

## Prioritise people risk Margaret Ferns Steve Eastwood

*Over the last year or so BR has worked very closely with its media partner PRiM (the Association of Risk Management Professionals in Luxembourg) to bring the issue of risk management to the fore and stress the importance of efficient checks and balances that are continually monitored for their effectiveness.*

We have brought you articles on current market turbulences; model risk; microfinance; ICAAP; training; credit ratings agencies and people risk.

At the start of this month's Human Resources feature we return to the subject of risk management once more; specifically to the issue of people risk management. Along with PRiM, BR has the impression that this issue is either not recognised at all, or is at best considered a purely HR issue and therefore does not always have the engagement of top management.

### People are operational too

Michael May and Marco Zwick, Chairman and Board Member of PRiM respectively, joined BR in an interview recently to make it very clear why people risk must not be ignored. May began by providing some background. "Discussions on operational risk have become almost commonplace since the 1990s," he explained, "yet the topic of people risk – which forms part of operational risk – has received relatively little attention." Indeed,

in the Basel II definition of operational risk, the word "human" appears only once where it refers to, "the risk of loss resulting from inadequate or failed processes or systems, human factors or external events."

The problem is, in May's view, that, "People are more difficult to manage than systems and processes and key risk indicators don't always work well when trying to measure people risk." However, measured and mitigated it must be if companies are to avoid the potential problems, even disasters, that poorly managed people risk can bring – fraud, absenteeism, errors, resignations... Zwick provided a possible definition of one aspect of people risk, which hammered home this point.

### To costly to ignore

"People risk includes the risk of loss resulting from one or more key individuals or specialists teams leaving the company, who »

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Michael May

» are either vital to the running of the organisation and/or responsible for generating significant revenues. People risk also includes the lack of availability of skilled resources." Looking at people risk from this angle and considering today's recruitment market where, despite rising unemployment, skilled labour is a scarcity, can anyone really afford to brush the issue of people risk aside?

According to Zwick, "Absolutely not. If people risk is not given priority, by all management, there is a very real danger that a business could fail." But just how do you effectively mitigate

people risk? It is a fact that the other "processes or systems" referred to in the Basel II definition of operational risk are much easier to deal with.

### People management key

"It comes down to two things," said May. "One is the culture of the company and the other is the quality of the managers." In his experience, "We have a shortage of good people managers. In Luxembourg at the moment companies are crying out for specialists, but very few recruit a manager primarily because he

can exhibit good people management skills." Zwick agreed, adding simply, "To mitigate people risk, get good people managers."

However, in the coming months many companies will be struggling simply to survive. May urged them, nevertheless, not ignore this issue. "It is vital that companies don't cut back on managers with strong "soft skills"." Such short term thinking risks the possibility of poor people management, which increases people risk, which, in turn, can lead to failure.

At PRiM they are not suggesting that companies pay more atten-

tion to people than to solid risk management systems and processes, but that the risk they represent is taken just as seriously by all management; not just by HR. As May put it, "Systems and processes are lead by humans and, just as we cannot cut corners with them, nor should we be complacent about our people.

Companies need to create the right culture and values, and then continue to benchmark their people (from recruitment though to retirement) against these values to be certain of the right fit."

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