial stakeholders, the research results are also relevant to other

interested parties such as academics with an interest in the risk culture debate and further academic enquiry, listed-entity directors responsible for their company's governance, and regulators supervising and promoting financial sector stability by preventing systemic risk. This study's outcomes are expected to support these stakeholders in asking relevant risk governance questions of listed company leadership teams.

3. Background

The interaction of the formal mechanisms of risk management practice and organisational culture within the risk culture context are briefly discussed below. The FSB indicators of a sound risk culture used to create the coding structure employed to determine the usefulness of annual reports to assess the six banks' risk culture maturities are also examined. According to the International Integrated Reporting Council (IIRC), the primary aim of annual reporting 'is to explain to providers of financial capital how...an organization's strategy, governance...culture, including its attitude to risk,...creates value over time' (IIRC, 2013). This view provides support for studying the value of annual reports to inform stakeholders on the risk cultures in organisations.

3.1 Risk culture

Banks take risks in the pursuit of objectives aimed at creating, preserving and ultimately realising stakeholder value (Ellul & Yerramilli, 2013; IMF, 2014; Saltz, 2013). In this study, risk is defined as the negative 'effect of uncertainty on' a financial institution's 'objectives' (ISO31000, 2018). Managing such risks requires risk management frameworks, policies and practices to align with the company's culture (ISO31000, 2018; Jondle, Mines, Burke, & Young, 2013; Kimbrough & Componation, 2009), as organisational culture shapes employee actions and conduct and influences how employees approach and take risks, and hence a bank's risk culture (APRA, 2016; FCA, 2017; FRBNY, 2017; FSB, 2017; G30, 2015; HKMA, 2017; OSFI, 2016). It is therefore a bank's risk culture that determines the meaning, importance and priority assigned to the formalised risk frameworks and their implementation by staff (FRBNY, 2017; Roeschmann, 2014).

There is, however, no one generally accepted definition or common set of characteristics of risk culture (IRMUK, 2012; McConnell, 2013; Power, Ashby, & Palermo, 2013). Because of its relevance to financial institutions, the FSB (2014) definition of risk culture is used in this project: an 'institution's norms, attitudes and behaviors related to risk awareness, risk-taking and risk management'. Although often linked with risk avoidance, a mature risk culture is not a culture more averse to risk, but one that supports a desired level of informed and responsible risk-taking aligned to the organisation's risk appetite, an effective risk

governance and control framework, as well as its strategic business objectives (FSB, 2014; Gosden, Jones, Daisley, & Pape, 2014).

A sound risk culture can be viewed as a form of risk mitigation contributing to lower levels of governance and misconduct risks in banks (FRBNY, 2017; G30, 2015; IIF, 2013). A weak risk culture, on the other hand, diminishes the contribution of existing risk management and control infrastructures to the organisation's strategies (Althonayan, Killackey, & Keith, 2012; Sheedy & Griffin, 2017).

3.2 Financial Stability Board sound risk culture indicators

Responding to the moral hazards created by financial organisations during the global crisis, the FSB (2014) emphasised the importance of a sound culture by issuing a framework setting out practical guidance to national authorities on how to assess financial firms' risk cultures. These guidelines contain mutually reinforcing indicators symptomatic of a sound risk culture. Such indicators can also be viewed as good-practice risk culture standards for banks' boards of directors in their role as custodians of governance, culture and strategy. These indicators were used in this study to evaluate evidence of the risk cultures of South African banks as reported in their annual reports.

The FSB's four indicators of a sound risk culture are tone from the top, accountability, effective communication and challenge, and incentives. The FSB guidelines provide sub-indicators for each of the four main indicators, as well as detailed descriptions of the sub-indicators. These descriptions were used as sub-sub-indicators of the risk culture indicators. Some of the FSB detailed indicator descriptions covered multiple aspects of risk culture spanning across indicators, thereby illustrating the inherent interconnected nature of these indicators. Where this happened, the researcher combined sub-sub-indicator information under the most suitable sub-indicators. Furthermore, some descriptions presented by the FSB were unclear and needed to be subjectively interpreted and reworded to clarify their meaning within this study's context. This resulted in a more coherent picture of the FSB guidelines at sub-sub-indicator level. The resulting indicator structure will now be discussed for each of the four FSB main risk culture indicators.

Tone from the top

Tone from the top refers to the ‘operating style and personal conduct’ of the board of directors and executive team (COSO, 2017) and directs the risk culture within an organisation (BCBS, 2015; FSB, 2014). The FSB (2014) suggests that a bank’s directors and executives promote a sound tone from the top through:

- (1) leading by example, where the leadership’s conduct reflects its clear view of, visible commitment to, and compliance with the organisation’s risk culture,
- (2) assessing whether the institution’s espoused values are understood, accepted and applied within the organisation,
- (3) ensuring that there is a common understanding of risk within the company by confirming that risk appetite, and risk and business strategy are entrenched in daily decisions; and
- (4) learning from past experiences, such as from identified deficiencies in risk management design and implementation.

Table 2 provides the tone from the top sub-indicators and corresponding sub-sub-indicators used in this study.

Table 1: *FSB indicator 1 – Tone from the top – sub-indicators and corresponding sub-sub-indicators*

Tone from the top sub-indicators	Sub-sub-indicators
Leading by example	<p>The board and senior management (B&SM) have a clear view of their aspired risk culture, monitor and assess the prevailing risk culture and address areas of concern.</p> <p>The B&SM promote a risk culture that expects integrity and sound risk management.</p> <p>Directors have the tools to carry out their roles effectively, particularly their challenge function.</p> <p>The B&SM are committed to establishing a risk appetite framework that underpins the risk management strategy and is integrated with the business strategy.</p> <p>Mechanisms ensure that decision-making is not dominated by any one individual or group of individuals to the detriment of the institution.</p>
Assessing espoused values	<p>The B&SM systematically assess whether the espoused values are communicated and promoted throughout the institution.</p> <p>The B&SM assess whether the risk appetite framework and business strategy are understood by relevant staff, and embedded in decision-making and business operations.</p>
Ensuring common understanding and awareness of risk	<p>Mechanisms ensure that the risk appetite, risk management and business strategies are aligned and are embedded in decision-making.</p> <p>The B&SM have a clear view of business lines posing the greatest challenge in the management of risk.</p> <p>The B&SM systematically monitor how promptly and effectively matters raised by the board, regulators and control functions are resolved by management.</p>

Table 1 (cont.): FSB indicator 1 – Tone from the top – sub-indicators and corresponding sub-sub-indicators

Tone from the top sub-indicators	Sub-sub-indicators
Learning from past experiences	Processes are in place to facilitate the review of risk management design, set-up or implementation deficiencies, in order to identify the root causes and to take the opportunity to strengthen the institution’s risk culture. Lessons (failures or successes) learnt from past events are used to enhance the institution’s risk culture and to make changes for the future.

Note. Information sourced and adapted from FSB (2014).

The coding template presenting the FSB tone from the top sub-sub-indicators as codes against which the banks’ reported risk-related information was benchmarked during the study, is included in Appendix B.

Accountability

The FSB’s second risk culture indicator, accountability, should also be a priority for organisations given its importance to sound risk governance (COSO, 2017; IFC, 2015; IIF, 2008). The FSB (2014) comments that boards and senior management should establish policies, mechanisms and processes to embed and reinforce risk accountability within their institutions. This objective can, according to the FSB (2014), be realised by banks’ leaders focusing on (1) ownership of risk within institutions, (2) formulating escalation processes to elevate risk matters; and, (3) setting clear consequences for not complying with applicable internal codes, rules and standards regarding risk.

Risk ownership means that individuals within an organisation’s various business lines, as well as those in the control functions, are aware of and carry out their own clearly delineated risk responsibilities. Such duties include the identification, monitoring and reporting of current and emerging risks, including the relevant mitigation measures, to the institution’s leaders (FSB, 2014). Equally key for effective accountability, is the implementation of processes supporting risk management activities by enabling the escalation of risk matters within the organisation and to the executive team. Establishing clear consequences and holding employees responsible for exposing the institution to risks beyond authorised appetites or for breaching conduct and other rules is a further aspect of accountability related to the risk culture of the organisation (FSB, 2014). Table 2 displays the accountability sub-indicators and associated sub-sub-indicators.

Table 2: FSB indicator 2 – Accountability – sub-indicators and corresponding sub-sub-indicators

Accountability sub-indicators	Sub-sub-indicators
Ownership of risk	<p>Clear expectations are set regarding the monitoring and reporting of, and response to, risk information across the institution, including from business lines and risk management to the board and senior management.</p> <p>Mechanisms facilitate information sharing within the institution of emerging, and low probability, high impact risks.</p>
Escalation process	<p>Established escalation processes support risk management with defined consequences for non-compliance with policies.</p> <p>Assessments test employee awareness of escalation processes and their opinion of the environment’s openness to critical challenge.</p> <p>Established mechanisms allow employees to report their discomfort about products or practices.</p> <p>Current whistleblowing procedures are expected to be used by employees without reprisal, with the treatment of whistle blowers articulated and followed.</p>
Clear consequences	<p>All staff are held accountable for:</p> <ul style="list-style-type: none"> • not aligning with the institution’s values, risk appetite and risk culture by engaging in, or supporting, risk-taking that is excessive relative to the institution’s risk appetite statement; and • not adhering to internal policies, risk limits and codes of conduct. <p>Consequences can affect compensation, roles and responsibilities, career progression and may result in termination.</p>

Note. Information sourced and adapted from FSB (2014).

Appendix C contains the accountability coding matrix used in this research project.

Effective communication and challenge

The FSB (2014) comments that a sound risk culture fosters transparency as well as an environment of open dialogue and challenge among board members and at all levels throughout an institution, thereby promoting the identification of risks and improving decision-making. Furthermore, the FSB (2014) mentions that effective communication and challenge, the third sound risk culture indicator, requires: (1) an organisational setting which is open to alternative views, and where differing perspectives are encouraged and valued; and (2) independent control functions with the necessary stature to fulfil their various risk-related responsibilities.

The effective communication and challenge sub-indicators and connected sub-sub-indicators are shown in Table 3.

Table 3: FSB indicator 3 – Effective communication and challenge – sub-indicators and corresponding sub-sub-indicators

Effective communication and challenge sub-indicators	Sub-sub-indicators
Open to alternate views	<p>The B&SM promote healthy scepticism and challenge by providing alternative points of view that may result in a better decision.</p> <p>Alternative views from individuals and groups are encouraged, valued, respected and occur in practice.</p> <p>Staff training programmes develop effective challenge and open communication competencies.</p> <p>Existing mechanisms assess openness to robust challenge at all governance levels, as well as how it is embedded in decision-making.</p>
Stature of control functions	<p>Control functions have the necessary organisational stature, participate in committees and are included in relevant risk decisions and activities.</p> <p>Control functions have sufficient stature to effectively impose control tasks with respect to the institution’s risk culture.</p> <p>Control functions operate independently and have direct access to the board and senior management, and can report to the board.</p>

Note. Information sourced and adapted from FSB (2014).

The effective communication and challenge coding guide is listed in Appendix D.

Incentives

Employee financial and non-financial remuneration and incentive arrangements are important governance and control mechanisms for boards and executive management in reinforcing a bank’s core values (IFC, 2015; IIF, 2008). Sound reward systems can therefore encourage good performance, communicate a positive attitude towards risk taking and reinforce a sound risk culture which motivates employees to want to control their bank’s risks (BCBS, 2015; FSB, 2014). Furthermore, compensation arrangements incorporating the elements of the FSB (2014) fourth risk culture indicator, incentives, support a business model that focuses on the institution’s and its customers’ long-term interests as well as sustainable earnings, as opposed to short-term attitudes towards bank revenue (BCBS, 2015; FSB, 2014).

The FSB (2014) incentives sub-indicators are:

- (1) remuneration and performance: this sub-indicator incorporates compensation structures and incentive compensation programmes, as well as remuneration and performance metrics, annual performance reviews, and objective-setting processes. The remuneration and performance phrase ‘alignment between performance and risk’ required interpretation for this study, as its meaning was not provided by the FSB (2014). This term was understood to mean ‘effective alignment of compensation with prudent risk taking’ (FSB, 2009). Allocating such meaning is considered reasonable, as the incentives risk culture

indicators have their foundational elements in the FSB (2009)'s Principles for Sound Compensation Practices, which recognises 'effective alignment of compensation with prudent risk taking' as an important risk-related remuneration principle,

- (2) risk-based succession planning for key management; and
- (3) risk-related talent development including risk management training together with job rotation.

The incentives sub-indicators and corresponding sub-sub-indicators are included in Table 4.

Table 4: FSB indicator 4 – Incentives – sub-indicators and corresponding sub-sub-indicators

Incentives sub-indicators	Sub-sub-indicators
Remuneration and performance	<p>The compensation structure^(*) and incentive compensation programmes:</p> <ul style="list-style-type: none"> • support the institution's espoused core values, • promote effective alignment of compensation with prudent risk-taking, • promote respect for risk limits; and • are supported by a well-documented process (such as a remuneration policy document). <p>Remuneration and performance metrics, annual performance reviews and objective-setting processes, consistently support and promote:</p> <ul style="list-style-type: none"> • desired risk-taking behaviours, risk appetite and risk culture of the financial institution, • the institution's desired core values and behaviours, • employee actions that further the company's interests, rather than for themselves or their business line, • compliance with policies and procedures, including addressing deficiencies noted by internal audit and regulators, • proper treatment of customers; and • co-operation with internal control functions and supervisors.
Succession planning	Succession planning for key staff includes risk management experience.
Talent development	<p>Understanding key risks, risk management and institutional culture are reflected in senior employees' development plans.</p> <p>Job rotation between control and line functions facilitate the transfer of risk and business skills.</p> <p>Training programmes develop risk management skills including the elements supporting risk culture.</p>

Note. Information sourced and adapted from FSB (2014). ^(*)Compensation structure 'refers to the manner in which incentive pay is delivered (fixed versus variable, paid-upfront versus deferred, and the nature of the instruments, such as cash versus shares)' (FSB, 2011).

The incentives coding framework utilised in the current investigation is shown in Appendix E.

4. Method

In this qualitative study, document analysis was applied to bank annual reports to gather risk-related data and to obtain an understanding of the collected information. Despite being time intensive due to the volume of information examined, efficiency, practicality and cost-effectiveness render document analysis the most suitable data collection method for a new and therefore exploratory study such as this one. Gathered data were analysed using a hybrid deductive (*a priori*) and inductive (data-driven) process as explained by Fereday and Muir-Cochrane (2006) and Braun and Clarke (2006). The *a priori* codes were based on the FSB guidelines, and the thematic principles were deduced from the risk-related information in the annual reports. The use of thematic analysis was beneficial as it provided a flexible manner of obtaining a thorough account of the annual report information while integrating deductive themes with those emerging from the data as found by Anderton and Ronald (2017) and Gotts, Newton, Ellis, and Deary (2016).

4.1 Study sample

The study's population consists of the eight banks with a primary listing on the Johannesburg Stock Exchange (JSE) Banks, and Financial Services sectors. The selected bank sample for this study comprised Barclays Africa Group Limited (renamed ABSA Group Limited from July 2018, following the changed shareholding relationships with Barclays PLC), FirstRand Limited, Nedbank Group Limited, Standard Bank Group Limited, Capitec Bank Holdings Limited and Investec Limited. The collective market capitalisation of these banks reported by the JSE during September 2018 was approximately R1 trillion (with a trillion being a million million). This implies that these institutions carry significant systemic risk to the overall South African economy, as failure of these companies threatens the sustainability of the banking system. The remaining two listed banks, namely RMB Holdings Limited and Finbond Group Limited were excluded from the study due to the investment holding nature of RMB's business, and Finbond's relatively smaller size.

4.2 Bank participation in the study

The six banks were advised of the study and its purpose, and were invited to contribute to the investigation by completing an indicator template developed for this research. The matrix indicated where in their annual reports the companies showed compliance with the FSB indicators of a sound risk culture. A copy of the e-mail to the institutions is included as Appendix F. The company secretaries of four banks did not respond to the request for participation. Two banks agreed to take part in the study. One institution, however, subsequently declined to

contribute to the research after the FSB indicator template was sent to its risk function. The remaining institution partially participated in the investigation.

4.3 Sources and collection of data

The selected banks' latest published annual reports consulted during this study were downloaded from each entity's website as disclosed in Appendix A. Information issued by the banks prior to their most recent annual reports was not studied. Although investigating risk-related reporting trends over time may be useful to stakeholders wishing to understand the maturity of a bank's risk culture, this was not the aim of the current study, as including historical data would have made the study too complex at this initial exploratory research stage into this under-explored topic. Because bank annual report contents are publically available secondary data, that is information originally collected by a person other than the researcher for a different purpose, ethical approval to use the banks' material in the present study was not required (Huston & Naylor, 1996; Johnston, 2017; Scandura & Williams, 2000).

The research focused on non-financial risk narratives published in the annual reports and did not concern itself with financial and company-specific risks or disclosures mandated by the International Financial Reporting Standards (IFRS). IFRS is the accounting framework guiding South African banks in preparing annual financial statements. While important to bank stakeholders, the IFRS disclosures are not an FSB (2014) requirement. Also beyond the scope of the current study, and a potential area for further academic research, was verifying the appropriateness, validity and accuracy of the disclosed risk-related information, any assertions made by management, and whether risk culture values espoused in the annual reports are enacted in practice. In this regard, the assumption made in the present study is that the independent parties and structures responsible for overseeing an institution's risks, namely the non-executive directors, the audit and risk committees, internal audit and the South African banking regulator, would have identified and requested the correction of any anomalous or questionable risk-related disclosures.

4.4 Data analysis

Data analysis involved the development of a risk culture indicator code book *a priori* (that is, prior to the initial reading of the banks' annual reports), based on the FSB (2014) indicators of a sound risk culture. The code book contains the four FSB indicator code groups with their sub-codes and sub-sub-codes.

Each bank's reports were read prior to starting individual bank's coding, with notes made to record key observations or matters necessary to assist further data analysis. Text that was characteristic of the predetermined codes/indicators were labelled accordingly and entered in the relevant code book at sub-sub-indicator level. Risk-related data not directly

connected to the theoretical codes were ignored, unless the data contributed to the research objective, in which case they were inductively coded and accommodated in the code book. The coded information was constantly evaluated to confirm my understanding of the data and contributed to the consistent allocation of similar concepts within and across the banks' data to the appropriate *a priori* codes. Comparing coded information also assisted in reducing possible biases resulting from subjective interpretation of the information. The code book was checked to identify and correct possible data capture errors.

Finally, each sub-sub-indicator was allocated a rating on a scale ranging between 0 and 2 with 0.5 intervals, to illustrate the extent to which the bank's annual report information correlated or could be linked with the FSB indicators.

Table 5: *Criteria for rating banks' adoption of the FSB (2014) indicators of a sound risk culture*

Rating	Criteria
0	Information was not available, or the information presented by the banks could not be partially or directly linked to the FSB sub-sub-indicators.
1	Information presented by the banks could be partially linked to the FSB sub-sub-indicators.
2	Information presented by the banks could be directly linked to the FSB sub-sub-indicators.

Mid-level ratings (0.5 and 1.5) were also used to indicate grading in the qualitative evaluation of the information presented. This led to a 5 point scale for the rating.

5. Results and Discussion

5.1 Structure of the results and discussion section

Research findings and analyses are presented per FSB main indicators as shown in Table 6.

Table 6: *Structure of results and discussion section*

Indicators (n=4)	Sub-indicators (n=12)	Number of sub- sub-indicators per sub- indicator (n=32)	Table
Tone from the top	Leading by example	5	7
	Assessing espoused values	2	8
	Ensuring common understanding and awareness of risk	3	9
	Learning from past experience	2	10
<i>Tone from the top –summary of findings</i>			11
Accountability	Ownership of risk	2	12
	Escalation process	4	13
	Clear consequences	1 ^(*)	14
<i>Accountability – summary of findings</i>			15
Effective communication and challenge	Open to alternate views	4	16
	Stature of control functions	3	17
<i>Effective communication and challenge – summary of findings</i>			18
Incentives	Remuneration and performance	2 ^(*)	19
	Succession planning	1	20
	Talent development	3	21
<i>Incentives – summary of findings</i>			22
All indicators – bank and indicator ratings			23

Note. ^(*)Indicates sub-sub-indicators whose weightings were doubled to increase their contribution to the indicator-level calculation discussed under ‘*At indicator level*’ below.

The results per indicator are presented in the tables listed in Table 6 as follows:

At sub-sub-indicator level:

- Research commentary for each sub-sub-indicator. Direct quotes from banks’ annual reports serve to illustrate specific points, and did not necessarily affect the particular bank’s rating. Such quotes are therefore reported anonymously to avoid spurious inferences about the quality of specific bank’s annual reports;

- corresponding sub-sub-indicator ratings for each bank, using the 0–2 rating scale explained in the Method section.

At sub-indicator level:

- An average rating for the applicable sub-indicator per bank. This average was calculated by taking a straight or unweighted average of its underlying sub-sub-indicators' ratings. The straight average is used here as the sub-sub-indicators lie at the lowest level of the indicator model used in this study and their ratings do not rely on other indicators,
- an average percentage rating per bank (the average rating against the maximum obtainable rating of 2);
- the average percentage rating across the six banks.

At indicator level:

- A summarised commentary for each sub-indicator,
- the weighted average indicator percentage rating per bank, calculated using the average sub-indicator ratings weighted according to number of sub-sub-indicators linked to each sub-indicator. In two cases (see ^(*) note in Table 6), the number of sub-sub-indicators was doubled to increase the load of these sub-sub-indicators in the calculation. This was done to allow for the merging and adjusting of sub-sub-indicators where FSB descriptions overlapped so as not to diminish the importance of such descriptions;
- a similarly weighted average percentage rating across the six banks.

The weighted average strategy used is illustrated in Figure 1.

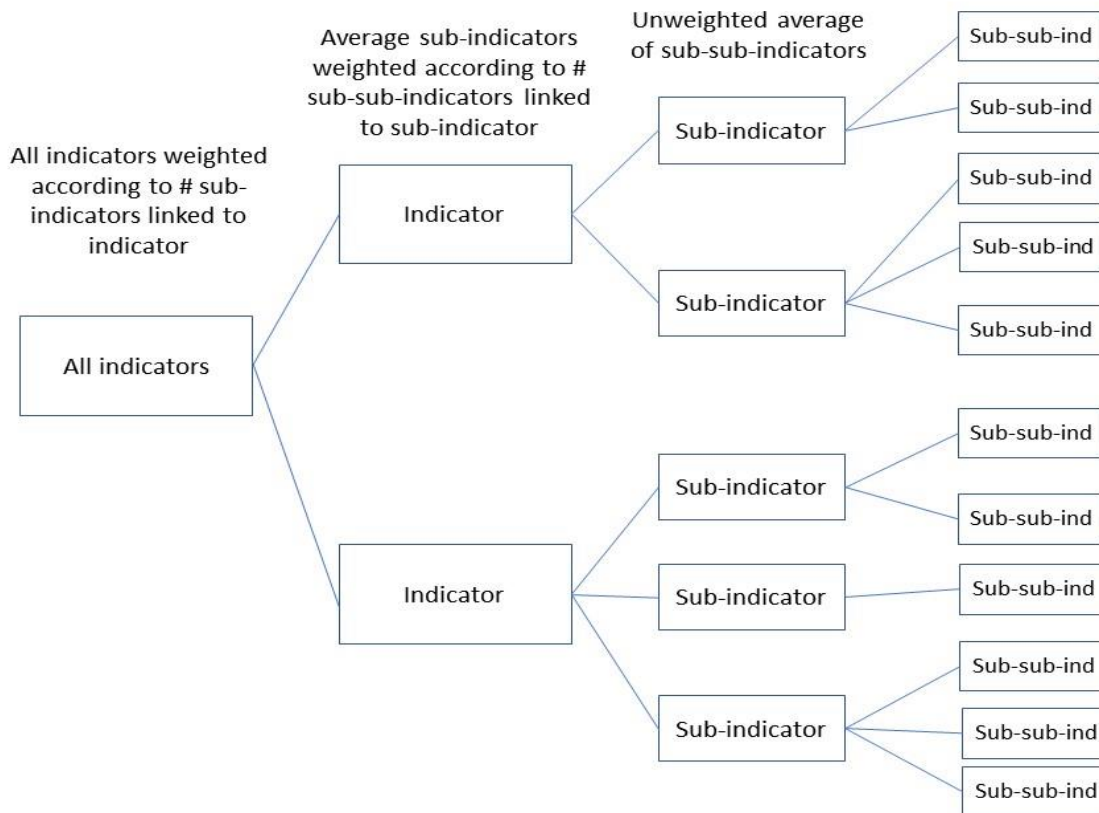


Figure 1. An illustration of the indicator calculation weighting strategy used in this study

These qualitative-rating-based metrics provide a view of the extent to which the banks studied included information relevant to the risk culture indicators in their annual reports. To maintain anonymity, the relevant financial institutions were labelled A to F in no particular order in the findings tables. Each bank's label remained constant throughout the document.

5.2 FSB indicators of a sound risk culture – Tone from the top

Tone from the top – Leading by example

Table 7: *Leading by example – sub-sub-indicators, research commentary and bank ratings*

Leading by example sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
The B&SM have a clear view of their aspired risk culture, monitor and assess the prevailing risk culture and address areas of concern.	<p>Banks provided information explaining their approaches, frameworks and mechanisms for managing key risks. All made reference to risk culture in their annual reports, albeit at different levels of frequency, clarity and detail. One institution showed that risk culture was an element of the risk architecture forming part of its risk management framework, while another discussed the elements underpinning its risk culture. Some institutions viewed risk culture as a prerequisite for effective risk management and elaborated on its advantages.</p> <p>However, risk culture's role in and its level of integration within the risk management process could have been more clearly presented and explained. Uncertainties and differences in how banks described the concept of risk culture complicated a full appreciation of the concept's meaning within the institutions' risk environments. In addition, terms such as risk-aware, risk-based, risk and capital management culture, and risk management culture, were discussed by certain banks but not fully explained within the risk culture context. For example, one bank views risk culture as related to values and compliance with its code of conduct, while another institution considers risk culture as 'support for and attitudes towards risk management' and distinguishable 'from how values are lived in the group'.</p> <p>Despite these differences, several banks describe their risk culture as being 'strong', 'sound', and 'practical and enabling'. These descriptions suggest that the banks' directors monitor and assess the prevailing risk culture and address areas of concern. Only one bank declared that it had 'established clear parameters to assess risk culture'. The results of, and the basis for any evaluations that may have been conducted by the institutions were not discussed in the annual reports. This non-disclosure presents stakeholders with an opportunity to ask the following question of the directors – 'what inputs, framework and methodology were used to assess your bank's risk culture?'</p> <p>In general, banks' mainly reported matters related to specific organisational and ethical cultures, rather than risk-culture-specific information; for example, 'we surveyed our employees' impression of our culture and the state of ethics in the organisation and the board received a detailed report...'</p> <p>Consequently, one cannot draw comprehensive conclusions on the B&SM views of their risk cultures, how risk culture is assessed and how areas of concern are addressed from the information provided.</p>	0,5	0.5	0.5	1.5	0.5	0.5

Tone from the top (cont.) – Leading by example (cont.)

Table 7 (cont.): *Leading by example – sub-sub-indicators, research commentary and bank ratings*

Leading by example sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
The B&SM promote a risk culture that expects integrity and sound risk management.	<p><i>Integrity</i> – Shaping an organisation's integrity is acknowledged by the banks as being the board's responsibility. Because of the importance of public trust in banks and banking (G30, 2015), integrity and the need for an ethical culture were discussed in detail by banks in their reports. Integrity is driven by the institutions' cultures, supported by a code of conduct/ethics and overseen by social and ethics or related board sub-committees. The banks confirmed that their businesses operate ethically and declared their compliance with the King IV Code on Corporate Governance for South Africa (King IV). Compliance by banks with the King IV principles is a JSE listing requirement (JSE, 2017). Principle 2 requires governing bodies to 'govern the ethics of the organisation in a way that supports the establishment of an ethical culture' (IoDSA, 2016). One bank stated that it drives 'a culture of doing the right business the right way.'</p> <p><i>Sound risk management</i> – Banks also acknowledged that the board is ultimately responsible for ensuring sound risk management frameworks, policies and processes within the institutions. This accountability flows from relevant provisions of corporate and banking legislation, as well as King IV Principle 11: 'The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic intentions' (IoDSA, 2016). Banks consider their risk management frameworks and practices to be sound and have therefore asserted their compliance with King IV's Principle 11.</p>	2.0	2.0	2.0	2.0	2.0	2.0
Directors have the tools to carry out their roles effectively, particularly their challenge function.	Banks have introduced a variety of measures, such as director training and providing the board with relevant information, to enable directors carry out their duties, including challenging executives on important business and risk-related matters. New directors attend formal induction programmes covering key aspects of the business. Ongoing director training is provided on relevant topics, including regulatory changes, industry developments, culture and technology, as well as cyber security and data protection. Directors have unrestricted access to, and engage with, company executives and internal experts, visit the banks' various business operations and are entitled to consult external specialists at the institutions' expense. In addition, banks described implemented processes that ensure boards receive all necessary information required for the effective discharge of their duties, including decision-making, and have also confirmed that such procedures are operating effectively.	1.5	2.0	2.0	2.0	2.0	1.5

Tone from the top (cont.) – Leading by example (cont.)

Table 7 (cont.): *Leading by example – sub-sub-indicators, research commentary and bank ratings*

Leading by example sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
The B&SM are committed to establishing a risk appetite framework that underpins the risk management strategy and is integrated with the business strategy.	Banks have established risk appetite frameworks. One bank defined risk appetite as 'the nature and amount of risk that the group is willing to take to meet its strategic objectives'. Annual reports confirm that boards are ultimately responsible for approving the risk appetite frameworks recommended by the executives. Relevant risk and capital-related board-subcommittees reporting to the board monitor risk appetite framework implementation, compliance and, as stated by one bank, 'risk appetite per key risk... to ensure a balance between risk and reward'. Annual reports also pointed out that risk appetite frameworks are developed within a wider risk management strategy. Regarding the risk framework's integration into business strategy, the following comment encapsulates the views of the remaining banks – 'the key to the group's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and its strategy'.	2.0	2.0	2.0	2.0	2.0	2.0
Mechanisms ensure that decision-making is not dominated by any one individual or group of individuals to the detriment of the institution.	The importance of protecting decision-making against dominant personalities and groups is recognised by most banks. Annual reports contain comments such as: 'no one individual has unfettered decision-making powers', '...no one director has unfettered powers, ensuring there is an appropriate balance of power' and 'the Board's structure balances the directors' powers so that no individual has unfettered authority in discussions or decision making'. However, these comments apply only to the directors. Annual reports do not elaborate on existing measures implemented by banks to protect the institutions from dominant non-director senior leaders with significant organisational and decision-making authority.	1.0	0.0	1.0	1.0	1.0	0.0
Leading by example – Average rating per bank on the 0–2 rating scale		1.4	1.3	1.5	1.7	1.5	1.2
– Average percentage rating per bank (%)		70	65	75	85	75	60
– Average percentage rating across all banks (%)		72					

Note. Calculations in these tables have been rounded as follows: numbers, to the nearest tenth; percentages, to the nearest percentage point. Such rounding is considered suitable for the qualitative nature of the ratings used to calculate these values. Average percentage rating per bank = the average rating per bank as a percentage of the maximum possible rating of 2.

Tone from the top (cont.) – Assessing espoused values

Table 8: *Assessing espoused values – sub-sub-indicators, research commentary and bank ratings*

Assessing espoused values sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
The B&SM systematically assess whether the espoused values are communicated and promoted throughout the institution.	Banks discussed their espoused values in detail and affirmed their commitment to these values. In this context, one bank indicated that it used a staff survey to assess perceptions of its values within the organisation. However, most banks did not provide the results of board-initiated assessments to gauge the extent to which the company’s values were disseminated and promoted by management and staff within the institutions. Without such information, stakeholders are unable to determine whether the tones at the middle and throughout the institution are aligned with the tone from the top.	0.0	1.5	0.0	1.5	0.0	1.0
The B&SM assess whether the risk appetite framework and business strategy are understood by relevant staff, and are embedded in decision-making and business operations.	None of the institutions provided data on relevant employee understanding of the organisations’ risk appetite framework and business strategy or the extent to which these two important matters had been entrenched in the banks’ decision-making and the business processes.	0.0	0.0	0.0	0.0	0.0	0.0
Assessing espoused values – Average rating per bank on the 0–2 rating scale		0.0	0.8	0.0	0.8	0.0	0.5
– Average percentage rating per bank (%)		0	40	0	40	0	25
– Average percentage rating across all banks (%)					18		

Tone from the top (cont.) – Ensuring a common understanding and awareness of risk

Table 9: Ensuring a common understanding and awareness of risk – sub-sub-indicators, research commentary and bank ratings

Ensuring a common understanding and awareness of risk sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
Mechanisms ensure that the risk appetite, risk management and business strategies are aligned and embedded in decision-making.	To confirm that there is a common understanding of risk within institutions, the FSB advises that processes should exist to make sure that risk appetite, and risk management and business strategies are aligned and entrenched in decision-making at all relevant levels of the company. It is evident from annual report information examined that the necessary alignment and integration occur in practice.	2.0	2.0	2.0	2.0	2.0	2.0
The B&SM have a clear view of business lines posing the greatest challenge in the management of risk.	Banks share similar financial, and in many instances, non-financial risks with differing exposures depending on their business model and strategy, product offering and risk appetite. Annual reports disclosed and explained the banks' various risks, with two institutions highlighting credit risk to be the most material risk type due to the nature of specific business activities. However, institutions did not provide details of business lines considered to pose the greatest challenges in the management of risk, for example, business lines with unexpected or unexplained results or business lines with non-financial risks that may not necessarily lend themselves to immediate and easy quantification. Disclosure of such business line information could assist users of annual reports to determine if unexpected or unexplained results are due to excessive risk taking by employees.	1.5	1.5	0.5	0.5	0.5	0.5
The B&SM systematically monitor how promptly and effectively matters raised by the board, regulators and control functions are resolved by management.	The institutions advised that matters raised by the board, regulators or control functions were addressed. The banks' governance committee structures, such as the audit or risk sub-committees, generally monitor progress on managements' planned remedial action to resolve the required matters. One bank stated, 'in instances where the group incurred losses, breached risk appetite or was fined by its regulators, the board is satisfied that management has taken remedial action'. However, banks did not offer the level of information required by users of the annual reports to independently determine the adequacy of the steps taken by the board to ensure that important board, regulatory and control function raised issues are tracked and timeously resolved by management.	0.5	1.0	1.0	1.0	1.0	1.0
Ensuring a common understanding and awareness of risk – Average rating per bank on the 0–2 rating scale		1.3	1.5	1.2	1.2	1.2	1.2
– Average percentage rating per bank (%)		65	75	60	60	60	60
– Average percentage rating across all banks (%)							63

Tone from the top (cont.) – Learning from past experiences

Table 10: *Learning from past experiences – sub-sub-indicators, research commentary and bank ratings*

Learning from past experiences sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
Processes are in place to facilitate the review of risk management design, set-up or implementation deficiencies, in order to identify the root causes and to take the opportunity to strengthen the institution's risk culture.	Several relevant study observations were made from the annual reports on these important sub-sub-indicators. One bank stated that where a risk materialises, its root cause is assessed to identify potential control failures and what could be learned from the experience. This activity appears to be part of the institution's wider 'lessons learned reviews' process focusing on 'root cause analysis of significant events experienced in the group' to promote strong risk management. Another institution's reporting to its B&SM includes 'analysis and lessons learnt from...successes, failures and events'. A third bank's operational risk management function analyses root causes of internal incidents and events to allow for the implementation and recommendation of controls to curb future threats.	0.0	0.5	1.5	1.5	1.5	1.0
Lessons (failures or successes) learnt from past events are used to enhance the institution's risk culture and to make changes for the future.	Comments by most banks, which varied in detail, suggest that events arising from risk management deficiencies are examined and advantage is taken to benefit from previous experiences.	0.0	0.5	1.5	1.5	1.5	1.5
Leaning from past experiences – Average rating per bank on the 0–2 rating scale		0.0	0.5	1.5	1.5	1.5	1.3
– Average percentage rating per bank (%)		0	25	75	75	75	65
– Average percentage rating across all banks (%)		53					

Tone from the top (cont.) – Summary of findings

Despite most banks not having specifically defined the term risk culture and its impact on the financial institution, the ‘leading by example’ sub-indicator achieved an average rating of 72% (Table 11). Such rating was attributed to FSB-compliant disclosures relating to: (a) the promotion by directors of the importance of integrity and risk management within the organisations, (b) the ability of directors to carry out their challenge function, and, (c) the establishment by directors of risk appetite frameworks that underpin risk management strategy integrated with the business strategy.

Table 11: *Tone from the top – summary of findings*

Tone from the top sub-indicators	Bank ratings (%)						All banks
	A	B	C	D	E	F	
Leading by example	70	65	75	85	75	60	72
Assessing espoused values	0	40	0	40	0	25	18
Ensuring a common understanding and awareness of risk	65	75	60	60	60	60	63
Learning from past experiences	0	25	75	75	75	65	53
Tone from the top							
Weighted average percentage rating per bank and across all banks	45	57	59	70	59	55	58

Table 11 also shows that ‘assessing espoused values’ was rated at 18% across all banks. This rating could be improved by additional disclosures regarding board evaluations of whether (a) espoused values are communicated and promoted within the institutions, and, (b) risk appetite frameworks and business strategies are understood by relevant staff and are embedded in decision-making. Such information demonstrates the degree to which tone from the top reaches the whole organisation, and risk management’s importance in organisational decision processes. Regarding ‘ensuring a common understanding and awareness of risk’ (average all-bank rating: 63%), companies disclosed information indicating that risk management and business strategies are aligned and entrenched in decision-making. Additional evidence could however be given by banks regarding (a) the identification of business lines exposing the organisations to the greatest challenge in the management of risk, and, (b) the processes implemented by institutions to monitor the timely and effective resolution of risk-related matters raised by the board, supervisory and control functions.

The 53% ‘learning from past experiences’ sub-indicator overall average rating shows that some banks did not share information with stakeholders concerning processes

implemented by the companies to ensure that the organisation learns from risk management design and implementation failures, or from previous risk-related incidents.

5.3 FSB indicators of a sound risk culture – Accountability

Accountability – Ownership of risk

Table 12: Ownership of risk – sub-sub-indicators, research commentary and bank ratings

Ownership of risk sub-sub indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
Clear expectations are set regarding the monitoring and reporting of, and response to, risk information across the institution, including from business lines and risk management to the board and senior management.	<p>All of the banks have implemented a three lines of defence model to ensure that risks are properly governed within their institutions. The first line (business unit management) and second line (risk, compliance and similar control functions) of defence responsibilities are explained in the annual reports. Such responsibilities include their respective obligations in the identification, management, mitigation, oversight and reporting of risk-related matters within the organisation and to the required governance structures.</p> <p>One bank indicated that its line of defence model ‘places more emphasis on and improves the concepts of responsibility and accountability across the organisation’. From a reporting perspective another bank made the point that ‘all three levels report to the board, either directly or through the group risk and capital management committee and group audit committee’.</p> <p>The third line’s (internal audit) responsibilities are not discussed in this commentary, as the board’s expectations of that line are not in scope for this sub-sub-indicator.</p>	1.5	2.0	2.0	2.0	2.0	1.5
Mechanisms facilitate information sharing within the institution of emerging, and low probability, high impact risks.	<p>The financial institutions recognise dangers to their businesses from emerging risks, e.g. ‘The constant change in our industry and operating environments gives rise to emerging risks’ and we ‘cannot merely concentrate on those risks traditionally associated with the business of banking’. Emerging risks were disclosed and discussed in the annual reports, but at different levels of detail. Regarding low probability, high impact risks, the focus by the banks was mainly on the probability of default (likelihood of default by individual, corporate, municipal and other large customers on repayment obligations) relating to their credit portfolio. Various techniques, such as stress testing, are used by banks to calculate and measure exposures or impacts at varying probability levels or under ‘extreme but plausible scenarios’ relative to risk appetites.</p> <p>As with all risks, emerging and low probability, high impact risks are managed in terms of the banks’ existing frameworks and are shared with relevant formal internal audiences, including the board, by the institutions in terms of their internal reporting standards. One bank, for example, indicated that it had adopted the Basel Committee of Banking Supervision’s RDARR (Principles for effective risk data aggregation and risk reporting) (BCBS, 2013) principles, to facilitate the effective dissemination of risk information within its business and to its board.</p>	1.0	1.5	1.5	1.5	1.0	1.0

Accountability (cont.) – Ownership of risk (cont.)

Table 12 (cont.): *Ownership of risk – sub-sub-indicators, research commentary and bank ratings*

	Bank ratings					
	A	B	C	D	E	F
Ownership of risk – Average rating per bank on the 0–2 rating scale	1.3	1.8	1.8	1.8	1.5	1.3
– Average percentage rating per bank (%)	65	90	90	90	75	65
– Average percentage rating for all banks (%)			79			

Accountability (cont.) – Escalation process

Table 13: Escalation process – sub-sub-indicators, research commentary and bank ratings

Escalation process sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
Established escalation processes support risk management with defined consequences for non-compliance with the policies.	<p>The studied banks' risk escalation processes are facilitated through existing formalised risk management frameworks incorporating the specific reporting responsibilities of each of the lines of defence. Matters requiring escalation to support risk management are reported, as one bank indicated, 'based on materiality', to the relevant business and governance levels depending on how the institutions' business operations are structured. More significant matters are escalated to the board subcommittees, such as the risk, audit or similar committees and ultimately to the board for deliberation. One bank mentioned that it educates its staff on how to 'escalate actual or potential risk' to the relevant structures in the institution, while another company indicated that robust '...governance framework is supported by its open and honest culture which helps to ensure any issues are escalated in a timely manner'.</p> <p>None of the banks, however, mentioned that policies had been formulated setting out the impact on employees not adhering to the organisation's escalation protocols.</p>	1.0	1.5	1.5	1.5	1.5	1.5
Assessments test employee awareness of escalation processes and their opinion of the environment's openness to critical challenge.	Institutions did not disclose whether systematic evaluations test employee, (1) knowledge of the organisations' existing escalation processes, and (2) opinions regarding their environments' acceptance of critical challenge.	0.0	0.0	0.0	0.0	0.0	0.0
Established mechanisms allow employees to report their discomfort about products or practices.	Institutions have implemented whistleblowing and other facilities where employees and, in some cases, other stakeholders, can raise any concerns including fraud, unethical behaviour, policy breaches, corruption and illegal activities anonymously or as one bank pointed out 'anonymous where permissible'.	1.0	1.5	2.0	2.0	2.0	0.0
Current whistleblowing procedures are expected to be used by employees without reprisal, with the treatment of whistle blowers articulated and followed.	<p>Most banks stated that employees are provided with whistleblowing related awareness training.</p> <p>From a safety perspective, the majority of organisations confirmed the importance of protecting whistle blowers and supported their assertions with phrases such as 'protected disclosure', 'zero tolerance for whistleblowing victimisation' and 'sound risk culture supports...safe whistleblowing'.</p>	1.0	1.5	2.0	2.0	2.0	0.0

Accountability (cont.) – Escalation process (cont.)

Table 13 (cont.): Escalation process – sub-sub-indicators, research commentary and bank ratings

	Bank ratings					
	A	B	C	D	E	F
Escalation processes – Average rating per bank on the 0–2 rating scale	0.8	1.1	1.4	1.4	1.4	0.4
– Average percentage rating per bank (%)	40	55	70	70	70	20
– Average percentage rating across all banks (%)					54	

Accountability (cont.) – Clear consequences

Table 14: Clear consequences – sub-sub-indicators, research commentary and bank ratings

Clear consequences' sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
<p>All staff are held equally accountable for:</p> <ul style="list-style-type: none"> not aligning with the institution's values, risk appetite and risk culture by engaging in, or supporting, risk-taking that is excessive relative to the financial institution's risk appetite statement; and not adhering to internal policies, risk limits and codes of conduct. <p>Clearly established consequences can affect compensation, roles and responsibilities, career progression and may result in termination.</p>	<p>Banks indicated that formal codes of ethics/conduct, policy frameworks or disciplinary rules apply to, and hold all staff accountable for their actions. One bank emphasised, 'we work in an environment where the rules apply equally to all – regardless of position or role'.</p> <p>Annual reports discussed employee accountability as well as the matters addressed by the various codes in very broad terms. Institutions confirmed that employees face consequences for contravening company rules. What was not always evident from the information presented, however, are the specific activities and behaviours prohibited by the institutions, as well as the range of associated consequences for non-compliant employees. Providing more disclosure of what is considered unacceptable, particularly risk culture-related and risk limit breaches, and linking such actions to specific impacts for all employees, could better demonstrate to stakeholders the extent and manner of accountability within companies. Certain banks did nevertheless mention that governance breaches could impact individual current year compensation with serious breaches possibly resulting in dismissal.</p> <p>Regarding the impacts of policy contraventions on compensation, the annual reports tended to focus on executive directors, senior managers as well as other material risk-takers ('employees who have influence over the risk assumed in the course of conducting businesses'). For those errant senior managers who had been awarded bonuses (performance incentives) in prior periods, malus and clawbacks are used as punitive measures under certain circumstances. Such situations include gross misconduct and material failure in risk management. Malus 'permits the banks to prevent the vesting' of any part of deferred (unpaid) bonuses, while clawbacks (used by some banks) oblige employees to return bonuses actually received in the past to the bank (BCBS, 2011). Material breakdown in risk management is, however, not defined. The term could accordingly create the impression among stakeholders that monetary losses arising from any failures need to be significant before senior management remuneration is negatively affected. A discussion of whether clawback and malus mechanisms should be activated at lower levels of loss could be a board agenda item going forward.</p>	1.0	1.0	1.5	1.0	1.5	1.0

Accountability (cont.) – Clear consequences (cont.)

Table 14 (cont.): *Clear consequences – sub-sub-indicators, research commentary and bank ratings*

	Bank ratings					
	A	B	C	D	E	F
Clear consequences – Average rating per bank on the 0–2 rating scale	1.0	1.0	1.5	1.0	1.5	1.0
– Average percentage rating per bank (%)	50	50	75	50	75	50
– Average percentage rating across all banks (%)			58			

Accountability (cont.) – Summary of findings

Based on the annual report information, the ‘ownership of risk’, ‘escalation process’ and ‘clear consequences’ sub-indicators were rated 79%, 54% and 58% respectively across all banks (Table 15).

Table 15: *Accountability – summary of findings*

Accountability sub-indicators	Bank ratings (%)						All banks
	A	B	C	D	E	F	
Ownership of risk	65	90	90	90	75	65	79
Escalation process	40	55	70	70	70	20	54
Clear consequences	50	50	75	50	75	50	58
Accountability							
Weighted average percentage rating per bank and across all banks	49	63	76	70	73	39	61

The ‘ownership of risk’ average rating is supported by reported information that the institutions’ first and second lines of defence have delineated risk management and reporting responsibilities. Although emerging risk reporting was discussed by banks, more information on low probability, high impact risks could have been presented. In this regard, institutions concentrated on the probability of default banking risk, and not on other high consequence risks with a lower likelihood of occurring. Banks also indicated that current risk management frameworks and whistleblowing procedures act as ‘escalation processes’ supporting risk management. However, more information is required on whether the institutions evaluate employee understanding of the prevailing escalation procedures. In addition, providing more specific evidence of how all staff are held accountable for, and the ‘clear consequences’ of, risk management and other policy transgressions, could be useful to stakeholders. Where deviation from expected norms and behaviour impacts employee compensation, a question for consideration by the governing body is whether existing malus and clawback hurdles are too high, thus allowing errant employees to retain bonuses when they potentially should not do so.

5.4 FSB indicators of a sound risk culture – Effective communication and challenge

Effective communication and challenge – Open to alternate views

Table 16: *Open to alternate views – sub-sub-indicators, research commentary and bank ratings*

Open to alternate views sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
The B&SM promote healthy scepticism and challenge by providing alternative points of view that may result in a better decision.	Annual reports describe the platforms at which board members and senior management can challenge and apply scepticism by raising different perspectives on important issues before decisions are finalised. These forums include various committees within the business lines, the executive committee or business-unit equivalents, board subcommittees and the board. However, what was unclear from the reported information was the level of questioning and scepticism actually applied during important deliberations.	0.5	0.5	0.5	0.5	0.5	1.0
Alternative views from individuals and groups are encouraged, valued, respected and occur in practice.	<p>Demonstrating the application of scepticism or the robustness of questions raised, can be viewed by annual report preparers as being difficult. However, providing more comprehensive information of the key issues being debated by leadership, without disclosing sensitive information, might assist stakeholders in determining the level of effective challenge occurring within the business. Alternatively, voluntary attestations by company chairmen in integrated reports that the board is satisfied with the level of scepticism and questioning applied within the organisations on key matters, may also be useful to stakeholders.</p> <p>Equally unclear, were the measures implemented by banks to encourage questions and diverse opinions from all employees. However, high-level comments were made in this regard, e.g.: ‘we constantly challenge upwards and downwards to ensure robust decision making’, while another company stated, ‘that the business case always prevails through open communication, vigorous debate and participative non-hierarchical decision making’. ‘We have adopted a multidimensional approach involving everyone in the organisation which incorporates challenge at every level’, was a comment made by a third study participant.</p>	1.0	0.5	0.5	1.0	0.5	1.5
Staff training programmes develop effective challenge and open communication competencies.	None of the banks mentioned learning initiatives to develop staff challenge and communication skills.	0.0	0.0	0.0	0.0	0.0	0.0
Existing mechanisms assess openness to robust challenge at all governance layers, as well as how it is embedded in decision-making.	Institutions did not indicate whether the degree of openness to challenge at the various levels of governance, and the extent to which healthy challenge and debate was entrenched in the institutions’ decision-making processes, was assessed by senior management.	0.0	0.0	0.0	0.0	0.0	0.0

Effective communication and challenge (cont.) – Open to alternative views (cont.)

Table 16 (cont.): *Open to alternative views – sub-sub-indicators, research commentary and bank ratings*

	Bank ratings					
	A	B	C	D	E	F
Open to alternative views – Average rating per bank on the 0–2 rating scale	0.4	0.3	0.3	0.4	0.3	0.6
– Average percentage rating per bank (%)	20	15	15	20	15	30
– Average percentage rating across all banks (%)				19		

Effective communication and challenge (cont.) – Stature of control functions

Table 17: Stature of control functions – sub-sub-indicators, research commentary and bank ratings

Stature of control functions sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
Control functions have the necessary organisational stature, participate in committees and are included in relevant risk decisions and activities.	The roles, responsibilities (including control tasks) and reporting lines of the control functions such as risk, compliance (second lines of defence) and internal audit (third line of defence) were described by the banks. The control functions' stature in relation to that of the individual business lines was not specifically articulated. However, control functions heads and/or their team members have either direct access to the board or indirectly through the various board structures such as the audit, risk and, social and ethics subcommittees.	1.0	1.5	1.5	1.5	1.5	1.5
Control functions have sufficient stature to effectively impose control tasks with respect to the institution's risk culture.	In addition, in the case of the risk function, four banks confirmed that the chief risk officer is an executive committee member. Such appointments and the right to access board subcommittees and board members, could signal risk functions' prominence within the banking groups. Such appropriate level of organisational standing can provide the chief risk officer with the opportunity to influence or guide the outcome of significant deliberations, the future direction of high risk profile business activities as well as shaping and improving the bank's risk culture.	1.0	1.5	1.5	1.5	1.5	1.5
Control functions operate independently and have direct access to the board and senior management, and can report to the board.	As expected, chief audit executives (internal audit heads) are not executive committee members, thus maintaining the integrity and independence of the assurance provider. In certain cases, the head of internal audit 'has a standing invitation to attend Exco'. Internal audit's independence is monitored by the bank audit committees who, in respect of four banks, confirmed the independence of their third line of defence. The risk function is generally referred to as being independent or providing independent oversight and monitoring of risks. However, unlike the internal audit function, only two banks directly mentioned that relevant board subcommittees ensured the independence of their risk practitioners.	1.0	1.5	1.5	1.5	1.5	1.5
Stature of control functions – Average rating per bank on the 0–2 rating scale		1.0	1.5	1.5	1.5	1.5	1.5
– Average percentage rating per bank (%)		50	75	75	75	75	75
– Average percentage rating across all banks (%)		71					

Effective communication and challenge (cont.) – Summary of findings

The ‘effective communication and challenge’ indicator weighted average rating of 41% was negatively impacted by the ‘open to alternative views’ average rating of 19% (Table 18). The latter score suggests that more risk-related evidence is required from banks regarding (a) how scepticism is applied in the business during decision-making, (b) the manner in which alternative views from staff are elicited, (c) the training programmes implemented to cultivate efficient questioning skills within the organisation, and, (d) the methods used to evaluate the organisation’s receptiveness to challenge at the various governance levels. Effective communication and challenge ‘encourages transparency and open dialogue’ in financial institutions (FSB, 2014).

Table 18: *Effective communication and challenge – summary of findings*

Effective communication and challenge sub-indicators	Bank ratings (%)						All banks
	A	B	C	D	E	F	
Open to alternate views	20	15	15	20	15	30	19
Stature of control functions	50	75	75	75	75	75	71
Effective communication and challenge							
Weighted average percentage rating per bank and across all banks	33	41	41	44	41	49	41

Annual reports show that control functions have appropriate stature or standing within their institutions, with reporting lines and access to executive management and the board. The information also confirms that risk functions can influence important risk-related business activities and decisions, and by implication an institution’s risk culture. Most banks confirmed the independence of their control functions. However, the methods used by directors to assess and maintain such independence were not shared by all the institutions.

5.5 FSB indicators of a sound risk culture – Incentives

Incentives – Remuneration and performance

Table 19: *Remuneration and performance – sub-sub-indicators, research commentary and bank ratings*

Remuneration and performance sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
<p>The compensation structure and incentive compensation programmes:</p> <ul style="list-style-type: none"> • support the institution’s espoused core values, • promote effective alignment of compensation with prudent risk-taking, • promote respect for risk limits; and • are supported by a well-documented process (such as a remuneration policy document). 	<p>Remuneration philosophies, compensation structures and incentive compensation programmes were presented in the institutions’ remuneration reports. However, the length of the remuneration reports as well as the level of qualitative disclosure, including the rationale for the adoption of current remuneration policies and practices, varied among banks. Considering this variation, it might be appropriate for remuneration committee chairmen to re-evaluate existing remuneration disclosures for compliance with the FSB’s risk incentive requirements. Enhanced remuneration disclosure would, as one bank reflected, ‘enable a reasonable assessment by stakeholders of reward practices’ and, by implication, the company’s risk culture.</p> <p>Institutions generally linked their remuneration philosophies to a combination of factors, including (a) culture and values (‘our reward arrangements support and reinforce our desired culture and encourage ethical behaviour consistent with our values’), (b) ‘the protection of value for shareholders and other stakeholders’, and, (c) ‘business strategy’.</p> <p>Banks also commented that their remuneration policies and structure ‘promote appropriate risk-taking behaviour’ or encourage ‘acceptable risk taking’. In this regard, the study found that banks have developed compensation structures and mechanisms to promote prudent risk behaviour and respect for risk limits by connecting incentives to sound risk-taking.</p> <p>Such measures include (a) linking incentives to performance, (b) adjusting bonuses for employee-imposed risks (through risk adjustments for unrealised risks, and malus and clawback arrangements, where risks subsequently emerge causing a loss to the firm), (c) ensuring that incentives form a major proportion of executives’ total remuneration and are subject to deferral arrangements, (d) a compensation mix of cash, equity and equity-related instruments that is linked to the long-term governance of the company, and, (e) applying vesting conditions to long-term incentives.</p> <p>This study also found that the institutions’ remuneration philosophies and guidelines are supported by board-approved documented remuneration policies. Such policies are reviewed on an annual basis by remuneration committees and updated to cater for regulatory amendments, compliance with best compensation practices or modifications to business strategies.</p>	1.0	1.5	1.5	1.0	1.0	1.5

Incentives (cont.) – Remuneration and performance (cont.)

Table 19 (cont.): *Remuneration and performance – sub-sub-indicators, research commentary and bank ratings*

Remuneration and performance sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
<p>Remuneration and performance metrics, annual performance reviews and objective-setting processes consistently support and promote:</p> <ul style="list-style-type: none"> • desired risk taking behaviours, risk appetite and risk culture of the financial institution, • the institution’s desired core values and behaviours, • employee actions that further the interests of the company, rather than for themselves or their business line, • compliance with policies and procedures, including addressing deficiencies noted by internal audit and regulators, • proper treatment of customers; and • co-operation with internal control functions and supervisors. 	<p>The majority of banks discussed, in broad terms, the matters included in this sub-sub-indicator in their remuneration reports, which tend to focus on senior staff. However, the institutions did not always sufficiently explain the manner and extent to which existing compensation and performance metrics, as well as employee evaluations and future performance expectations, incorporate all these sub-sub-indicator requirements.</p> <p>Although some banks discussed the relationship between remuneration and risk, culture, and ethical conduct, the relationships between such factors and bank employee performance metrics and evaluations were not discussed by all banks. Three banks addressed motivating employees to focus on the organisations’ objectives and not those of individuals or their business units. For example, one institution stated, ‘the aim of our performance management process is to promote alignment of individual, team, and cluster performance objectives with those of the group’.</p> <p>A bank’s client base could be viewed as its most valuable asset. Banks confirmed their commitment to placing clients at the centre of the business relationship, by making comments such as ‘we are client centric in our approach’. However, not all banks discussed whether responsibilities to clients were integrated into employee performance systems. One bank, however, demonstrated its commitment by stating that the institution’s reward policies place the best interests of the client first.</p> <p>Regarding collaboration with internal audit and regulators, banks confirmed that they address concerns raised by such parties, but do not generally include proactive co-operation by staff with internal audit and regulators as a performance evaluation metric. One institution’s comment in this respect was encouraging – ‘health of relationships with regulators are considered in executive director and prescribed officer performance assessment and remuneration’.</p>	1.0	1.5	1.5	1.0	1.0	1.5

Incentives (cont.) – Remuneration and performance (cont.)

Table 19 (cont.): *Remuneration and performance – sub-sub-indicators, research commentary and bank ratings*

	Bank ratings					
	A	B	C	D	E	F
Remuneration and performance – Average rating per bank on the 0–2 rating scale	1.0	1.5	1.5	1.0	1.0	1.5
. – Average percentage rating per bank (%)	50	75	75	50	50	75
. – Average percentage rating across all banks (%)						63

Incentives (cont.) – Succession planning

Table 20: *Succession planning – sub-sub indicators, research commentary and bank ratings*

Succession planning sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
Succession planning for key management includes risk management experience.	Succession planning for identifying and grooming future leaders to fill key management positions was not extensively covered by most annual reports, although some banks discussed the subject as it applied to board members, the chief executive officer and senior management teams. Comments such as ‘...adheres to sound practices in respect of board continuity programs, succession planning...’, ‘..REMCO is responsible for succession planning for the CEO’, ‘a succession plan for the CEO is in place’, and ‘...has conducted formal succession appraisals for all key positions...’ were noted. However, banks did not suggest that succession planning processes considered the candidates’ risk management knowledge and experience.	0.0	0.0	0.0	0.0	0.0	0.0
Succession planning – Average rating per bank on the 0–2 rating scale		0.0	0.0	0.0	0.0	0.0	0.0
– Average percentage rating per bank (%)		0.0	0.0	0.0	0.0	0.0	0.0
– Average percentage rating across all banks (%)				0.0			

Incentives (cont.) – Talent development

Table 21: Talent development – sub-sub-indicators, research commentary and bank ratings

Talent development sub-sub-indicators	Research commentary	Bank ratings					
		A	B	C	D	E	F
Understanding key risks, risk management and institutional culture are reflected in senior employees' development plans.	Senior employee development plans, incorporating matters such as the institution's key risks, important aspects of risk management, and the institution's risk culture, were not discussed by the banks.	0.0	0.0	0.0	0.0	0.0	0.0
Job rotation between control and line functions facilitates the transfer of risk and business skills.	None of the banks indicated that they had implemented job rotation programmes designed to transfer business knowledge to the control functions or to introduce risk awareness to the decision-making process of the business line.	0.0	0.0	0.0	0.0	0.0	0.0
Training programmes develop risk management skills including the elements supporting risk culture.	In addition to ethics-related instruction offered by certain institutions, additional training programmes are provided by banks. In this context, one company commented: 'employees receive mandatory training to familiarise them with risk management policies relevant to their functions...' Topics covered by risk coaching include compliance risk, conduct risk, fraud and corruption risk, legal/regulatory risk, credit risk and other operational type risks. However, not every bank indicated that they provide guidance on all of these risks to staff members. Regarding developing employees' knowledge of the components supporting a sound risk culture, none of the companies made specific reference to this particular FSB requirement.	0.5	0.5	0.5	1.0	1.0	0.5
Talent development – Average rating per bank on the 0–2 rating scale		0.2	0.2	0.2	0.3	0.3	0.2
– Average percentage rating per bank (%)		10	10	10	15	15	10
– Average percentage rating across all banks (%)		12					

Incentives (cont.) – Summary of findings

Institutions discussed their compensation structures and incentive programmes, as well as their remuneration and performance metrics, reviews and objective-setting procedures. The FSB (2014) advocates that such compensation structures and performance mechanisms should be aligned to organisational values and risk culture. However, the incentive-relevant qualitative information reported varied in detail amongst banks and did not always clearly justify the adoption by the institutions of current remuneration policies and practices. Furthermore, additional data could have been provided on how employee relationships with clients, regulators and the control functions affected staff performance evaluations. As a consequence of the absence of specific evidence in this area, the ‘remuneration and performance’ sub-indicator was rated 63% (Table 22).

Table 22: *Incentives – summary of findings*

Incentives sub-indicators	Bank ratings (%)						All banks
	A	B	C	D	E	F	
Remuneration and performance	50	75	75	50	50	75	63
Succession planning	0	0	0	0	0	0	0
Talent development	10	10	10	15	15	10	12
Incentives							
Weighted average percentage rating per bank and across all banks	29	41	41	31	31	41	36

Table 23 shows that risk-based ‘succession planning’ and risk-related ‘talent development’ were rated 0% and 12%, respectively, across all the banks. These institutions should therefore consider explaining to stakeholders whether succession planning programmes for important managerial positions incorporate risk management skills as a job requirement. Similarly, the steps taken by the institutions to implement (a) development plans for senior employees, (b) job rotation initiatives, and, (c) training programmes designed to promote sound risk management and culture, ought to be discussed in annual reports.

5.6 FSB indicators of a sound risk culture – All indicators

The final table (Table 23) and Figures 2 and 3 contain the weighted average percentage ratings for each of the four main indicators per bank and across all banks, as well as the weighted average for all indicators as a group. These averages were weighted according to the number of sub-indicators per indicator as discussed in section 5. Figure 3 shows the overall risk culture ratings for and across all banks. These data were used to evaluate the usefulness of risk-related disclosures in annual reports in assessing banks' risk culture maturity.

At an individual indicator level across all banks as a group, the accountability indicator was rated highest at 61%, followed by the tone from the top (58%), effective communication and challenge (41%), and incentives (36%) indicators. At an individual bank level, the accountability risk culture indicator tended to be rated highest across five banks (excluding Bank F), followed by tone from the top, effective communication and challenge, and incentives. Also notable amongst these five banks, is the relatively large average spread of approximately 21 percentage points between the two highest and the two lowest rated indicators.

Table 23: All indicators – bank and indicator ratings

Indicators of a sound risk culture	Bank ratings (%)						All banks
	A	B	C	D	E	F	
Tone from the top ^(*)	45	57	59	70	59	55	58
Accountability ^(*)	49	63	76	70	73	39	61
Effective communication and challenge ^(*)	33	41	41	44	41	49	41
Incentives ^(*)	29	41	41	31	31	41	36
Weighted average	40	52	56	56	53	47	50

Note. ^(*) Information brought forward from Tables 11, 15, 18 and 22 respectively.

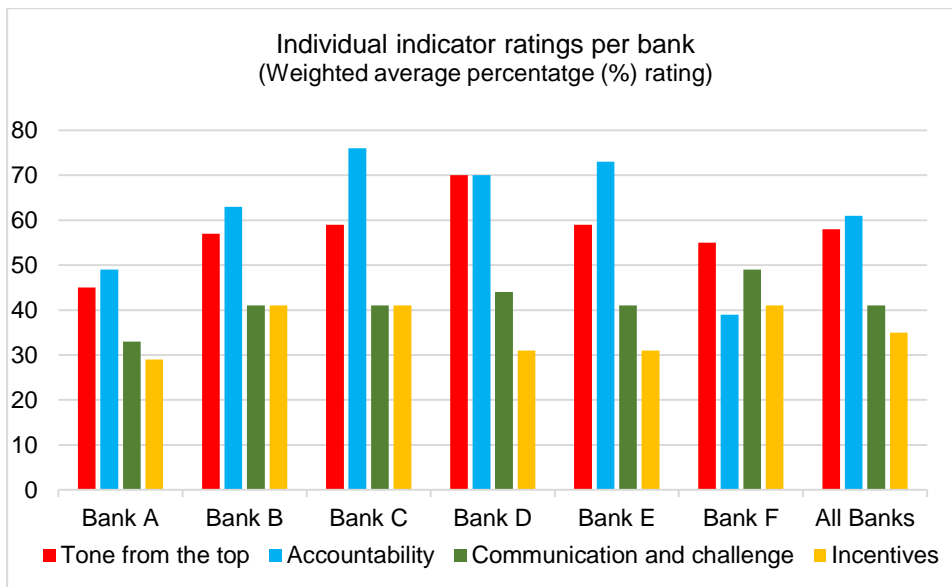


Figure 2. Indicator ratings per bank

Similarly, a spread of 16 percentage points exists between the lowest rated (bank A: 40%) and highest risk culture-rated banks (banks C and D: 56%) (Figure 3).

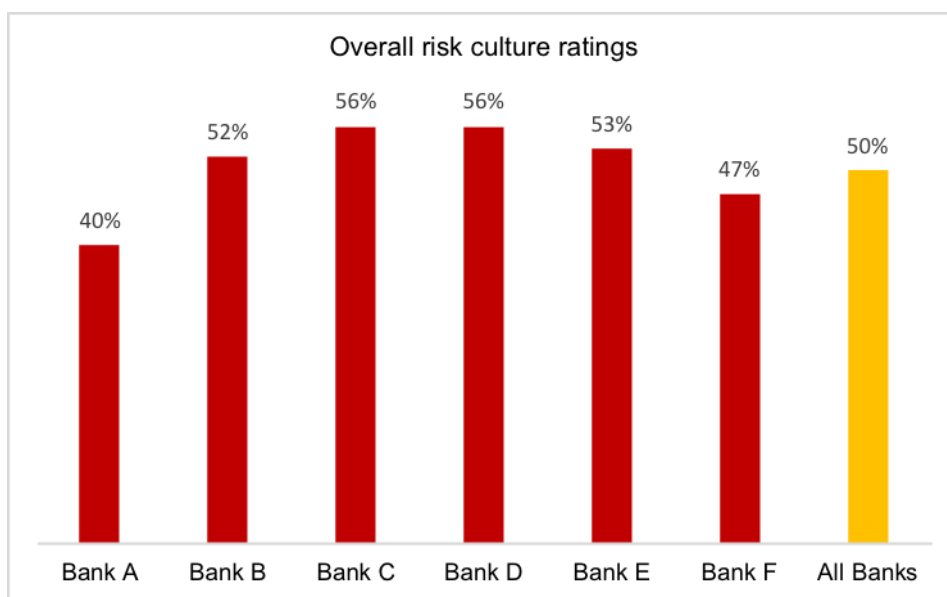


Figure 3. Risk culture ratings for and across all banks

Although the analysis of the results data could raise many questions, it is beyond this study's mandate to determine the underlying reasons for such results and spreads, and how various indicators are interrelated. I leave these matters to be investigated in another study.

6. Conclusion

This unique qualitative study reported here explored the inadequately researched topic of risk culture insights from annual reports by answering the key question: *How useful is annual-report-based risk-related information for assessing the risk culture maturity of the big six South African listed banking groups?* This question is relevant to bank investors, depositors and other commercial stakeholders. In addition, this study provides an approach to identify possible risk-culture-related issues using public information to ask specific risk-culture-related questions and hold banks accountable when inadequately planned risk events happen.

Benchmarking bank-disclosed, risk-related data against the Financial Stability Board sound risk culture indicators provided tentative but instructive research results. This study's central finding is that for all banks investigated, the information presented in their annual reports could be only partially linked to the FSB risk culture principles. Thus, although potentially useful information could be found in the analysed bank annual reports, this did not allow for an effective assessment of the institutions' respective risk cultures. The information in the current reports has to be improved to be useful to stakeholders for this purpose. The average risk culture rating across indicators of all banks was 50%, with a range of ratings for individual groups between 40% and 56%. This means that across the studied banks, annual reports only address, on average, one half of the FSB indicators. At an individual indicator level, the banks' percentage rating with each of the four FSB indicators was 61% for accountability, 58% in respect of tone from the top, 41% regarding effective communication and challenge, and 36% relating to incentives. Although the individual indicator ratings varied amongst the institutions studied, their rank orders were similar for five of the six banks, indicating possible systemic problems in reporting risk-culture-related data. Banks can use the study findings to evaluate and improve the risk information in their annual reports. Such analysis is advocated given the increasing level of international attention to behavioural aspects of risk supervision by regulators. Furthermore, voluntary and clear disclosure of risk information that supports institutional compliance with the FSB risk culture indicators in their integrated reports, will demonstrate to all stakeholders the banks' commitment to sound risk culture.

All studies are, however, subject to limitations (Fereday & Muir-Cochrane, 2006). Consequently, there are a number of key constraints to the current qualitative study which could have affected its findings and recommendations. Such limitations require consideration when interpreting the research results. First, management discretion and judgement informed by subjectivity is an 'inherent part of risk reporting' (Miihkinen, 2013). This could mean that risk disclosures in annual reports might be incomplete or incorrect. Second, Braun and Clarke (2006) point out that thematic analysis has several pitfalls, the most important of which is 'failure to actually analyse the data at all', that is, providing data extracts in the research without

relevant analytical consideration and comment. Through the work explained in the previous sections, I believe that I avoided this pitfall as far as I could in this study. Third, as noted by Broom, Barnes, and Tovey (2004), ‘a problem with qualitative approaches can be that they can be too open to the researcher’s preconceptions or bias and this can skew the results’. Fourth, the interpretation of annual report risk content, the allocation of data to the various FSB sub-sub-indicators – as well as my measuring, using an untested rating scale, the extent to which disclosed risk information aligned with the indicators, – were subjective and involved personal judgement. The detailed outputs from such processes were not fully checked independently by a second researcher for accuracy and perspective. However, external inputs were actively sought to mitigate this risk through discussion with governance and academic specialists. Fifth, in certain instances, the meaning of the indicators was not clear, needing subjective assumptions to interpret the FSB sound risk culture requirements. Future studies will benefit from a more coherent guideline document. The often repetitive level of detail in the FSB document can also be expected to complicate the banks’ interpretation of the FSB guidelines.

This exploratory study provides information that can be used by others to design future studies on this risk culture. Despite its limitations, this study should be seen as an invitation to academics and others to add to this pioneering paper’s contribution to the study of risk culture. The research could form the basis for similar future assessments within the financial services sector, and provides a standard against which future risk-culture-related disclosures can be evaluated. Finally and importantly, a question warranting investigation by others is: *Are banking groups optimising the opportunity to share appropriate risk culture-related information with stakeholders in their annual reports?*

Number of words in article:

Abstract	248
Article excluding tables	5 527
Tables	7 369
Total article	13 144

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REFLECTION

In this study, I examined the extent to which it was possible to obtain insights about their risk culture from banking groups' annual reports, by answering the question: *How useful is annual-report-based risk-related information for assessing the risk culture maturity of the big six South African listed banking groups?*

I have been working towards a response to this question for over nine months since it was originally posed in early 2018. During this period I have, on occasion, challenged the relevance of this question to wider society. Despite the views of many cynics who have shared their contrary views with me, I believe that the question remains very pertinent, especially for stakeholders who have invested in banking groups' equity, placed deposits with the institutions or otherwise commercially interact with the companies, but who do not have direct access to interact with management or the directors. Therefore, such stakeholders rely on examining risk information in annual reports to gauge an 'institution's norms attitudes and behaviours towards risk awareness, risk taking and risk management, or the institution's risk culture' (FSB, 2014). Such assessment is important, as it was misconduct by banking officials arising from a weak risk culture that contributed to the previous financial crisis and consequent financial losses, and also to subsequent ongoing financial scandals.

The more critical question that arises, however, follows the study's main finding that, using the FSB indicators of a sound risk culture as benchmarks, risk information disclosed in annual reports could be only partially useful in assessing bank risk culture maturity: *Are banking groups optimising the opportunity to share appropriate risk culture-related information with stakeholders in their annual reports?* Perhaps a future academic study will provide the answer.

On a personal level, the current research was challenging, especially because similar studies could not be found in academic journals. At the same time, however, the journey, despite its ups and downs, was immensely interesting and fulfilling. The amount of information analysed was enormous and involved reading, at various levels of detail, 23 documents or parts of annual reports issued by the six banks. After a while, counting the number of pages covered became pointless. Examining the annual reports and completing the research tested my discipline, focus, judgement, as well as my knowledge and experience of the financial industry. It was rewarding to better understand the banks and their challenges and to compare the institutions, not only within my study's context, but using more personal and arbitrary metrics, such as how they interacted when I requested information or how specific questions were answered. More rewarding were my dealings with officials from the South African Reserve Bank and the Financial Stability Board in Switzerland, as well as with respected risk academics such as professors Elizabeth Sheedy (Macquarie University, Australia), Michael

Power (London School of Economics) and Terje Aven (University of Stavanger, Norway). It was stimulating to interact and receive input from these subject-matter experts.

This study would not have been possible without the knowledge gained during 2017, the first year of the two-year applied risk management programme. The six modules covered during that period were well designed and executed by a very supportive and dedicated North-West University UARM academic team. The teaching staff have provided me with the necessary scholastic building blocks for my next, yet to be defined, academic journey. I am indebted to that team for affording me the privilege to participate in their programme.

Three final questions remain. In hindsight, did I do the right thing taking on the two-year academic challenge? The answer is an unequivocal yes! The risk management skills that I have developed will certainly help me carry out my non-executive responsibilities more effectively. Would I have done anything differently? Perhaps finding a better balance between an excessive academic focus and a healthier and more balanced family-orientated lifestyle. Possibly analysing and coding the bank's annual reports more efficiently. Definitely working more diligently converting my commercial writing style to one that might be more appealing to academics. Definitely taking the time to understand better my supervisor's wise counsel. And the biggest takeaway or learning from the last 24 months? Perhaps that teaching an old dog new risk management skills is possible.

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APPENDICES

Appendix A – Annual reports used in the study

Banking Group	Financial year-end	Documents (annual reports) analysed	Source of annual reports
Barclays Africa Group Limited	31 December 2017	2017 Integrated Report	https://www.absa.africa/content/dam/africa/absafrica/pdf/results/annual/2017-integrated-report.pdf
		Annual Consolidated and Separate Financial Statements for the reporting Period ended 31 December 2017	https://www.absa.africa/content/dam/africa/absafrica/pdf/results/annual/2017-consolidated-and-separate-financial-statements.pdf
		2017 Pillar 3 risk management report	http://barclaysafrica2017ar.co.za/pdf/Barclays_Africa_Pillar_3_risk_management_report_2017.pdf
		2017 King IV Review	https://www.absa.africa/content/dam/africa/absafrica/pdf/results/annual/2017-king-iv-review.pdf
FirstRand Limited	30 June 2017	Annual Integrated Report	https://www.firstrand.co.za/InvestorCentre/Current%20FSR%20annual%20report/FirstRand%20annual%20integrated%20report%202017.pdf
		Annual Financial Statements	https://www.firstrand.co.za/InvestorCentre/Current%20FSR%20annual%20report/FirstRand%20annual%20financial%20statements%20-%20June%202017.pdf
		Basel Pillar 3 Disclosure	https://www.firstrand.co.za/InvestorCentre/basel%20II%20Pillar%203%20Disclosure/Basel%20Pillar%203%20disclosure%20-%20June%202017.pdf
		King IV Implementation	https://www.firstrand.co.za/AboutUs/GovernanceAndCompliance/FirstRand%20King%20IV%20implementation%202017.pdf

Appendix A (cont.) – Annual reports used in the study

Banking Group	Financial year-end	Documents (annual reports) analysed	Source of annual reports
Nedbank Group Limited	31 December 2017	Integrated Report for the year ended 31 December 2017	https://www.nedbank.co.za/content/dam/nedbank/siteassets/AboutUs/Information%20Hub/Integrated%20Report/2017/2017%20Nedbank%20Group%20Integrated%20Report.pdf
		Annual Report for the year ended 31 December 2017	https://www.nedbank.co.za/content/dam/nedbank/siteassets/AboutUs/Information%20Hub/Integrated%20Report/2017/2017%20Nedbank%20Limited%20Annual%20Report.pdf
		Pillar 3 Risk and Capital Management Report for the year ended 31 December 2017. Basel III Public Disclosure Report	https://www.nedbank.co.za/content/dam/nedbank/siteassets/AboutUs/Information%20Hub/Integrated%20Report/2017/Risk%20and%20Capital%20Management%20Report%20as%20at%2031%20December%202017.pdf
		King IV™ Principles for the year ended 31 December 2017	https://www.nedbank.co.za/content/dam/nedbank/siteassets/AboutUs/Information%20Hub/Integrated%20Report/2017/2017%20Nedbank%20Group%20King%20IV%20Principles.pdf
		Remuneration Report for the year ended 31 December 2017	https://www.nedbank.co.za/content/dam/nedbank/siteassets/AboutUs/Information%20Hub/Integrated%20Report/2017/2017%20Nedbank%20Group%20Remuneration%20Report.pdf
Standard Bank Group Limited	31 December 2017	Annual Integrated Report 2017	http://annualreport2017.standardbank.com/downloads/Standard_bank_AIR_2017_annual_integrated_report.pdf
		Annual Financial Statements 2017	http://reporting.standardbank.com/downloads/SBG_FY17_3_Annual%20Financial%20Statements.pdf
		Risk and Capital Management Report	http://reporting.standardbank.com/downloads/SBG_FY17_4_Risk%20and%20Capital%20Management%20Report.pdf
		2017 Application of King IV Principles	https://www.standardbank.com/pages/StandardBankGroup/web/docs/16012_SBG%20King%20IV%20application%20of%20principles.pdf
		Governance and Remuneration Report 2017	http://reporting.standardbank.com/downloads/SBG_FY17_2_Governance%20and%20Remuneration%20Report.pdf

Appendix A (cont.) – Annual reports used in the study

Banking Group	Financial year-end	Documents (annual reports) analysed	Source of annual reports
Capitec Bank Holdings Limited	28 February 2018	Integrated Annual Report 2018	https://resources.capitecbank.co.za/capitec_bank_integrated_annual_report_2018.pdf
		Summary of King IV™ Principal Disclosures	https://s3.eu-central-1.amazonaws.com/capitecweb/capitec_kingiv_register_20180423.pdf
Investec Limited	31 March 2018	Annual report 2018	https://www.investec.com/content/dam/investor-relations/financial-information/silo-entities-and-subsiary-accounts/2018/FINAL-Investec-Limited-18-June-2018.pdf
		Investec Bank Limited – Remuneration report (Pages 108 – 122) ^(*)	https://www.investec.com/content/dam/investor-relations/financial-information/silo-entities-and-subsiary-accounts/2018/FINAL-Investec-IBL-15-June-2018.pdf
		Investec Integrated Annual Report (Pages 185 – 244) ^(*)	https://www.investec.com/content/dam/investor-relations/financial-information/group-financial-results/2018/FINAL-Investec-DLC-Vol%201-15-June-2018.pdf

Note. ^(*)The Investec Limited annual report does not contain a remuneration report. The asterisked documents were therefore consulted as they discuss Investec remuneration related matters.

Appendix B – FSB indicator 1 – Tone from the top

FSB indicator 1 – Tone from the top – sub-indicators and, corresponding sub-sub-indicators and description

Tone from the top sub-indicators	Sub-sub-indicators ^(*)	Description
Leading by example	The board and senior management (B&SM) has a clear view of their aspired risk culture, monitor and assess the prevailing risk culture and address areas of concern.	The board and senior management have a clear view of the risk culture to which they aspire for the financial institution and of the behavioural and organisational consequences of this culture, systematically monitor and assess the prevailing risk culture and proactively address any identified areas of weakness or concern.
	The B&SM promote a risk culture that expects integrity and sound risk management.	The board and senior management, consistently within their specific roles and responsibilities, promote through behaviours, actions and words, a risk culture that expects integrity and a sound approach to risk management. ^(*)
	Directors have the tools to carry out their roles effectively, particularly their challenge function.	All directors have the tools, resources and information to carry out their roles effectively, particularly their challenge function. ^(*)
	The B&SM are committed to establishing a risk appetite framework that underpins the risk management strategy and is integrated with the business strategy.	The board and senior management are committed to establishing, monitoring, and adhering to an effective risk appetite framework, supported by appropriate risk appetite statement(s) that underpin the financial institution's risk management strategy, and is integrated with the overall business strategy.
	Mechanisms ensure that decision-making is not dominated by any one individual or group of individuals to the detriment of the institution.	Mechanisms are in place, such as talent development, succession planning, and confidential 360 degree review processes, to ensure that decision-making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the institution as a whole.
Assessing espoused values	The B&SM systematically assess whether the espoused values are communicated and promoted throughout the institution.	The board and senior management systematically assess whether the espoused values are communicated and proactively promoted by management and staff at all levels so that the 'tone at the middle' and throughout the institution is consistent with the 'tone at the top'.
	The B&SM assess whether the risk appetite framework and business strategy are understood by relevant staff, and embedded in decision -making and business operations.	The board and senior management assess whether the institution's risk appetite framework and business strategy are clearly understood and embraced by management and relevant staff, and effectively embedded in the decision-making and operations of the business.

Note. Information sourced from FSB (2014). ^(*)Information adapted from FSB (2014).

Appendix B (cont.) – FSB indicator 1 – Tone from the top

FSB indicator 1 – Tone from the top – sub-indicators and, corresponding sub-sub-indicators and description

Tone from the top sub-indicators	Sub-sub-indicators ^(*)	Description
Ensuring common understanding and awareness of risk	Mechanisms ensure that the risk appetite, risk management and business strategies are aligned and embedded in decision-making.	Appropriate mechanisms are in place to ensure the risk appetite, risk management strategy, and business strategy are effectively aligned and embedded in decision-making and operations at all appropriate levels of the institution.
	The B&SM have a clear view of business lines posing the greatest challenge in the management of risk.	The board and senior management have clear views on the business lines considered to pose the greatest challenges in the management of risk, such as business lines with unexpected or unexplained results or business lines with non-financial risks that may not necessarily lend themselves to immediate and easy quantification, and these are subject to constructive and credible challenge about the risk-return balance.
	B&SM systematically monitor how promptly and effectively matters raised by the board, regulators and control functions are resolved by management.	The board and senior management systematically monitor how promptly and effectively issues raised by the board, supervisors, and all control functions are addressed by management.
Learning from past experiences	Processes are in place to facilitate the review of risk management design, set-up or implementation deficiencies, in order to identify the root causes and to take the opportunity to strengthen the institution's risk culture.	Processes are in place so that deficiencies in risk management, either in respect of its design, setup or implementation, are reviewed at the appropriate levels of the institution, with a view to identifying the root causes leading to the deficiencies and taking the opportunity to strengthen the financial institution's risk culture.
	Lessons (failures or successes) learnt from past events are used to enhance the institution's risk culture and to make changes for the future.	Assessment and communication of lessons learnt from past events, both failures and successes, are seen as an opportunity to enhance the institution's risk culture, and to enact real changes for the future.

Note. Information sourced from FSB (2014). ^(*)Information adapted from FSB (2014).

Appendix C – FSB indicator 2 – Accountability

FSB indicator 2 – Accountability – sub-indicators and, corresponding sub-sub-indicators and description

Accountability sub-indicators	Sub-sub-indicators^(*)	Description
Ownership of risk	Clear expectations are set regarding the monitoring and reporting of, and response to, risk information across the institution, including from business lines and risk management to the board and senior management.	Clear expectations are set with respect to the monitoring and reporting of, and response to, current and emerging risk information across the institution, including from business lines and risk management to the board and senior management.
	Mechanisms facilitate information sharing within the institution of emerging, and low probability, high impact risks.	Mechanisms are in place for the sharing of information on emerging, as well as low probability, high impact risks, both horizontally across business lines and vertically up the institution.
Escalation process	Established escalation processes support risk management with defined consequences for non-compliance with the policies.	Appropriate escalation processes are established to support risk management and clear consequences for non-compliance with escalation procedures are defined.
	Assessments test employee awareness of escalation processes and their opinion of the environment's openness to critical challenge.	Systematic assessments are conducted on whether employees are aware of escalation processes and believe the environment is open to critical challenge.
	Established mechanisms allow employees to report their discomfort about products or practices.	Mechanisms are established for employees to elevate and report concerns when they feel discomfort about products or practices, even where they are not making a specific allegation of wrongdoing.
	Current whistleblowing procedures are expected to be used by employees without reprisal, with the treatment of whistle blowers articulated and followed.	Appropriate whistleblowing procedures are in place and are expected to be utilised by employees without any reprisal, to support effective compliance with the risk management framework; the treatment of whistle blowers is clearly articulated and followed in practice.

Note. Information sourced from FSB (2014). ^(*)Information adapted from FSB (2014).

Appendix C (cont.) – FSB indicator 2 – Accountability

FSB indicator 2 – Accountability – sub-indicators and, corresponding sub-sub-indicators and description

Accountability sub-indicator	Sub-sub-indicators^(*)	Description
Clear consequences	<p>All staff are held accountable for:</p> <ul style="list-style-type: none"> • not aligning with the institution’s values, risk appetite and risk culture by engaging in, or supporting, risk-taking that is excessive relative to the financial institution’s risk appetite statement; and • not adhering to internal policies, risk limits and codes of conduct. <p>Clearly established consequences can affect compensation, roles and responsibilities, career progression and may result in termination.</p>	<p>The chief executive officer, senior management and employees throughout the institution are held equally accountable for their actions and understand the consequences of:</p> <ul style="list-style-type: none"> • not aligning with the institution’s core values, risk appetite and risk culture by engaging in, or supporting, risk-taking that is excessive relative to the financial institution’s risk appetite statement ,regardless of whether positive revenue or net income was generated, and • breaching internal policies, procedures (including risk governance) and risk limits, as well as not adhering to internal codes of conduct. <p>Consequences are clearly established, articulated and applied and can affect an individual’s compensation, roles and responsibilities, career progression and, depending on severity, may result in termination.^(*)</p>

Note. Information sourced from FSB (2014). ^(*)Information adapted from FSB (2014).

Appendix D – FSB indicator 3 – Effective communication and challenge

FSB indicator 3 – Effective communication and challenge – sub-sub-indicators and, corresponding sub-sub-indicators and description

Effective communication and challenge sub-indicators	Sub-sub-indicators ^(*)	Description
Open to alternate views	<p>The B&SM promote healthy scepticism and challenge by providing alternative points of view that may result in a better decision.</p> <p>Alternative views from individuals and groups are encouraged, valued, respected and occur in practice.</p> <p>Staff training programmes develop effective challenge and open communication competencies.</p> <p>Existing mechanisms assess openness to robust challenge at all governance levels, as well as how it is embedded in decision-making.</p>	<p>The board and senior management promote healthy scepticism that encourages and supports openness to challenge by providing alternate points of view that may result in a better decision.^(*)</p> <p>Alternate views or questions from individuals and groups are encouraged, valued and respected and occur in practice. A culture of open communication and collaboration is constantly promoted to ensure that each employee’s view is valued and the institution works together to strengthen risk-related decision making.</p> <p>Training programs are available for all staff to develop effective challenge and open communication competencies.^(*)</p> <p>Mechanisms are in place to regularly assess the openness of the institution to robust challenge at all layers of governance and how it is embedded within the decision making process.^(*)</p>
Stature of control functions	<p>Control functions have the necessary organisational stature, participate in committees and are included in relevant risk decisions and activities.</p> <p>Control functions have sufficient stature to effectively impose control tasks with respect to the institution’s risk culture.</p> <p>Control functions operate independently and have direct access to the board and senior management, and can report to the board.</p>	<p>Control functions (e.g. risk management, internal audit, compliance) share the same stature as the business lines, actively participate in committees and are proactively involved in all relevant risk decisions and activities.</p> <p>Control functions, including their respective representatives, have sufficient stature not only to act as advisors, but to effectively exert control tasks with respect to the institution’s risk culture.</p> <p>Control functions operate independently, have appropriate direct access to the board and senior management and a process is in place for them to periodically report to the board.</p>

Note. Information sourced from FSB (2014). ^(*)Information adapted from FSB (2014).

Appendix E – FSB indicator 4 – Incentives

FSB indicator 4 – Incentives – sub-indicators and, corresponding sub-sub-indicators and description

Incentives sub-indicators	Sub-sub-indicators ⁽¹⁾	Description
Remuneration and performance	<p>The compensation structure and incentive compensation programmes:</p> <ul style="list-style-type: none"> • support the institution’s espoused core values, • promote effective alignment of compensation with prudent risk-taking, • promote respect for risk limits; and • are supported by a well-documented process (such as a remuneration policy document). <p>Remuneration and performance metrics, annual performance reviews and objective-setting processes consistently support and promote:</p> <ul style="list-style-type: none"> • desired risk taking behaviours, risk appetite and risk culture of the financial institution, • the institution’s desired core values and behaviours, • employee actions that further the interest of the company, rather than for themselves or their business line, • compliance with policies and procedures, including addressing deficiencies noted by internal audit and regulators, • proper treatment of customers; and • co-operation with internal control functions and supervisors. 	<p>The compensation structure supports the institution’s espoused core values and promotes sound risk-taking behaviour and is supported by a well-documented process.</p> <p>Remuneration and performance metrics consistently support and drive the desired risk taking behaviours, risk appetite and risk culture of the financial institution, and encourage employees to act in the interest of the greater good of the company, rather than for themselves or their business line.</p> <p>Annual performance reviews and objectives-setting processes are linked to promoting the institution’s desired core values and behaviours as well as compliance with policies and procedures, including addressing in a timely manner deficiencies highlighted by internal audit and supervisory findings.</p> <p>Incentive compensation programs systematically include individual and group adherence to the financial institution’s core values and risk culture, including treatment of customers, cooperation with internal control functions and supervisors, respect of risk limits, and alignment between performance and risk.</p>

Note. Information sourced from FSB (2014). ⁽¹⁾Information adapted from FSB (2014).

Appendix E (cont.) – FSB indicator 4 – Incentives

FSB indicator 4 – Incentives – sub-indicators and, corresponding sub-sub-indicators and description

Incentives sub-indicators	Sub-sub-indicators ^(*)	Description
Succession planning	Succession planning for key management includes risk management experience.	Succession planning processes for key management positions include risk management experience and not only revenue-based accomplishments; for instance, the chief risk officer, chief compliance officer, and chief audit executive can be considered as potential candidates for executive positions, including the chief executive officer.
Talent development	Understanding key risks, risk management and institutional culture are reflected in senior employees' development plans.	Understanding key risks, essential elements of risk management, and the institution's culture is considered a critical skill set for senior employees and reflected in their development plans.
	Job rotation between control and line functions facilitates the transfer of risk and business skills.	Job rotation between control functions and business lines is considered a way to facilitate a virtuous cycle for bringing business knowledge to the control functions and introducing risk awareness to the decision-making process of the business line.
	Training programmes develop risk management skills including the elements supporting risk culture.	Training programs are available for all staff to develop risk management competencies and, more broadly, the elements supporting a sound risk culture. ^(*)

Note. Information sourced from FSB (2014). ^(*)Information adapted from FSB (2014).

Appendix F – Letter requesting bank participation in the current study

Dear [Company Secretary]

I am conducting an academic study on the risk culture of SA banking groups (banks). This study links to the increased international attention to behavioural aspects of risk supervision by regulators such as the Financial Stability Board (FSB). Several accredited academic journals have expressed a keen interest in publishing the research results which will be co-authored by Prof Hermien Zaaïman from the North-West University's Centre for Applied Risk Management.

The academic article is tentatively entitled 'Risk culture insights from annual reports: a big six South African banking group study'. As [your bank] is one of the six banks forming part of the study we want to ensure that the information we report is accurate by giving your group the opportunity to contribute to the study. Because the information used in the research is available in the public domain, [your bank] will be identified in the study.

This qualitative study explores the degree to which non-financial risk-related information reported by JSE listed banks in their latest annual integrated, financial or possibly other web-based reports (annual reports) could be useful in facilitating stakeholder assessment of the risk culture maturity of the bank. Risk culture is described by the FSB as an 'institution's norms, attitudes and behaviors related to risk awareness, risk-taking and risk management'. We are benchmarking the above-mentioned reports against sound risk culture indicators or practices set out in the following FSB documents:

- Guidance on Supervisory Interaction with Financial Institutions on Risk Culture - A Framework for Assessing Risk Culture
- FSF (now FSB) Principles for Sound Compensation Practices
- FSB Principles for Sound Compensation Practices Implementation Standards

We are certain that any published research results would be of interest to your organisation and to wider society as our intention is to assist banks to optimise the existing good work in sharing risk-related information with stakeholders. In this regard, we are approaching each of the banks forming part of our study to indicate where they show compliance with the FSB sound risk culture indicators in their annual report information. We shall provide the banks a FSB indicator template for this purpose. The experienced senior risk practitioner within your organisation who contributed to the finalisation of your annual reports will probably be the best person to efficiently complete this template.

We would be grateful if your organisation could contribute to the under-researched topic of risk culture in South African banks and look forward to hearing from you on this.

Yours sincerely,

George Cavaleros CA(SA) CFA