Reviewed by Ernest Gnan, Secretary General SUERF

One of the important lessons from the financial crisis is that an overemphasis on return and a neglect of risks associated with high-return business strategies may lead to disaster, both for individual institutions and to the financial system as a whole. Reregulation of the financial sector therefore has as an overarching goal to limit risks taken on by financial firms, in particular if the latter are systemically important. This is achieved through complex and detailed rules and ratios to be observed by the firms, and through massive reinforcement of supervision (including the centralisation of the supervision of systemically important banks in the Euro Area at the SSM). At the same time, supervisory authorities are increasingly becoming aware of the importance of risk culture and risk governance within financial firms, as evidenced by various documents published recently by the Financial Stability Board (see http://www.financialstabilityboard.org/).

The financial sector has come out of the crisis with its reputation severely damaged by its pre-crisis neglect of risk, leading in many cases to the need for governmental support during the crisis. Misconduct of individual financial firm staff have added to the loss of public trust in the financial industry. In addition to strict adherence to the new regulatory rules, financial firms must therefore manage to convince their stakeholders, politics and the public at large of their commitment to “responsible banking”. Patricia Jackson’s book addresses an issue that is central both to financial firms’ reliable and systematic compliance with prudential regulation and to their ability to re-establish trust: risk culture and effective risk governance within financial firms.

To deal with this relatively new and complex topic, Ms Jackson, who is a member of the EY Global Regulatory Network and a previous senior official at the Bank of England, has gathered an impressive line-up of experts from central banks, regulators, financial firms, consultancies and academia, including e.g. Andrew Bailey, Vice Governor of the Bank of England, Carol Sergeant from Danske Bank, Sylvie Mathérat from the Banque de France and Michael Alix from the Federal Reserve Bank of New York. This broad portfolio of authors allows the book to bring together the numerous disciplines required to decently deal with the topic, notably economics, finance, supervision, business ethics, human resources, accounting, internal auditing, operations, and data management. This multidisciplinary approach allows the book to treat the subject from many angles and to provide crucial insights for supervisors, managers and staff involved in the setup of effective risk control and governance schemes but also for financial firms’ shareholders and customers.

This is a deep and a practical book at the same time. It asks fundamental questions regarding values, the sources of risky behaviour within organizations - from the Board level to the individual employee, or how search for yield, mindless cost-cutting, “risk creep” and failure to see the big picture can lead to an undesirable accumulation of risk. It also discusses very practical measures to be taken at the Board level, in internal audit, and with regard to incentive and reward schemes for

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various levels of management and staff. It discusses how “risk appetite” can be translated into clear metrics that can be controlled against and monitored. It emphasises the importance of data and IT for a strong risk culture, or the role of whistleblowing in risk culture and governance – to mention just a few aspects that are covered.

This book is a must-read for any Board Member and Executive Board Member, HR Managers and Risk Officers of any medium to large financial firm. Central bankers and supervisors should equally be aware of its content. And indeed, it may be of considerable value to (top) managers outside the financial sector, in all firms and areas where risk and its effective management are important.

Given the huge damage that this book may help to prevent for individual firms and the financial and economic system at large, the GBP 145 (or 110) asked for a print (or electronic) copy are more than justified.

Editor biography
Patricia Jackson advises major financial institutions on risk governance covering areas such as risk appetite, risk culture and stress testing.

She is a member of the EY Global Regulatory Network, having joined EY as a partner in in 2004 to lead the banking risk practice. She has led an annual EY/IIF industry survey on risk governance since the crisis. Previously, Patricia was a senior official at the Bank of England and head of the Financial Industry and Regulation Division.

She represented the UK on the Basel Committee for Banking Supervision, and is the non-executive deputy chairman and chair of the risk committee of CHAPS Co. Patricia is an adjunct professor at Imperial College, on the council of SUERF and a trustee of the Centre for Economic Policy Research, and has published papers on risk topics and the global financial crisis.

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