

Secretariat to the Financial Stability Board  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel  
Switzerland

31 January 2014

Dear Sirs,

## **Consultation Document on 'Guidance on Supervisory Interaction with Financial Institutions on Risk Culture'**

ILAG is a trade body representing members from the Life Assurance and Wealth Management Industries.

ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually, and collectively, for the benefit of members and their customers.

A list of ILAG members is at the end of this submission.

### **General Comments**

ILAG's Risk Management Practitioner Group has considered the consultation and, rather than responding to the detailed questions, has some general comments to make. ILAG recognises the importance attributed to the attitudes of individuals and groups employed in financial institutions, in terms of certain aspects of decision making, when managing the institution.

Where these aspects relate to risk taking, this seems to have acquired the name 'risk culture'.

Over recent years the amount of work carried out in the name of risk culture, by academics and others, is significant and growing. This work seems to challenge some of the foundations of earlier work, amongst other things:

- Whether there is one 'culture'
- Whether 'culture' can be controlled and directed or whether it can only emerge and be observed retrospectively
- Whether the attitude of an individual or a group is sensitive to context and displays different attitudes to risk depending on that context

It seems likely that the simple fact of observing and measuring a 'culture' will modify and influence the behaviour in the short term and the culture in the longer term.

We do question whether the 'real' culture can ever truly be 'observed' by outsiders.

ILAG would counsel caution in providing guidance in an area that is clearly under-developed in terms of a common understanding.

It would be unfortunate to hard-wire global supervisory systems to a process that may become discredited over time.

An alternative is to caveat heavily any guidance given to Supervisors to indicate that the guidance itself will evolve through experience and advances in understanding. We note that this important issue is mentioned in a footnote in the introduction and we think that it should be given greater prominence.

Nevertheless, we do agree that the four 'Indicators of a sound risk culture' are highly influential in promoting a culture and set of behaviours likely to promote considered risk-taking.

As an alternative approach, supervisors could be armed with a set of probing questions along the lines of those developed in the London School of Economics document which can be found here ([link](#)) and require boards to provide answers from their own work.

If you have any questions on our response, please forward them to [ian.sams@ilag.org.uk](mailto:ian.sams@ilag.org.uk). Alternatively if you would prefer to discuss our comments we can arrangements for this to take place.

Yours faithfully,

**Graeme Charters**  
**Chair**  
**ILAG Risk Management Practitioner Group**

## ILAG Membership

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Ageas Protect	Mazars LLP
AXA Wealth	Met Life UK
Barnett Waddingham	Metfriendly
Bond Dickinson	MGM Advantage
Canada Life Limited	Milliman
Capita Group	OAC Actuaries and Consultants
CGI	Pacific Life Re
Defaqto Ltd	Partnership Assurance
Deloitte LLP	Phoenix Group
Ecclesiastical Insurance Group	Pinsent Masons LLP
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Family Investments	PruProtect
Fil Life Insurance Limited	Reliance Mutual Insurance Society Ltd
Foresters	RGA Reinsurance UK Limited
Friends Life	Royal London Group
General Reinsurance (London Branch)	Sanlam UK Ltd
Grant Thornton	SCOR Global Life UK
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