MFSA MALTA
FINANCIAL
SERVICES
AUTHORITY

FREQUENTLY ASKED QUESTIONS (FAQS) ON THE MFSA'S RISK CULTURE STATEMENT

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REVISIONS LOG

VERSION	DATE ISSUED	DETAILS
1.00	6th January 2020	FAQ on the MFSA's Risk Culture Statement

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FAQ 1 - What do we mean by Risk Culture?

The Malta Financial Services Authority's ("MFSA" or "the Authority") Risk Culture describes the set of shared attitudes, values and behaviours that characterise how the Authority and its staff consider risk in their day-to-day activities. The MFSA aims to foster a positive Risk Culture.

FAQ 2 – What is Risk Culture in an organisation?

According to the Institute of Risk Management, Risk Culture is the sum of the organisation's "shared values, beliefs, knowledge, attitudes and understanding about risk, shared by a group of people with a common intended purpose, in particular the leadership and employees of an organisation".

FAQ 3 – Why is Risk Culture so important?

Risk Culture is the glue that binds all elements of risk management infrastructure together, since it reflects the shared values, goals, practices and reinforcement mechanisms that embed risk into an organisation's decision-making processes, and risk management into its operating processes.

FAQ 4 – What constitutes a positive Risk Culture?

A positive Risk Culture consistently supports appropriate risk awareness, behaviours and judgements about risk-taking within a strong risk governance framework. A positive Risk Culture reinforces effective risk management, promotes sound risk-taking, and ensures that emerging risks or risk-taking activities beyond the Authority's risk appetite are recognised, assessed, escalated and addressed in a timely manner.

FAQ 5 – What are the elements that support a positive Risk Culture?

The foundational elements that support a positive Risk Culture, include:
- Effective risk governance. Governance processes should be designed to work against the erosion of risk management practices through changing business and economic environments.
- Effective risk appetite frameworks. A sound Risk Culture is a substantial determinant of whether an institution can successfully execute its agreed strategy within its defined risk appetite.
- Compensation practices/incentives that promote appropriate risk-taking behaviour. Compensation should take account of the risks which staff take on behalf of the Authority and the staff's performance in meeting the institution's risk, compliance, and other important policies.

FAQ 6 – What are the indicators of a positive Risk Culture?

There are several indicators or practices that can be indicative of a sound Risk Culture, including:

- Tone from the top: The Board and Senior Management are the starting point for setting the MFSA's core values and expectations for the Risk Culture of the Authority, and their behaviour must reflect the values being adopted. A key value that should be promoted is the expectation that staff act with integrity (doing the right thing) and promptly escalate observed non-compliance within or outside the Authority (no surprises approach). The leadership of the MFSA promotes, monitors, and assesses the Risk Culture of the Authority, considers the impact of culture on safety and soundness, and makes changes where necessary.

- Accountability: Relevant employees at all levels understand the core values of the Authority and its approach to risk, can perform their prescribed roles, and are aware that they are held accountable for their actions in relation to the MFSA's risk-taking behaviour. Staff acceptance of risk-related goals and related values is essential.

- Effective communication: A sound Risk Culture promotes an environment of open communication and the embracing of the Authority's values, in which decision-making processes encourage a range of views. This also allows for testing of current practices, stimulates a positive, critical attitude among employees, as well as promotes an environment of open and constructive engagement.

- Incentives: Performance and talent management encourage and reinforce maintenance of the Authority's desired risk management behaviour. Financial and non-financial incentives support the core values and Risk Culture at all levels of the Authority.