

RISK CULTURE STATEMENT

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REVISIONS LOG



VERSION	DATE ISSUED	DETAILS
1.01	30/01/2020	Risk Culture Statement

1. Attributes of the risk culture that MFSA wishes to adopt

The Malta Financial Services Authority (MFSA or Authority) aims to foster a positive risk culture. Risk culture refers to the set of shared attitudes, values and behaviours that characterise how an entity considers risk in its day-to-day activities.

A positive risk culture promotes an open and proactive approach to managing risk that considers both threat and opportunity, and is one where risk is appropriately identified, assessed, communicated and managed across all levels of the entity.

Senior management and other identified individuals are responsible for driving the risk culture through initiatives and processes. All senior staff should proactively provide feedback through normal reporting channels on external interactions with key stakeholders regarding areas of potential risk. Every employee also has a role to play in contributing positively to this culture.

It is important to note that risk influences the outcome of all work undertaken by the Authority and that all staff understand, accept and manage risk as part of their everyday decision-making processes.

2. Road map for implementing the MFSA risk culture change programme

The MFSA will adopt a customised approach for the implementation of its Risk Culture change programme based on best practice frameworks developed by International Risk Management Institutions and other Regulatory Authorities.

The initial focus should be on building cultural awareness, predominantly through communications and education.

Cultural improvement will potentially require meaningful changes to established ways of operating.

Once the desired risk culture has been established, the organisation should seek to continually refine it to reflect ongoing changes in business strategy.

This best practice approach can be further illustrated as follows:



Cultural awareness

The risk culture awareness stage involves the following aspects:

- Establishing the basic expectations for managing risk
- Defining relevant roles and responsibilities around risk
- Continuous communication from top management
- Educating employees about risk.

Cultural Change

The next step after the cultural awareness stage is to develop a motivational system to reward the desired risk behaviour and discourage wrong behaviour. Tangible actions should be taken to continuously improve risk culture and track performance over time.

The four risk culture indicators are:

1. Tone at the top
 - a. Risk leadership is to provide clarity on the Authority's risk direction, including MFSA's Risk Appetite
 - b. Values for acceptable behaviour are to be instilled in relation to risks within the MFSA.

2. Governance
 - a. Accountability for managing risk should be clearly defined in policies and procedures
 - b. Risk information should be transparent and provided on a timely basis.
3. Decision Making
 - a. Risk decisions are properly informed and communicated
 - b. Appropriate risk taking is rewarded
 - c. Performance management should have an element linked to risk taking.
4. Competency
 - a. The Risk Management Function should be provided with the required resources and empowered to perform its duties throughout the Authority.
 - b. Risk Management skills should be embedded across the Authority.
 - c. Risk officers are to be appointed within each function

In designing strategies to change the risk culture, an effective review process can be used to identify the root cause of any behavioural shortcomings or weaknesses. Communications and training alone will not be effective without the understanding of underlying drivers of risk attitudes and behaviours.

Assessment and communication of lessons learned are an opportunity to enhance the MFSA's risk culture and enact real change for the future.

Where possible, it can be useful to integrate any risk management improvement initiatives with other major change programmes taking place within the entity.

Cultural Refinement

The next step is to start monitoring the risk cultural performance in order to determine whether outcomes are being achieved as expected. In addition, risk culture needs to be assessed in light of the progress achieved, also taking into account any emerging areas, to determine whether and how these changes can be adapted to.

3. Maintaining a culture of risk awareness

All staff should be familiar with the identified MFSA risks by reference to the MFSA Risk appetite and Functional Risk Registers. MFSA staff should remain vigilant and continuously scan the Authority's environment for new risks. They should also be alerted to the possibility of recalibrating previously identified risk to ensure that the controls which are in place to reduce the risk to an acceptable level, remain adequate and in line with the Authority's identified risk appetite and tolerances. In the first instance, staff should raise any suggestions relating to new or identified MFSA risks with the Head of Risk or their Function Risk Officer.

4. How risk management is currently embedded into existing MFSA business processes

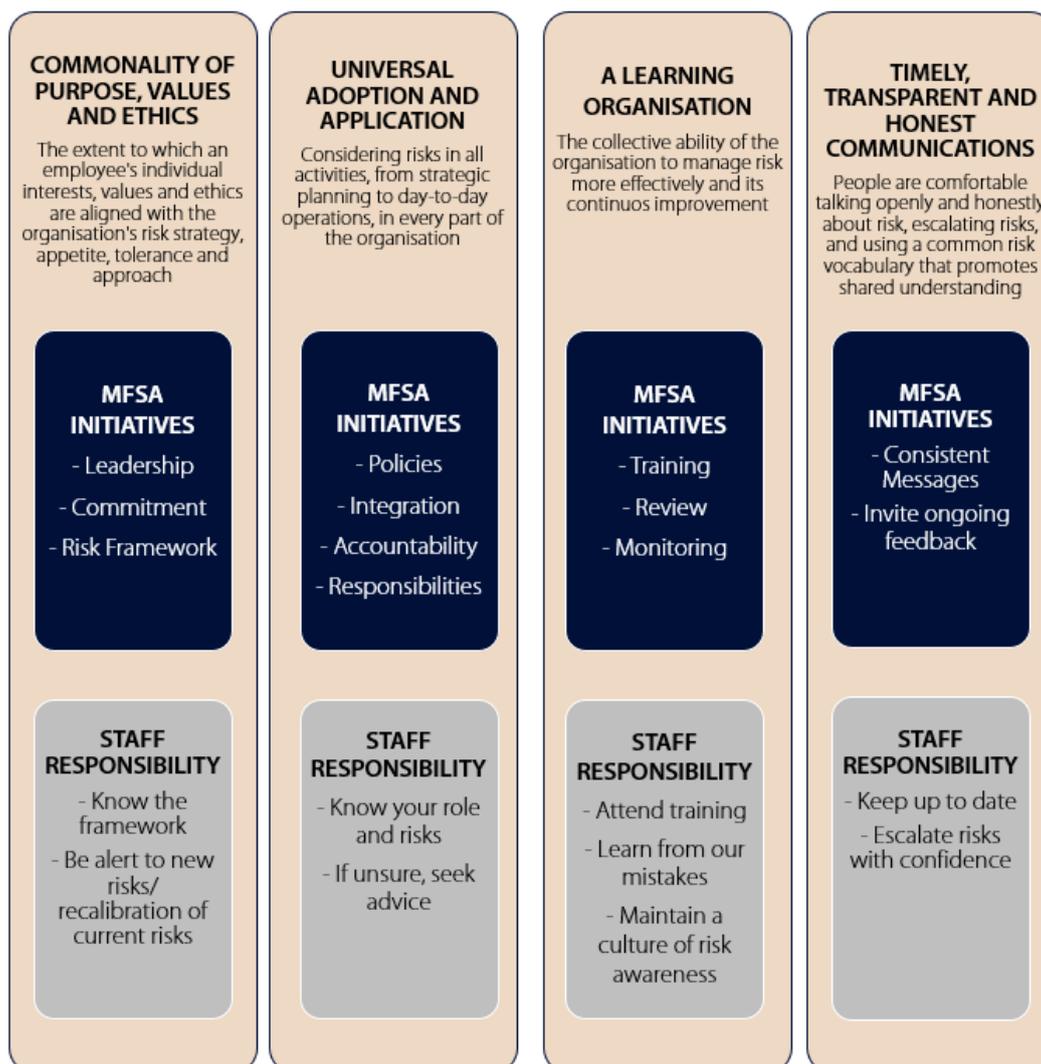
The MFSA's management of risk is designed to be built into business-as-usual practices with the aim of using consistent language, approaches and documentation across all levels of the organisation.

Risks need to be managed in the context of achieving organisational goals and objectives. Consideration should be given to positive aspects of risk management (opportunities) as well as negative ones (threats). While staff at all levels contributes to the way risks are managed, senior staff in key positions are expected to have a clear view of the risk treatment (where applicable) and its effectiveness in operation.

The Authority has adopted an integrated approach to managing risk, whereby risks are considered and assessed at different levels within the organisation. The identification and assessment of risks do not occur in isolation but require the consideration of risks identified and treated at other levels.

Any significant risks are to be escalated to ensure that these are appropriately treated, and the residual risk (the risk remaining after risk treatment – ISO/Guide 73:2009 - Risk Management Vocabulary) reduced to an acceptable level. All risk assessments, including their identification, controls, likelihood, consequence, and residual risk rating should be documented consistently across the MFSA. Controls embedded within the MFSA's current business processes are identified as part of the risk evaluation process.

The figure below provides an overview of the attributes of a strong risk culture, the initiatives undertaken by the MFSA to foster a strong risk culture and the associated responsibilities of all staff to contribute to this culture.



5. Fostering innovation

Innovation has been defined as the "creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in the efficiency, effectiveness or quality of outcomes".

Risk management is fundamental to the innovation process since innovation in itself necessitates a degree of risk-taking. In this respect, risk avoidance would be an impediment to innovation and to making the Authority's activities future-proof.

The MFSa encourages staff to give due consideration to a range of options beyond a default or safe approach during the application of the Authority's risk management processes, particularly since this relates to the conduct of an audit. Where appropriately managed, the introduction of innovation to existing approaches can increase the beneficial outcomes for the organisation as a whole.

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