

## Risk culture evaluation: A case study of Islamic Bank XYZ

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### ABSTRACT

In response to the 2007–2009 financial crisis and various instances of risk management failures impacting financial institutions, regulators and companies have become increasingly aware of the critical role that risk culture plays in enhancing the effectiveness of risk management within financial organizations. Recently, Bank XYZ has experienced a significant rise in losses due to operational incidents closely linked to aspects of its risk culture. This study utilizes the Financial Stability Board's (FSB) Sound Risk Culture Indicators framework to assess the strength of the risk culture at Bank XYZ. Data was collected through questionnaires completed by 44 respondents, interviews with two senior leaders, and a review of relevant documents. The findings reveal that, overall, Bank XYZ demonstrates strong risk culture indicators, though there are areas for improvement, including: the articulation of leadership's risk culture aspirations, the establishment of clear reporting channels for products and practices, the processing of significant past incidents as lessons learned, the systematic evaluation of risk culture aspects, and the strengthening of the control function's roles and authority in business decision-making. This study provides valuable insights into the resilience of an Islamic bank's risk culture in Indonesia, using the FSB's Sound Risk Culture Indicators.

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## INTRODUCTION

Banks are required to ensure the overall effectiveness of risk culture as part of the implementation of the internal control system at all levels of the organization ([Financial Services Authority, 2016](#)). Risk culture is considered a fundamental factor behind the 2007–2009 financial crisis and various corporate governance failures due to weaknesses in risk management ([Financial Stability Board, 2014](#)). The establishment of a robust risk culture is instrumental in ensuring the effectiveness of corporate risk management, both in financial institutions ([Financial Stability Board, 2014](#); [Basel](#)

[Committee on Banking Supervision, 2021](#)) and non-financial institutions ([Bockius & Gatzert, 2023](#)). Effective risk management yields long-term benefits, including sustainability, regulatory compliance, fewer business surprises, and improved company performance.

Bank XYZ is a leading Islamic bank offering a diverse range of products and services across Indonesia and internationally. To support sustainable business performance, Bank XYZ employs an integrated approach to risk management (Enterprise Risk Management) based on the risk management framework established by BCBS (2021). Strengthening risk awareness through the internalization of a risk management culture is crucial to ensuring the effectiveness of Bank XYZ's risk management practices (XYZ Bank, 2023).

In recent years, Bank XYZ has experienced significant losses due to internal fraud and process errors, including issues in execution, delivery, and process management. Internal fraud can stem from weak employee integrity, compensation structures focused on short-term gains, and a lack of clear understanding or consequences for violations ([Kassem & Higson, 2012](#)). Process errors, on the other hand, can result from ignorance, negligence, lack of caution, or failure to execute processes properly ([Basel Committee on Banking Supervision, 2022](#)). These factors, contributing to internal fraud and process errors, are closely linked to risk culture, encompassing collective attitudes and behaviors influenced by leadership tone (tone from the top), accountability, communication, a culture of discussion, and incentive practices.

There is a limited body of research focused on risk culture assessment case studies, particularly those using the FSB's Sound Risk Culture Indicators framework. This research aims to address this gap by evaluating the soundness of risk culture in an Islamic bank through the application of the FSB's Sound Risk Culture Indicators. The objective is to answer the research question: "How strong is Bank XYZ's risk culture, as measured by the FSB's Sound Risk Culture Indicators?" Data were collected through questionnaires distributed to the Head of the Risk Management Division, Chief of Human Capital, and selected employees. The questionnaire results were further clarified and confirmed through interviews with the Head of the Risk Management Division and Chief of Human Capital, as well as a review of formal documents from Bank XYZ. The questionnaire data were analyzed using descriptive statistics, while open-ended responses, interviews, and document reviews were analyzed through data flow analysis. The findings aim to provide a clear and comprehensive picture of the risk perceptions and behaviors within the bank.

## **Literature Review**

### ***Risk Culture Definition***

There are various definitions of risk culture. However, in general there is a common emphasis from various academic and practitioner literature regarding the meaning of risk culture, namely the general attitude and behavior of organizations towards risk and how to handle it ([Kunz & Heitz, 2021](#)). Through a literature review, Heicke and Gatzert ([Bockius & Gatzert, 2023](#)) summarize five general characteristics of risk culture: it is part of the organizational culture; is a key element of enterprise risk management (ERM); is a shared perception of employees; considering potential negative and positive risks (downside and upside risks/opportunities); and has implications for strategic and operational actions (risk-taking and control).

### ***Risk Culture Assessment***

To assess the actual condition of risk culture in an organization, several parties (supervisory and regulatory associations, professional associations, consultancy companies, researchers in the field of risk management) have developed a risk culture framework based on indicators or manifestations of risk culture in the company's operational activities ([Bockius & Gatzert, 2023](#)). [Heike and Bockius \(2023\)](#) conducted a structured literature review of 83 peer-reviewed academic articles which resulted

in a summary of 5 main dimensions of risk framework assessment: tone from the top, risk awareness and understanding, accountability, communication and escalation, and manifestation in decisions.

This research uses the FSB (2014) Sound Risk Culture Indicators assessment framework, which is one of the frameworks that reflects all (or at least most) of the main dimensions of risk culture assessment proposed by [Heike and Bockius \(2023\)](#). This framework consists of the themes of tone from the top, accountability, escalation and communication, and incentives. Each theme has more specific and measurable derivative indicators. In addition, the FSB risk assessment framework is more compatible for use by Bank XYZ because of two things: Bank XYZ is supervised and regulated by the Financial Services Authority (OJK) which is a member of the BCBS and FSB. Secondly, Bank XYZ specifically also uses the main BCBS reference framework in implementing its risk management.

There are several literature regarding risk culture case studies with a qualitative approach, both covering aspects of risk culture as a whole and focusing on certain aspects. [Azria and Diyanty \(2023\)](#), [Mulyono et al. \(2019\)](#), and [Salamah and Wijanarko \(Salamah & Wijanarko, 2020\)](#) conducted a case study of risk culture in the public sector using the Risk Culture Aspect Model framework from IRM (The Institute of Risk Management, 2012). Case studies that focus on certain aspects of risk culture include risk governance in insurance companies ([Kalpur, Agarwal, & Sanjay, 2018](#)), risk subcultures at different management levels ([Meiring, 2016](#)), and leadership aspects in telecommunications companies ([Kurnia, 2017](#)). [Cavaleros \(2019\)](#) conducted a risk culture assessment using the FSB's Sound Risk Culture Indicators framework based on qualitative analysis of the annual reports of six banks in Africa, while [Padayachee \(2016\)](#) used the FSB as a reference in compiling a questionnaire for his quantitative case study. This article enriches the treasury of risk culture case study literature with the novelty of using the FSB risk culture framework in banks in Indonesia using primary (interviews, questionnaires) and secondary company data.

## METHOD

### Research Design

This research uses a case study approach with qualitative methods to explore and then evaluate the strength of risk culture practice at Bank XYZ according to narratives of FSB's Sound Risk Culture Indicators. Data collection was carried out over two months (October-November 2023) through closed-question and open-question online questionnaires, interviews with semi-structured questions to two key respondents, and a review of XYZ Bank's formal documents. Data from interviews, questionnaires, and a list of documents reviewed are attached.

### Participants/Sample Selection and Data Sources

Samples for questionnaires are selected purposively to represent most work units in the head office. Interview participants are the head of risk management division and chief of human capital which selected based on key information they possess for risk culture and corporate culture themes respectively, and document reviews are conducted based on confirmation needs from questionnaires and interview results and access permission.

### Data Collection

To ensure that sensitive questions are answered honestly and openly, we emphasize in writing (at the opening/beginning of the questionnaire) and orally (during interviews) the importance of the research for Bank XYZ as well as the confidential nature of the research results (including the anonymity of respondents). In addition, to ensure that respondents clearly understand the points of the indicators being assessed, we simplified several indicators with sentence structures that were considered complex. The researcher worked at Bank XYZ for 4 years (2018-2022) and specifically in

the risk management division for almost a year (2018-2019). This helped us gain access to data and build closeness with respondents to provide information honestly and openly.

Tabel 1. Sound Risk Culture Indicators

No	Indicators	#	Sub-Indicators	Sub-sub-Indicators
1	Tone from the Top	1.1	Leading with examples	6
		1.2	Assessing espoused values	2
		1.3	Ensuring common risk understanding and awareness	3
		1.4	Learning from past experiences	2
2	Accountability	2.1	Risk ownership	3
		2.2	Escalation Process	4
		2.3	Clear consequences	2
3	Effective Communication and Challenge	3.1	Openness to alternative views	2
		3.2	Stature of control functions	3
4	Incentive	4.1	Remuneration and performances	4
		4.2	Succession Planning	1
		4.3	Talent development	3
Total				35

Source: FSB,(2014)

Questionnaire data collection was carried out online (via Google Form) and purposively. There are 37 FSB Sound Risk Culture Indicators to assess their suitability to the actual conditions of Bank For the record, there are 35 indicators in the FSB document, but we have made modifications to simplify complex sentences to be simpler. These indicators were then mapped to the relevant key respondents: 21 indicators were assessed by the Head of the Risk Management Division, 10 indicators by the Human Capital Executive Leader, 5 indicators by the Head of the Risk Management Division and employees, and 1 indicator by the employee. A questionnaire to employees was conducted to obtain general perceptions regarding risk culture practices at large. Employee respondents are required as follows: be permanent employees, work at the head office, have worked at Bank XYZ for more than one year, and have at least one certification in the field of risk management. This requirement is established so that employees who fill out the questionnaire have sufficient experience and attention to observe company cultural practices (including management practices) and have sufficient basic knowledge regarding risk management. After both respondents filled out the questionnaire, online interviews were conducted (approximately 60 minutes each) to clarify the results of the questionnaire and explore certain aspects of risk culture. The interview questions are a selective exploration of risk culture indicators. Document reviews were carried out to complete and confirm the results of interviews and questionnaires, e.g. risk management general policy, risk appetite framework and statement, GCG report, and annual report.

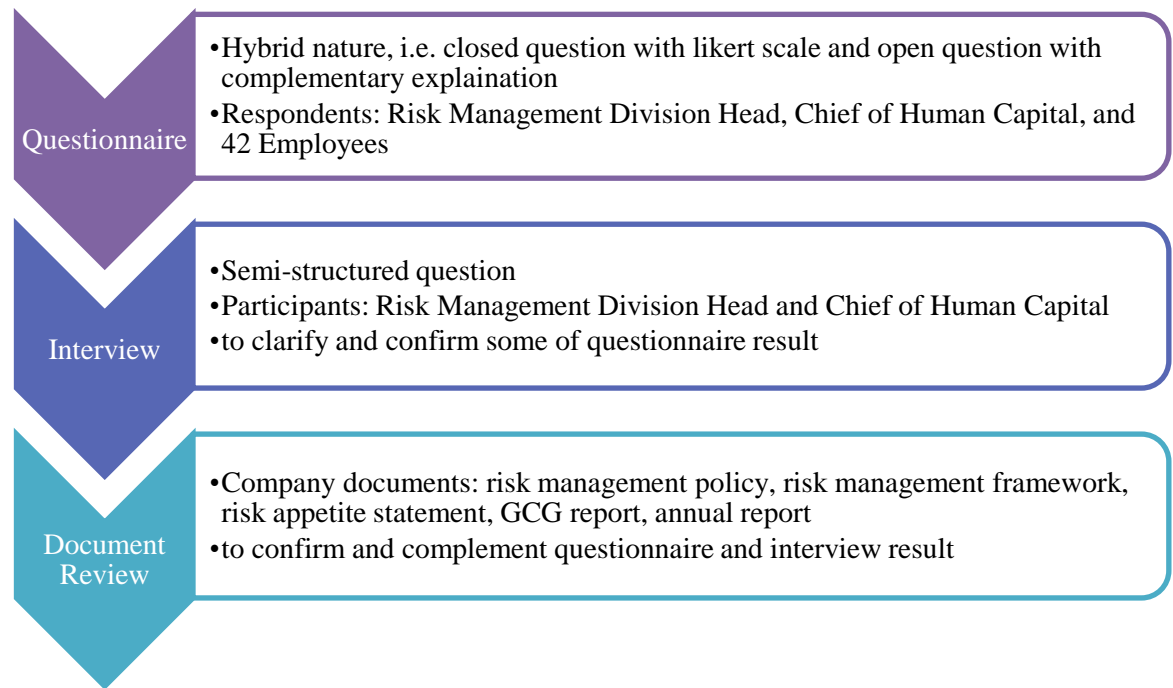


Figure 1. Data Collection

## Data Analysis

Analysis of closed questionnaire data uses descriptive statistics to overview general perception patterns at the company level and division/department level. Conclusion of questionnaires results are based on the majority of responses (e.g. if 51% of respondents viewed that the company enforces openness to discussion, then it is concluded that the open discussion culture is realized). Then data analysis was carried out from open questionnaires, interviews, and document reviews using the Miles and Huberman Model data flow analysis (Samsu, 2021) through data reduction, data presentation and data conclusion, both for each indicator and for the condition of Bank XYZ's risk culture in general.

## RESULTS AND DISCUSSION

### Results

#### *Leadership Through Example*

Even though they often promote a risk culture, the Board of Directors has not explicitly articulated the expected risk culture for Bank XYZ. There is no systematic assessment mechanism for the Bank's core values, open discussion, issue and risk escalation process, understanding and implementation of business strategy and risk appetite in decision making.

"... it is always echoed by a culture of risk. But what form a risk culture takes has never been defined. What we always return or convey is dual control, then minimizing/preventing fraud, returning to procedures, but there is no language yet that formulates what the risk culture at Bank XYZ is like..." (Head of Risk Management Division, 2023)

Every year the Board of Directors determines the risk appetite and risk tolerance on an annual basis which is calculated based on a certain percentage of the average profit in the last few years. Then the Board of Directors monitors the nominal losses from risk events monthly. If there is an exceedance of either risk appetite or risk tolerance, the risk owner is obliged to submit an action plan

regarding this condition to the president director, relevant supervision director, risk, compliance and legal directors to obtain approval.

This form of risk culture promotion is directly conveyed by the Board of Directors through direct participation of the Board of Directors in regular meetings which have a risk discussion agenda. These regular meetings include Board of Directors meetings, strategy and business plan formulation meetings, business achievement evaluation meetings, risk management committee, risk monitoring committee, assets and liabilities committee, financing committee, and non-performing assets committee. Apart from directly, the Board of Directors also conveys messages at certain corporate events regarding internal and external conditions faced by the Bank (for example when corporate actions are carried out).

The Board of Directors also promotes prudence and vigilance in receiving information, making decisions and taking business actions, as well as openness in discussions. As many as 72.1% of employees who filled out the questionnaire stated that the Board of Directors encourages healthy skepticism and openness in accepting criticism and conveying alternative points of view.

In addition, the succession planning and review process for senior management candidates has been designed to ensure that decision-making is not dominated by certain individuals or groups which could harm the interests of the Bank as a whole. The mechanism used to ensure this is through moderation and validation. This method verifies the results of the direct superior's assessment with assessments from other officials of the same level, thereby minimizing individual subjectivity. The Human Capital Executive Officer provided extensive information regarding this matter.

"The concept of 360 degree confidential review has been abandoned by many corporations and has moved to the concept of moderation and validation. This is due to changes in organizations that are becoming increasingly agile and non-structural, there are many specialist functions, the organizational structure is getting wider and some functions only consist of 2-5 people so that with the implementation of the 360 degree concept, assessment actually becomes more subjective, unlike the initial goal that was intended. achieve objectivity with the assessment of superiors by subordinates and vice versa. In this way, reluctance or *eweuh pakeuweuh* is created.

Bank XYZ adopts a moderation and validation approach through human capital committees at various levels, such as regional, directorate, bank-wide, each of which is facilitated by officials at each level and facilitated by human capital business partners. What was discussed at the committee was the profile of all employees. Moderation and validation on the committee is carried out by committee forum participants on the results of superiors' assessments of their subordinates, in the form of talent classification portraits, namely high-potential, critical-resources, core contributor, performer and achiever. Fellow division heads will provide each other with input, debate and discuss based on the talent indicators that have been defined. The superior immediately assesses first, then validates and moderates other forum participants to minimize subjectivity and the tendency to like and dislike and obtain collegial value. Then the chairman of the forum, namely the director in charge, will conclude. "Similarly, at other forum levels... peers and superiors and officials at the same level assess, minimizing bias" (Human Capital Executive Officer, 2023).

### ***Assess the Espoused Values***

The Board of Directors has not carried out a systematic assessment regarding the effectiveness of instilling core values and the company's risk appetite framework in decision making and business operations at various levels of management and staff. Assessments have been carried out informally through discussions with management and staff in forums involving the Board of Directors.

### ***Ensuring Shared Understanding and Awareness of Risks***

Bank XYZ places risk appetite and risk management strategies as instruments to help achieve business goals and strategies. In practice, business strategy is also aligned with risk appetite and risk

management strategy with the participation of the risk management work unit in the form of providing opinions and input in preparing company strategy. In addition, to ensure a common view regarding risk issues that need attention, regular discussions are held regarding achieving business targets between business lines which are also attended by the Board of Directors and related control functions.

Indirect forms of risk culture promotion include messages from the President Director (CEO Message) which are distributed via electronic mail, short speeches by members of the Board of Directors via videos that are played repeatedly (such as in elevators), anti-fraud campaigns and the Bank's core values in standing banners installed in various locations at the head office and branch offices of Bank XYZ.

"...which is quite concrete in video form. When you enter the office elevator there is a kind of speech from each Director regarding risk culture. So, for example, you are reminded to return to the procedure, then carry out dual control, the anti-fraud is in the video. Perhaps the most concrete appeal now is in the form of a video. If the others are not carried out routinely, employees can see the videos on a daily basis. Apart from that, we have standing anti-bribery and anti-fraud banners on every floor, this may also be a form of the company to increase awareness from the company to employees." (Head of Risk Management Division, 2023)

The Board of Directors constantly communicates the core values expected by the company, including compliance with internal company regulations through videos and through training and internal company exams.

"...in the video, we are reminded about core values, secondly there is an e-learning module that employees must take along with an exam which is expected to internalize these core values for employees. Pretty concrete ones like that. In other banks, there is also a ritual of reading core values which is a good reminder for employees, repeated over and over again. But at Bank XYZ it's not like that yet..." (Head of Risk Management Division, 2023)

### ***Lessons from the Past***

Even though it is not yet systematic, the Directors and related work units deliver learning messages on several routine company agendas and certain occasions.

"There are indeed various forms, yes. Not all external events are conveyed by the Board of Directors to employees. In certain situations, there is a kind of CEO Message that is conveyed by employees through the employee learning platform and sometimes data on macro conditions is conveyed through the CEO Message. This is conveyed especially if external conditions cause significant changes in the Bank. Then the form can also be in the form of directions at every Board of Directors meeting or committee meeting at the Board of Directors level. Then, in asset and liability committee meetings, there is always an agenda regarding the study of macro economic conditions. "The Treasury team conveyed conditions regarding financial and banking conditions that significantly affect our financial condition... Internal conditions that employees also need to know are conveyed through the CEO Message, such as organizational changes" (Head of Risk Management Division, 2023)

### ***Risk Ownership***

In more detail, accountability and risk escalation processes are determined in the risk management procedures, whistleblowing procedures and compliance procedures of Bank XYZ. The process of escalating issues and risks includes being conveyed at Board of Directors meetings, asset and liability committee meetings, whistleblowing mechanisms, and socialization of applicable statutory provisions by the compliance unit.



"Risks that arise significantly and are suddenly escalated through Board of Directors meetings or through asset and liability committee meetings, such as changes to BI7DRR (Bank Indonesia 7 Days Repo Rate) which affect the company's financial condition, whether routine or regular meetings. hoc initiated by the treasury work unit. Changes to provisions are escalated by the compliance work unit to the relevant work unit, management, even to the commissioner if necessary. Depends on the case. If there is negative news regarding external financing customers, it will be conveyed through a management meeting or financing committee. "At least the work unit that owns the risk will convey it to the director who supervises it" (Head of Risk Management Division, 2023)

Bank XYZ's code of ethics contains basic principles, an explanation of the principles and the scope of the intended behavior. As many as 74.4% of employees who filled out the questionnaire stated that the Board of Directors and employees were responsible for their actions, including violations of the Bank's values, norms and regulations and 67.4% understood that these violations could have an impact on compensation, career advancement, and even termination.

### ***Escalation Process***

Informally, the control function can accommodate complaints or criticism from a work unit and convey it to other related work units. As many as 76.7% of employees stated that this mechanism already exists, but it still does not take the form of formal channels such as direct communication to the director in charge of the division/department/area.

"Whistleblowing was initially made related to fraud. But I also don't know what issues are conveyed through this channel... the risk management work unit is usually a kind of liaison or mediator for issues involving risk and involves several work units to ensure the problem is resolved. If the issue needs to be escalated, we will input it through the management committee or financing policy committee. So the function of the risk management work unit as a second line is expected by employees as referees. "Especially for several operational risk issues that are included in the operational event recording system, the risk management work unit will ask the relevant work units whether they are sufficiently aware of these issues" (Head of Risk Management Division, 2023)

### ***Clear Consequences***

In the Bank's policy, it is clearly stated that every employee violation must be subject to sanctions according to the category of violation. The application of sanctions is carried out in stages up to the head of the work unit if it is discovered that there has been negligence in supervision. Sanctions are applied based on the type of violation and the severity of the violation committed.

### ***Openness to Alternative Views***

In general (76.7%) questionnaire participants considered that different opinions and views were valued at Bank XYZ. The balance of views from various parties is realized, among other things, through alliance forums for various business segments and product managers. To ensure that the discussion runs in a balanced manner and that fairly objective results are obtained, the meeting leader usually invites the division heads (or their representatives if they are unable) as discussion participants and gives each discussion participant an equal opportunity to express their opinions and have their aspirations accommodated, even though this rule has not been stated clearly and formally by the company.

"In discussions, there must be a meeting leader who ensures that both parties provide appropriate and balanced information. If the division is usually invited to a meeting or if the delegate is unable to attend. If the delegation cannot make a decision, it will be written down in the minutes of the meeting and submitted to the work unit to obtain a solution from the head of the work unit. Everyone is given the same opportunity to speak, invited by officials of the same level, at least



the head of their division. If those present cannot or do not dare to make a decision then we ask the work unit...business units sometimes put pressure, but we don't just have two meetings. yes, there are other work units such as risk management, compliance, legal which ensure that everyone has a voice to provide input and make decisions which are the decisions of all parties. "If only two parties can fight, a third party will be sought who can provide a more objective view" (Head of Risk Management Division, 2023)

### ***The Stature of the Control Function***

The organizational structure of the control function has a position that is quite equivalent to the business function, namely at directorate level (risk, compliance and legal directorate and internal audit unit). The Director of Risk, Compliance and Legal also has the authority to report directly to the commissioners and regulators through periodic compliance reports. In business decision making, the control function is more of an advisor who provides opinions, rather than a participant who plays a proactive role in all decision making and risk-related activities.

"The director of risk management, compliance and legal has regular compliance reports. There is room for the director to independently report on practices at the Bank. Is the function of another director being misused, that's the space. If it is discussed at a Board of Directors meeting, it might not be good because it discusses individuals and colleagues, so it is better to convey it through the compliance report... this report is submitted to the regulator and maybe to the commissioners too... but the risk management work unit also doesn't know how deep and sharp it is. conveyed in the report... between compliance, risk management and legal, there is definitely a conversation regarding an issue, but depending on how sensitive the information is, who knows. "As far as I know, this compliance report is a direct report to the regulator, without going through the main director, although it can also be coordinated through the main director, depending on the practices of each management" (Head of Risk Management Division)

### ***Remuneration and Performance***

Bank XYZ has implemented a remuneration policy in accordance with POJK No. 59/POJK.03/2017 concerning the Implementation of Governance in Providing Remuneration for Islamic Commercial Banks and Islamic Business Units, which states that the provision of remuneration for Bank XYZ is aimed at encouraging prudent risk taking. This objective is realized in the preparation of remuneration policies that support effective risk management, the duties and responsibilities of the remuneration committee in evaluating remuneration policies based on risk, remuneration policies based on risk, the application of the precautionary principle in fixed and variable remuneration and methods. performance measurement, the obligation to defer and/or return variable remuneration payments (Malus and/or Clawback) for parties who are material risk takers (decision makers who have a significant impact on the Bank's risk profile or who receive variable remuneration with a large value) amounting to a certain percentage.

In the recruitment process, Bank XYZ has behavioral indicators as one of the considerations asked during the interview process. In the performance review, performance indicators for business achievements for the risk management unit are included and vice versa. Apart from that, risk aspects (such as violations of compliance and company values as well as employee contributions when becoming operational risk work unit partners) are also considered as discount factors for calculating performance (factors that can reduce the performance achievements obtained). Bank In the Banyuwangi government studied by [Mulyono et al. \(2019\)](#), leaders are stated to have a commitment to providing risk-based rewards and punishments but have not stated that they have been formalized in the performance system used.

"There are several tools or devices at HC, such as in recruitment there are psychological tests and interviews that use behavioral indicators which are derivatives of core values. Similar to performance measurement, there are discounted factors which are factors that reduce performance assessments (disincentives) based on core values, such as violations of responsibility or audit findings. In the past, at Bank After that, this approach was changed to a deduction factor...we have implemented OJK Regulations regarding shame & clawback which bases rewards on risk management factors. When a company distributes bonuses to executive officers in critical functions, it is not done on a one-off basis. "Some portion of the bonus is withheld until a certain time, for example 15% for 3 years, if there are audit findings then the remainder of the bonus will not be paid" (Human Capital Executive Officer, 2023)

### ***Succession Planning***

In core management succession planning, candidates are recommended and selected internally by the Bank.

"I can confirm that (consideration of experience and competence in the field of risk management) is very critical. When nominating a candidate for a position, apart from experience and competency, the candidate is also asked about their performance rating which contains elements of risk management, such as contribution or violation of operational risks. Risk management certification is also a requirement. At the director level, apart from certification, it is also considered whether the candidate has had exposure or violations related to operational risks. In the nomination and remuneration committee, certification, understanding and experience, as well as violations in the field of risk management are requirements. Especially in the banking world, this is a necessity because in fit & proper the OJK also assesses these two things, especially in credit, liquidity and operational risks. The candidate's track record will be seen to see whether they have ever provided financing decisions that were exposed to financing risks. So at all levels it is highly considered, especially at the board of directors level" (Human Capital Executive Officer, 2023)

### ***Talent Development***

In line with succession planning, talent development at the Bank risk management is in accordance with regulatory requirements and internally to employees who need it. Bank XYZ has also developed a learning system that has special modules regarding the development of risk management competencies.

## **Discussion**

### ***Leading by Example***

The Board of Directors has not explicitly articulated the expected risk culture for Bank XYZ. This condition is in line with the analysis of [Salamah and Wijanarko \(2020\)](#), namely that the specific risk culture expected by leaders is not yet well understood, while research by [Azria and Diyanty \(2023\)](#) shows that leaders have a clear view of risk management in general (not a specific risk culture). expected). In [Mulyono, Sudarno, and Wahyuni's \(2019\)](#) research at Banyuwangi government institutions, leaders were deemed to have a fairly clear view of their organization's risk culture.

The Board of Directors' commitment to build strong risk culture is manifested in establishing and monitoring the risk appetite framework and risk appetite statement, active participation and promotion of risk culture aspects across meetings and corporate agenda, which is in line with research by [Salamah and Wijanarko \(2020\)](#) regarding the active involvement of leadership and the risk function in active significant discussions, and fair and balanced succession planning and review process for senior management candidates.

Finally, there is no systematic assessment mechanism for aspects related to risk culture. This assessment is carried out to monitor the condition and development of risk culture in a comprehensive

and routine manner, covering all levels of management and staff (tone from the top, middle). This assessment needs to be carried out as material for evaluating and improving risk culture in the future.

### ***Assess the Espoused Values***

There is no such systematic assessment of risk culture aspects, including the effectiveness of core values and risk appetite framework.

### ***Ensuring Shared Understanding and Awareness of Risks***

Shared understanding and awareness regarding risks is instilled by the Board of Directors through the implementation of business and risk policies as well as communication and discussions in forums. The effectiveness of shared understanding and risk awareness can be further measured as [Meiring's \(2016\)](#) research at a telecommunications company showed that there was a misalignment of risk understanding and awareness at various levels of management (senior, middle and all staff). The Board of Directors utilizes various channels to promote the general risk culture in the Bank.

### ***Learning from the Past Experiences***

There is no formal and systematic mechanism for processing and socializing various significant events internal and external to the company as collective learning. To obtain maximum collective learning, the processing (recording, analysis, presentation) of information and experiences regarding an event (lessons learned) can be more systematic. In the context of risk management, more structured learning has the opportunity to improve the design and implementation of risk management, learn about risk culture through real examples, and take real corrective action in the future.

### ***Risk Ownership***

The implementation of accountability at Bank Provisions regarding communication, reporting, monitoring and mitigation of risks that have been or are newly identified vertically (to superiors) and horizontally (across business lines) are generally stipulated in the general risk management policy and the general policy of the internal control system, in accordance with research by [Salamah and Wijanarko \(2020\)](#) stated that risk accountability has been determined in the organization's internal policies and risk register. [Azria and Diyanty \(2023\)](#) assess that in the public entities studied that the accountability determined is only a formality, like other government institutions. The Board of Directors and all employees are held accountable for the actions they take for violations of the Bank's moral principles, core values, regulatory regulations and related laws and regulations, as well as the Bank's internal provisions through signing a statement of the Board of Directors' and employees' code of ethics.

### ***Escalation Process***

Bank XYZ has implemented a whistleblowing mechanism for suspected fraud. This whistleblowing mechanism needs to be further assessed for its effectiveness, as the condition of public entities studied by [Azria and Diyanty \(2023\)](#) shows that the fraud reporting mechanism is still not effective. However, there is no systematic mechanism for reporting employee discomfort with a product or practice.

Apart from reporting suspected violations in the form of fraud which can be escalated through a whistleblowing mechanism, to ensure the company is open to critical views, employee discomfort with a product or practice should also be escalated either through the same mechanism (whistleblowing but by expanding the scope of reporting discomfort) or a mechanism other. The process of escalating issues and risks, including issues of employee discomfort, protection of whistleblowers and follow-up to reports needs to be assessed systematically for its effectiveness. This

is part of an effort to improve and ensure the company's environment is open to criticism and alternative views.

### ***Clear Consequences***

Bank XYZ has a code of ethics and internal regulations to maintain employee discipline which clearly stated the consequences of not compliance.

### ***Openness to Alternative Views***

Different opinions and views were valued at Bank XYZ. This condition is also in line with research by [Salamah and Wijanarko \(2020\)](#) and [Azria and Diyanty \(2023\)](#) which shows that organizations through their leaders encourage openness to information, including risk information and bad news.

### ***The Stature of the Control Function***

The control function is expected to have sufficient authority to ensure discussions and decision-making run effectively and in a balanced manner. The Director of Risk, Compliance and Legal has independence in carrying out the control function can be maintained, especially when there are issues involving senior management.

However, in practice the authority of the control function is still not equivalent to that of the business unit. In business decision making, the control function is more of an advisor who provides opinions, rather than a participant who plays a proactive role in all decision making and risk-related activities. This can have implications for decision making that prioritizes business aspects too much and ignores risk aspects. In addition, Bank XYZ has not carried out regular assessments of the openness of discussions and how the results of these discussions are embedded in the decision-making process. This systematic assessment needs to be carried out to monitor and evaluate the culture of open discussion and decision making at Bank XYZ.

### ***Remuneration and Performance***

Overall, the implementation of incentives at Bank XYZ has supported a risk culture in accordance with the Sound Risk Culture Indicators from the FSB which includes remuneration and performance practices, succession planning and talent development.

### ***Succession Planning***

In general, Bank XYZ's succession planning policy is in line with the risk culture indicators of the FSB which considered risk management competency and experience as one of the determining criteria.

### ***Talent Development***

In line with succession planning, talent development at the Bank has considered heavily risk management competencies which strongly aligned with FSB Sound Risk Culture Indicators.

In general, Bank XYZ has strength in incentives indicator and some critical improvement areas for the 3 remaining indicators. In the short term, there are three recommendations. First, the Board of Directors should formulate the expected risk culture for Bank XYZ. Clear expectations are the first step that must be taken to bring the company to the target state. Second, the Bank can provide a reporting channel for employee discomfort with a product or practice even if it does not make specific accusations against a particular party. The existing whistleblowing mechanism can be expanded in function. The follow-up to the alleged report must be handled by a competent and independent party (third party, internal audit unit, compliance unit, compliance committee, or other) and protection of the whistleblower must be guaranteed to ensure the effectiveness of this mechanism in ensuring company transparency. Finally, internal and external events that have a significant impact on the Bank

should be processed systematically so that Bank leaders, management, and staff learn risk awareness from real examples.

In the long term, this study recommends two things. First, the Risk Management Division and Human Capital Directorate can work together to carry out a systematic assessment of aspects of risk culture. This assessment includes the Bank's core values, open discussion, issue and risk escalation process, understanding and implementation of business strategy and risk appetite in decision-making. The assessment process can be carried out separately or be part of a general organizational culture assessment. The assessment method can be carried out through surveys of employees or self-assessment by the Risk Management Division and Human Capital Directorate. The results of the risk culture assessment can be evaluated periodically and followed up to improve the effectiveness of risk management and company strategy in general. Second, the Board of Directors can provide access and authority to the control function to be proactively involved in decision-making. This can be achieved by requiring approval (in addition to an opinion) of the control functions involved in every risk-related decision, especially with significant risks. Directors can also cultivate a decision-making process that always considers the balance of rewards and risks (risk-reward balance) so that alignment of views between business units and the control function continues to be established in achieving common goals.

## CONCLUSION

By using the Sound Risk Culture Indicators from the FSB, it can be concluded that Bank XYZ's risk culture is quite strong. This conclusion was obtained based on analysis and discussion of the four aspects of FSB's risk culture: tone from the top, accountability, effective communication and challenge which were considered appropriate, and the incentive aspect which was considered very appropriate. However, there are several important notes for strengthening the risk culture of Bank aspects of risk culture: it should articulate its risk culture aspiration, conduct routine risk culture assessment and its aspects, provide a reporting channel for inappropriate product and practice, assess and disseminate lessons learned systematically, and strengthen the role of control function as part of decision-making participants.

For further research, there are several research suggestions. First, future researchers can use interview data collection with risk management directors as the main data source to obtain information from informants who act as the main persons responsible for company risk management. Second, researchers can use the FSB's Sound Risk Culture Indicators which focus on exploring certain aspects, namely specifically regarding tone from the top, accountability, communication and discussion, or incentives to obtain a more in-depth study.

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## 1. APPENDIX

### Appendix 1 Questionnaire results

#### 1. Risk Management Division Head

Indicators	#	Sub-Indicators	##	Expected conditions	Conformity	Complementary Explanation
Tone from the top	1.1	Leading by examples	1.1.1	The board and senior management have a clear view of the risk culture to which they aspire for the Bank and of the behavioral and organisational consequences of this culture	Conform	the board has aspiration for risk management they aspire
			1.1.2	The board and senior management systematically monitor and assess the prevailing risk culture and proactively address any identified areas of weakness or concern	Conform	It has been conducted through the board's meeting and directives, including board of director and commissioners' committee meeting
			1.2	The board and senior management, consistently within their specific roles and responsibilities, promote through behaviours, actions and words, a risk culture that expects integrity and a sound approach to risk management as well as promotes an open exchange of views, challenge and debate	Conform	Management has promoted risk culture implementation in forms of dual control, compliance to firm policies, 3 lines of defense
			1.3.1	The board and senior management promote healthy scepticism that encourages and supports openness to challenge by providing alternate points of view that may result in a better decision	Conform	Management has promoted risk culture implementation in forms of dual control, compliance to firm policies, 3 lines of defense
			1.3.2	The board and senior management ensure that all directors have the tools, resources and information to carry out their roles effectively, particularly their challenge function	Conform	-



Indicators	#	Sub-Indicators	##	Expected conditions	Conformity	Complementary Explanation
	1.2	Assessing espoused value	1.4	The board and senior management are committed to establishing, monitoring, and adhering to an effective risk appetite framework, supported by appropriate risk appetite statement(s) that underpin the financial institution's risk management strategy, and is integrated with the overall business strategy	Conform	-
			1.7	The board and senior management systematically assess whether the espoused values are communicated and proactively promoted by management and staff at all levels so that the 'tone at the middle' and throughout the institution is consistent with the 'tone at the top'	Conform	-
			1.8	The board and senior management assess whether the institution's risk appetite framework and business strategy are clearly understood and embraced by management and relevant staff, and effectively embedded in the decision-making and operations of the business	Conform	Business regular meeting has been conducted which invited 2 <sup>nd</sup> and 3 <sup>rd</sup> line of defense unit
	1.3	Ensuring common understanding and awareness of risk	1.9	Appropriate mechanisms are in place to ensure the risk appetite, risk management strategy, and business strategy are effectively aligned and embedded in decision making and operations at all appropriate levels of the institution.	Conform	In terms of corporate strategic planning formulation, opinion and feedback from risk management unit were taken
			1.10	The board and senior management have clear views on the business lines considered to pose the greatest challenges in the management of risk, such as business lines with unexpected or unexplained results or business lines with non-financial risks that may not necessarily lend themselves to immediate and easy quantification, and these are subject to constructive and credible challenge about the risk-return balance.	Strongly Conform	Regular discussions have been conducted to discuss business lines target and their achievement

Indicators	#	Sub-Indicators	##	Expected conditions	Conformity	Complementary Explanation
	1.4	learning from past experience	1.11	The board and senior management systematically monitor how promptly and effectively issues raised by the board, supervisors, and all control functions are addressed by management	Conform	-
			1.12	Processes are in place so that deficiencies in risk management, either in respect of its design, setup or implementation, are reviewed at the appropriate levels of the institution, with a view to identifying the root causes leading to the deficiencies and taking the opportunity to strengthen the financial institution's risk culture.	Conform	-
			1.13	Assessment and communication of lessons learnt from past events, both failures and successes, are seen as an opportunity to enhance the institution's risk culture, and to enact real changes for the future	Conform	-
Accountability	2.1	ownership of risk	2.1	Clear expectations are set with respect to the monitoring and reporting of, and response to, current and emerging risk information across the institution, including from business lines and risk management to the board and senior management.	Conform	-
			2.2	Mechanisms are in place for the sharing of information on emerging, as well as low probability, high impact risks, both horizontally across business lines and vertically up the institution.	Conform	-
			2.3	The chief executive officer, senior management and employees throughout the institution, are held accountable for their actions and understand the consequences if they are not aligned with the institution's core values, risk appetite and risk culture, regardless of whether their actions or behaviours resulted in direct financial gain or loss to the financial institution	Strongly Conform	Every employee is required to sign a statement of compliance with firm Code of Conduct

Indicators	#	Sub-Indicators	##	Expected conditions	Conformity	Complementary Explanation
	2.2	Escalation process	2.4	Appropriate escalation processes are established to support risk management and clear consequences for non-compliance with escalation procedures are defined.	Conform	Escalated on meeting with board of directors, board of commissioners, and BoD and BoC Committee, after has been discussed at working unit level
			2.5	Systematic assessments are conducted on whether employees are aware of escalation processes and believe the environment is open to critical challenge.	Conform	-
			2.6	Mechanisms are established for employees to elevate and report concerns when they feel discomfort about products or practices, even where they are not making a specific allegation of wrongdoing.	Conform	Among others are through whistleblowing mechanism
			2.7	Appropriate whistleblowing procedures are in place and are expected to be utilised by employees without any reprisal, to support effective compliance with the risk management framework; the treatment of whistle blowers is clearly articulated and followed in practice.	Strongly Conform	Implemented
	2.3	Clear consequences	2.8	Consequences are clearly established, articulated and applied for anyone engaged in, or supporting, risk-taking that is excessive relative to the financial institution's risk appetite statement, regardless of whether positive revenue or net income was generated.	Conform	-
Effective communication and challenge	3.1	open to alternate views	3.1	Alternate views or questions from individuals and groups are encouraged, valued and respected and occur in practice. A culture of open communication and collaboration is constantly promoted to ensure that each employee's view is valued and the institution works together to strengthen risk-related decision-making.	Conform	Discussion and coordination culture were carried out in forms of cross business and product owner alliances
			3.2.1	Mechanisms are in place so that alternate views can be expressed in practice	Conform	-

Indicators	#	Sub-Indicators	##	Expected conditions	Conformity	Complementary Explanation
			3.2.2	regular assessments of the openness to robust challenge at all layers of governance and how it is embedded within the decision-making process are in place.	Conform	-
	3.2	Stature of control functions	3.3	Control functions (e.g. risk management, internal audit, compliance) share the same stature as the business lines, actively participate in committees and are proactively involved in all relevant risk decisions and activities.	Conform	2 <sup>nd</sup> and 3 <sup>rd</sup> line unit were not involved in decision making but were asked to provide opinion
			3.4	Control functions operate independently, have appropriate direct access to the board and senior management and a process is in place for them to periodically report to the board.	Strongly Conform	-
			3.5	Control functions, including their respective representatives, have sufficient stature not only to act as advisors, but to effectively exert control tasks with respect to the institution's risk culture.	Strongly Conform	-

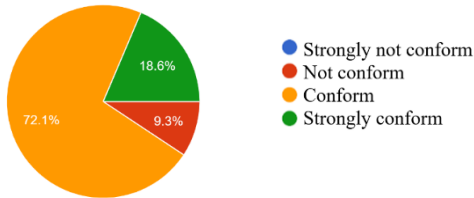
## 2. Pimpinan Eksekutif Human Capital

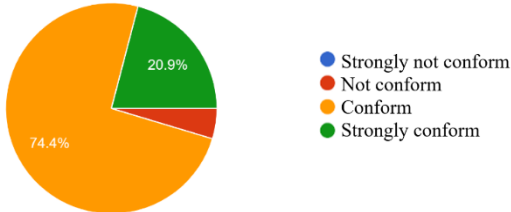
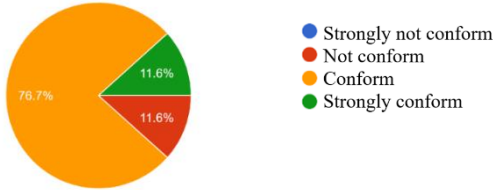
Indicators	#	Sub-Indicators	##	Expected Conditions	Conformity	Complementary Explanation
Tone from the top	1.1	Leading by examples	1.5	Mechanisms are in place, such as talent development, succession planning, and confidential 360 degree review processes, to ensure that decision-making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the institution as a whole.	Conform	Not purely 360 degree but was carried out through committee mechanism which constituted of various function to discuss and validate talent and successor assignment
			1.6	Senior management is subject to the same expectations for integrity, risk governance, and risk culture as all other employees; that is, mechanisms are in place to subject them to incentive structures, which may include impacts on compensation, role and responsibilities, or termination.	Strongly Conform	-

Indicators	#	Sub-Indicators	##	Expected Conditions	Conformity	Complementary Explanation
Incentives	4.1	Remuneration and performance	4.1	The compensation structure supports the institution's espoused core values and promotes sound risk-taking behaviour and is supported by a well-documented process.	Strongly Conform	In line with POJK regarding risk-based remuneration
			4.2	Remuneration and performance metrics consistently support and drive the desired risktaking behaviours, risk appetite and risk culture of the financial institution, and encourage employees to act in the interest of the greater good of the company, rather than for themselves or their business line.	Strongly Conform	-
			4.3	<i>Annual performance reviews and objectives-setting processes are linked to promoting the institution's desired core values and behaviours as well as compliance with policies and procedures, including addressing in a timely manner deficiencies highlighted by internal audit and supervisory findings</i>	Strongly Conform	-
			4.4	Incentive compensation programs systematically include individual and group adherence to the financial institution's core values and risk culture, including treatment of customers, cooperation with internal control functions and supervisors, respect of risk limits, and alignment between performance and risk	Strongly Conform	-
	4.2	succession planning	4.5	Succession planning processes for key management positions include risk management experience and not only revenue-based accomplishments; for instance, individuals with responsibilities consistent with the chief risk officer, chief compliance officer, and chief audit executive can be considered as potential candidates for executive positions, including the chief executive officer	Strongly Conform	-

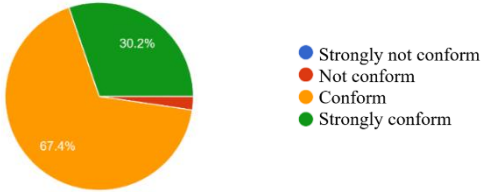
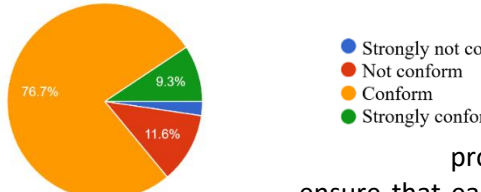
Indicators	#	Sub-Indicators	##	Expected Conditions	Conformity	Complementary Explanation
	4.3	talent development	4.6	Understanding key risks, essential elements of risk management, and the institution's culture is considered a critical skill set for senior employees and reflected in their development plans.	Strongly Conform	-
			4.7	Job rotation between control functions and business lines is considered a way to facilitate a virtuous cycle for bringing business knowledge to the control functions and introducing risk awareness to the decision-making process of the business line.	Strongly Conform	-
			4.8	Training programs are available for all staff to develop risk management competencies and, more broadly, the elements supporting a sound risk culture, including effective challenge and open communication.	Strongly Conform	-

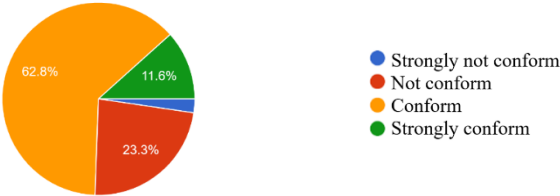
### 3. Employees

Indicators	#	Sub-Indicators	##	Conformity	Complementary Explanation
<b>Tone from the top</b>	1.1	Leading by examples	1.3.1	<p>The board and senior management promote healthy scepticism that encourages and supports openness to challenge by providing alternate points of view that may result in a better decision</p> <p>43 responses</p>  <p> <span style="color: blue;">●</span> Strongly not conform  <span style="color: red;">●</span> Not conform  <span style="color: orange;">●</span> Conform  <span style="color: green;">●</span> Strongly conform         </p>	<ul style="list-style-type: none"> <li>i. Sometimes product launching disregard process and system readiness</li> <li>ii. Particularly regarding financing decision and information transparency to regulator</li> <li>iii. Socialisation (flyer, clip) has been carried out, but in reality (particularly in business decision) not always in line</li> <li>iv. Partially agree especially in case of information prudence, but not in other aspects</li> </ul>

Indicators	#	Sub-Indicators	##	Conformity	Complementary Explanation
Accountability	2.1	ownership of risk	2.3	<p>The chief executive officer, senior management and employees throughout the institution, are held accountable for their actions and understand the consequences if they are not aligned with the institution's core values, risk appetite and risk culture, regardless of whether their actions or behaviours resulted in direct financial gain or loss to the financial institution</p> <p>43 responses</p>  <p> <span>Strongly not conform</span>  <span>Not conform</span>  <span>Conform</span>  <span>Strongly conform</span> </p>	<p>i. only employees are accountable</p> <p>ii. there is condition that political decisions dominating company policy</p>
	2.2	Escalation process	2.6	<p>Mechanisms are established for employees to elevate and report concerns when they feel discomfort about products or practices, even where they are not making a specific allegation of wrongdoing</p> <p>43 responses</p>  <p> <span>Strongly not conform</span>  <span>Not conform</span>  <span>Conform</span>  <span>Strongly conform</span> </p>	<p>i. no formal channel</p> <p>ii. issue escalation are channeled to region supervision</p>



Indicators	#	Sub-Indicators	##	Conformity	Complementary Explanation
	2.3	clear consequences	2.9	<p>Breaches in internal policies, procedures and risk limits, as well as non-adherence to internal codes of conduct, are understood to have a potential impact on an individual's compensation and responsibilities, can affect career progression and, depending on severity, may result in termination</p> <p>43 responses</p>  <p> <span>Strongly not conform</span>  <span>Not conform</span>  <span>Conform</span>  <span>Strongly conform</span> </p>	Some deviations are allowed considering some business aspects
Effective communication and challenge	3.1	open to alternate views	3.1	<p>Alternate views or questions from individuals and groups are encouraged, valued and respected and occur in practice. A culture of open communication and collaboration is constantly</p> <p>43 responses</p>  <p> <span>Strongly not conform</span>  <span>Not conform</span>  <span>Conform</span>  <span>Strongly conform</span> </p> <p>promoted to ensure that each employee's view is valued and the institution works together to strengthen risk-related decision-making.</p>	<ul style="list-style-type: none"> <li>i. it is one of the bank's corporate values</li> <li>ii. no formal channel</li> <li>iii. individual opinions were not taken seriously</li> <li>iv. there is an ideation program</li> <li>v. open communication has been a culture</li> </ul>

Indic ators	#	Sub- Indicato rs	##	Conformity	Complementary Explanation
			3.2	<div>Mechanisms are in place so that alternate views can be expressed in practice</div> <div>43 responses</div> <div></div> <div><div>Strongly not conform</div><div>Not conform</div><div>Conform</div><div>Strongly conform</div></div>	-

**Appendix 2 Interview Question****List of Question to Risk Management Division Head**

1. What is board of directors' aspiration regarding the Bank's risk culture?
2. How do the Board of Directors set an example to encourage the realization of the expected risk culture, both in behavior, actions and words?
3. How do the Board of Directors encourage and ensure that the Bank's "Core Values" are promoted by management and staff at all levels?
4. How are the lessons learned from various incidents experienced by the Bank responded to by the Board of Directors, then analyzed and communicated to employees?
5. What is the form of risk communication and reporting to ensure that related parties who need risk information are well informed?
6. What is the mechanism for raising/reporting issues when employees feel uncomfortable with a product or practice?
7. How does the Bank ensure that a variety of views are expressed and discussions proceed in a balanced manner?
8. \How does the control function handle issues involving senior management, even the Board of Directors?

**List of Question to Chief of Human Capital**

1. How does the HC committee ensure that decision making at the Board of Directors level is not dominated by certain individuals or groups that could harm the interests of the Bank?
2. How do HC instruments promote conformity with Core Values and compliance with company regulations?
3. What mechanisms are in place so that core management succession planning and talent development take into account experience and competence in the field of risk management?