Journal of Operational Risk **17**(2), 1–21
DOI: 10.21314/JOP.2022.021

Research Paper

The status of people risk management in UK banks

Kumbirai Mabwe,[1] Patrick Ring[2] and Robert Webb[3]

[1] Accounting, Economics and Finance, Cardiff School of Management, Cardiff Metropolitan University, Llandaff Campus, Western Avenue, Cardiff CF5 2YB, UK; email: KMabwe@cardiffmet.ac.uk

[2] Department of Finance, Accounting and Risk, Glasgow Caledonian University, Cowcaddens Road, Glasgow G4 0BA, UK; email: p.ring@gcu.ac.uk

[3] Accounting and Finance, University of Stirling, Stirling FK9 4LA, UK; email: r.m.webb@stir.ac.uk

(Received June 18, 2020; revised June 30, 2021; accepted September 16, 2021)

ABSTRACT

Against the background of a succession of financial mishaps in the banking industry, all deeply rooted in the behavior of individual employees, this paper examines the place of "people risk" in the context of operational risk management in UK banks. Our research is informed by an examination of the literature alongside empirical evidence from 25 semi-structured interviews with operational risk practitioners in UK banks, and we find varying levels of awareness and understanding of people risk. As a result of a regulatory focus on quantitative capital requirements, we also find that management of people risk is subsumed under this regulatory approach, and we find evidence that the "embedded" nature of people risk has hindered the development of a more comprehensive industry-wide approach to people risk management. Nevertheless, some operational risk managers are working more closely with their human resources partners to develop a more cohesive approach to people risk management. In the context of current reforms to the capital requirements for operational risk, it may be an opportune time to examine the regulatory approach to people risk in banks.

Corresponding author: K. Mabwe

Print ISSN 1744-6740 | Online ISSN 1755-2710

Keywords: operational risk management; people risk; regulation; Basel Committee on Banking Supervision; risk culture; conduct risk .

1 INTRODUCTION

As the Basel Committee on Banking Supervision moved toward the implementation of its revised approach toward the measurement of capital requirements in relation to bank operational risk (Basel Committee on Banking Supervision 2016), there has been an increasing focus on the efficacy of such an approach and indeed some trenchant criticism of whether this is the most appropriate approach (Sands *et al* 2018). At the same time, and perhaps reinforcing the need for different perspectives on operational risk, the overwhelming conclusion of a global survey of operational risk managers found that "operational risk is a people risk" (Peters *et al* 2018, p. 9).

It would be expected that there might have been further advances in people risk management in the 15 years since the initial recognition of operational risk (Chapelle 2017). The arguments that were previously made – that a focus on capital requirements has overshadowed the qualitative side of operational risk (see Blunden and Thirlwell 2012; Moosa and Li 2013), which in turn has led to a relative neglect of the elements of operational risk that are "difficult to measure and model", such as people risk – still appear to have some credence. This state of affairs is all the more surprising given that, as Sands *et al* (2018, p. 16) point out: "Operational risk capital requirements are a relatively blunt and imperfect tool for internalizing the social costs of operational risk failures and mitigating their consequences."

The litany of people risk oriented calamities that have beset the financial services sector, such as the London Interbank Offered Rate scandal, mis-sold retail and small business products and rogue-trader losses, serve as a reminder of the importance of addressing the "softer" side of operational risk in banks. Operational risk losses in the form of regulatory action (76%), large-scale fraud (16%) and rogue traders (3%) (Sands *et al* 2018), which are invariably the consequence of people's actions or misactions, continue to dominate operational risk losses. In the United Kingdom fines amounting to £884.6 million for 2015–16, £181.0 million for 2016–17 and £69.9 million for 2017–18 were imposed by the FCA for broad categories of operational risk events (Financial Conduct Authority 2018). As people risk losses continue to arise, it is evident that holding capital neither gives banks more ability to absorb operational risk losses nor adequately improves operational risk management.

As a result, this paper specifically focuses on "people" as a major cause of operational risk. Although people have proven to be the weak link in risk management in banks and are a major source of operational risk losses, people risk has been relatively overlooked in the context of the Basel framework. On the basis of interviews with 25 operational risk management professionals, our findings suggest that the nature of Basel's treatment of operational risk management in banks has hindered the development of a commonly agreed articulation of "people risk". Further, as a result of the quantitative emphasis of the Basel framework, while people risk is generally recognized as an important issue, it has remained less directly visible in banks' approaches to managing operational risk. The results also point to the role that human resources specialists can play in an integrated approach to managing people risk. At the same time, the relevance of the UK regulator's increasing emphasis on conduct risk and risk culture to people risk is noted.

2 LITERATURE REVIEW

Losses as a result of the behavior of staff have been an ever-present occurrence in the banking sector. However, as operational risk rose to prominence in the late 1990s (Moosa 2007), the development of practices around the notion of "people risk" occurred in day-to-day business operations, and this was not due to specific detailed regulatory requirements. While people risk is a relatively recent area of research, there are broadly three main categories of literature that inform people risk management in banking: the literature that covers the "softer" side of operational risk management, operational risk regulation literature and human resources literature. This coverage serves as a foundation for examining the management of people risk in the context of operational risk management in banking.

Blacker *et al* (2004, p. 29) describes people risk as "the possibility that people will damage themselves, their organization or the wider community either inadvertently or intentionally by deviating from best practice or prescribed rules for controlling risk". This approach to operational risk management emphasizes the breadth of the vulnerability, cost and impact created by people risk. The impact of people risk on organizations is also discussed by Cagan and Lantsman (2008), Renel (2010), Blunden and Thirlwell (2012) and Blacker and McConnell (2015). Blacker and McConnell (2015) extend their examination of people risk to considering internal organizational problems and losses, specifically noting that people risk can be a function of human error and deviant behavior (both deliberate and nondeliberate) as well as greed and fear (see also Renel 2010).

McConnell (2008), when discussing operational risks, highlights the difficulty in delineating people risk from other general uncertainties faced by banks. Renel (2010) notes the commonly found interplay of people, systems and processes, while Jarrow (2008, p. 871) divides operational risk into two fundamental types: "the risk of a loss due to the firm's operating technology/system, including failed internal processes and transactions; and the risk of a loss due to agency costs, including fraud and mismanagement". Significantly, people and their behavior feature in both of Jarrow's categories. The "embedded" nature of human behavior in managing operational risks may partly explain why the definition of "people" in Basel's operational risk definition,"the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events" (Basel Committee on Banking Supervision 2004, Paragraph 644), has not been developed or elaborated on since the definition was introduced.

From the perspective of identifying business objectives, Rosenberg (1999) and Doerig (2003) signpost people risk as the risk of tasks not being completed or inadequately completed, employer/employee conflicts and organizations' compliance failures, leading to regulatory fines, the last of which have sadly become a commonplace in the banking sector. Flouris and Yilmaz (2010) highlight the dual role of people in risk management. First, people are highlighted as sources of risk: people are regarded as a potential barrier to implementing corporate management plans or achieving corporate goals. Examples of this category of people risk include fraudulent activity, judgment mistakes, malfeasance, low performance, unethical behaviors, ability to override risk policies and management decisions. Second, people are highlighted as managers of risk: people establish and implement risk management systems in the course of executing the corporate mission, strategy and objectives of their organizations.

Managing performance and managing risks can be considered to be aligned functions, and risk management is an integral part of the role of human resources (Chapelle 2017). This is reflected in the risk literature that discusses people risk in terms of human resources practices, such as hiring, training, employer/employee interaction, performance appraisal, retention and productivity, compensation, staff dissatisfaction and turnover (see Wilkinson 1995; Thevendran 2002; Thevendran and Mawdesley 2004; Bitsch and Harsh 2004; Fitz-Enz 2000; Meyer *et al* 2011; Blacker and McConnell 2015). Wahlström (2006) also notes that work overload, health problems, stress, unfilled vacancies and/or insufficiently trained personnel may increase operational risk. It is also clear that a lack of experience, expertise or commitment to a business line for people involved at various levels in the organization can also be a source of people risk (Kingsley *et al* 1998; Acharyya 2010; Miller 2011). The 2008 FSA report (Financial Services Authority 2008), which analyzed risk management practices in the financial crisis, emphasized that firms need to ensure that their executives are recruited not only based on their experience in banking but also based on their expertise in managing risk in a range of situations.

For people risk management, a human resources perspective not only supports the identification of sources of people risk but also influences the operational and financial performance of an organization through people development (Paul and Anantharaman 2003; Meyer *et al* 2011). As such, the human resources function can act as an internal regulator (Blacker and McConnell 2015), policing staff recruitment, training and remuneration, as well as responding to business changes that may impact the people in an organization. Further, as Chapelle (2017) points out, for human resources risk management is not an additional part but an integral part of its role. The importance of the relationship between risk management and human resources can be seen in the increasing importance of issues such as conduct risk, risk culture and risk appetite in changing behavior in the financial services sector (Cagan and Lantsman 2008; McConnell 2008; Blunden and Thirlwell 2012; Institute of Risk Management 2012; Financial Conduct Authority 2018, 2020). People policies and individual behavior are acknowledged to be key elements that are driving the risk culture of organizations (Institute of Risk Management 2012; Financial Conduct Authority 2020). In turn, that culture can impact, and be impacted by, the risk appetite articulated within an organization (Financial Stability Board 2013; Iraci 2019). At the same time, while conduct risk has not been specifically defined by the FCA, its acknowledgement that it is a conduct regulator (Financial Conduct Authority 2013) underlines the potential significance of the contribution of the human resources function in ensuring that the conduct of individuals within organizations complies with the increasingly outcome-based approach of the FCA.

In the early days of Basel's regulatory requirements to address operational risk management in banks, the preference was for "supervisors to focus on qualitative improvement in operational risk management" (Basel Committee on Banking Supervision 1998, p. 7). This was done through raising awareness and facilitating the sharing of best practices, although it was noted, as might be expected, that best practice might differ between one organization and another. During the same period, the FSA, then the UK financial regulator, acknowledged that the way in which a firm manages its people is a major source of operational risk (Financial Services Authority 2002). Nevertheless, aside from the use of the word "people" in Basel's definition of operational risk, discussion of people risk has been conspicuous by its absence from Basel's operational risk management framework.

The "International convergence of capital measurement and capital standards", the first document to provide guidance on operational risk management, noted "that not all risks can be measured precisely [and] a process should be developed to estimate risks" and "similar rigour should be applied to the management of operational risk, as is done for the management of other significant banking risks" (Basel Committee on Banking Supervision 2004, Paragraphs 732, 736). This may help explain the subsequent emphasis on a quantitative approach to operational risk, following the approaches to credit and market risk, and a relative paucity concerning the management of people risk. Thus, "treating operational risk like other risks", ie, measuring it, prevailed in Basel's approach toward operational risk (Ames *et al* 2015). This approach has overshadowed the development of both a more holistic understanding of people risk and the effective integration of it within the regulatory approach to operational risk management (Moosa 2007).

As a result, Basel's treatment of the "people" element of its definition of operational risk remains underdeveloped. Despite this, the growing complexity of the banking industry, the continuous waves of losses that are attributable to people risk (Blacker *et al* 2004) and the development of more comprehensive and integrated risk management frameworks place people and people risk losses at the center of operational risk, as an integral part of what banks do (Martin 2009; Ware and Grantham 2010).

This discussion highlights several key issues arising from the literature:

(i) the unawareness of people risk and the lack of a clear definition of people risk in the Basel operational risk framework, and banks' reliance on quantitative approaches to operational risk management;

(ii) the "embeddedness" of people risk in many of the risks faced by banks and the interrelationship between conduct risk, risk culture and people risk; and

(iii) the relevance of human resources management to the management of people risk in an operational risk framework.

The next section discusses the methodology that we used to examine these issues by seeking the views of operational risk professionals in the banking sector.

3 METHODS

This paper is part of a broader academic study that has been investigating operational risk management in UK financial institutions since the 2000s. The population in this study is bank employees that are experienced in operational risk management in financial institutions that were incorporated in the United Kingdom; the selection of the research sample was guided by Basel II's definition of large, internationally active financial institutions. These institutions vary from firms where investment banking is the main driver of revenue to firms where investment banking is just one of several businesses and does not dominate the overall business agenda or the revenue profile of the financial group (Mullin 2006). Importantly, the targeted institutions were ones that would have implemented operational risk management techniques as required by Basel, and most likely adopted what is considered to be good or best practice concerning operational risk in general and people risk management specifically.

Participants were from different investment banks (including global systemically important banks (G-SIBs)) and retail and commercial banks. More information on participants' roles, the type of banks that they worked for, their experience in banking, in operational risk management in general and in people risk in particular is

TABLE 1 List of participants. [Table continues on the next two pages.]

Participant code	Bank(s)	Role and experience at the time of interview
ORMC01	Investment, G-SIBs	Independent consultant, board adviser on risk management and operational risk author Over 20 years' investment-banking operational risk experience
ORMC02	Retail and investment banks	Head of risk strategy Over 22 years in various credit, operational risk human resources roles
ORMC03	Retail and investment banks	Independent operational risk consultant Over 10 years' experience in consulting and training in risk governance, enterprise and operational risk
ORMC04	Retail, commercial and investment banks	Risk consultant, trainer and published author Over 20 years' experience in global banking operations, credit and operational risk
ORMC05	Retail and commercial banks	Operational risk consultant Over 20 years' experience serving in upper ranks of many banks, holding positions in treasury, systemic risk management and operational risk
ORMC06	Investment, retail and commercial G-SIBs	Capacity and training manager in risk team Over 15 years' experience in risk, human resources and business-support functions
ORMC07	Retail and commercial banks	Risk consultant and director Over 25 years' banking and operational risk experience; most held position is senior operational risk manager in various large groups
ORMC08	Retail and investment banks	Trainer and advisor in operational risk Over 8 years as head of operational risk and a staff consultant in financial institutions

TABLE 1 Continued.

Participant code	Bank(s)	Role and experience at the time of interview
ORM01	Investment bank	Senior risk manager Over 10 years' operational risk experience in various banking institutions
ORM02	Investment bank	Head of operations: operational risk Over 10 years' experience in financial services and investment banking
ORM03	Retail and commercial banks	Senior group operational risk manager Approximately 10 years' experience in operational risk in banking
ORM04	Retail bank	Operational risk and financial crime director Over 10 years of banking and insurance operational risk experience
ORM05	Investment, retail and commercial banks	Head of insurance financial crime prevention Over 15 years' insurance, operational risk and investment-banking experience
ORM06	Retail and commercial banks	Operational risk and information security manager Over 10 years' experience in operational risk management and security information
ORM07	Investment, retail and commercial banks	Risk manager Over 10 years' credit- and operational risk experience
ORM08	Investment, retail, commercial and G-SIBs	Head of operational risk Over 12 years' banking and operational risk experience
ORM10	Investment bank	Operational risk framework architect Approximately 10 years' experience in credit and operational risk management
ORM11	Retail and commercial banks	Operational risk manager Over 20 years' experience spread across various operational risk roles in banks and FSA
ORM12	Retail and commercial banks	Head of operational risk infrastructure Over 13 years in various operational risk roles
ORM13	Retail and commercial banks	Head of operational risk Approximately 15 years' experience in credit and operational risk management

TABLE 1 Continued.

Participant code	Bank(s)	Role and experience at the time of interview
JOR01	Investment bank	Head of business management responsible for operational risk management framework Approximately 5 years' operational risk management experience
JOR02	Investment and G-SIBs	Operational risk officer responsible for the implementation of operational risk Approximately 8 years' operational risk management experience
JOR03	Investment bank	Operational risk officer and risk adviser 3 years in a role responsible for operational risk management and legal framework
JOR04	Investment bank	Operational risk manager Over 7 years' operational risk management experience in various financial institutions
JOR05	Retail and commercial banks	Director in derivatives settlements Over 6 years' experience in operational risk roles

shown in Table 1. The participants were chosen based on a nonprobability judgement basis, which enabled data to be gathered from participants that encapsulated a wide range of experience and characteristics (Marshall 1996). In this regard, each participant was chosen in relation to their exposure to, and experience in, operational risk management and in particular people risk, as some of the participants had worked in both operational risk and human resources departments.

Twenty-five semi-structured interviews were conducted between May 2013 and April 2014 with 5 participants involved in functions that own and manage risks (JORs), 12 participants involved in functions that oversee risks (ORMs) and 8 participants with more than 15 years of operational risk experience across various banking institutions, that have some involvement with human resources and that are independent operational risk consultants (ORMCs). The data was then transcribed and thematically analyzed. Both at the time of this research and since it has been carried out, the management of people risk and the important role of the human resources function in the management of that risk has continued to be acknowledged as an area that requires further research (Hughes 2014; Birindelli and Ferretti 2017). Our paper makes a further contribution to this area of study.

4 RESULTS AND DISCUSSION

Having discussed methods, we now address the issues that were highlighted at the end of the literature review. The discussion of our findings is centered around many of these issues. Despite the fact that the management of people and the risk that it may pose to a bank remains important, little has been presented on the subject in academic research. We take as our steer the key issues from the literature review, and we interviewed participants to investigate the following: the delineation of people risk; the overreliance on quantitative approaches; the embedded nature of people risk; and the association with conduct risk, people risk and risk culture. We begin with an examination of people risk awareness in banks and its limitations.

4.1 People risk awareness and limitations

If the development of the concepts of “people” and “people risk” is limited in the Basel operational risk management framework that guides practitioners, we might expect to find this in the responses of participants. With the frequency and impact of people risk in the form of rogue-trader losses, regulatory fines or human error in the banking industry, throughout the interviews it was clear that participants were aware of the impact of people risk and the need to manage it. Nevertheless, we found differences in emphasis, with around half of the participants indicating that people risk was regarded as being more important at the level of the overall institution and the banking business compared with at operational risk management level. Typical responses included the following:

> In the context of operational risk, [people risk] is not our biggest big risk but in context of the business at large it is a big risk; if you ask all our directors what our biggest risk is, they will go, like [*sic*], "people".
>
> JOR05

> In the context of financial impact, [people risk] is relatively low in [an] operational risk unit. In the context of risks to the organization [people risk] is high because [the organization has] high exposure [to] reputational risk as the institution ends up in the press.
>
> ORM11

These findings are supported by Young (2012), who found that people risk ranked fourth in regard to the impact on business performance but tenth in terms of measurement and management.

This difference in emphasis was recognized by operational risk managers themselves, particularly in terms of how people risk should be addressed:

> People risk, that's the most significant risk that we run merely by employing people. Are people aware of it? Yes, but how do we go about [dealing with] it?
>
> ORM02

> My hope is that, as an industry, we are taking a step back and saying is this [quantitative approach] right? The management of the soft side is the true sense of operational risk management but that doesn't make sense to anyone.
>
> ORM03

This appeared to be the conundrum that people risk presented for operational risk managers, particularly the perceived difficulties in its management in the context of meeting the demands of the Basel framework. The observation by ORM03 that the quantitative side of operational risk "doesn't make sense to anyone" illustrates the predominant influence of the quantitative approach on operational risk that has been the hallmark of the Basel framework. The influence of that regulatory approach is the next issue that we turn to.

4.2 Defining people risk in operational risk management

Given the lack of a definition of "people risk" in the Basel framework, it is perhaps no surprise that nearly 80% of the participants indicated that their institutions did not have a specific definition. Most participants attributed this to working with the Basel definition for operational risk:

> We don't look at [people risk] that way because we can categorise those losses somewhere else and this relates to ... the impact of regulation, it's in the Basel definition.
>
> JOR02

> We use the Basel categorisation, which is narrow if you want to call it that way. It doesn't have deviant behavior.... You can't find that reported anywhere; you can't run a report on people risk.
>
> ORM08

> We have it in the root cause analysis and in the operational risk definition: it's there but it's not defined. There is a human consequence [to] it all [but to] single it out and define it.... We don't, as far as ... I know, but we know what we mean.
>
> JOR04

The participants recognized that people risk was a key issue, and in some cases it was considered in granular analysis as part of the root cause analysis of operational failures, illustrating the "embeddedness" of people risk in operational risk management (discussed further below).

In some cases losses as a result of people were not defined separately or labeled as losses as a result of employees/people, but instead they were monitored as a kind of "subcategory", although definitional issues were again acknowledged:

> I don't think we have a specific definition of people risk ... No! We monitor it through certain measures, but we don't define it per [se].... People risk is a subset of operational risk and that's how we see it.
>
> ORM01

> All losses could be people losses but maybe they are biased as operational risk losses, so people are the main drivers of the losses but unfortunately, it's not that clear cut as a category and there is no definition.
>
> ORM12

It seems that in many cases, due to the lack of a more detailed statutory definition of people risk, people risk losses were either monitored and categorized elsewhere or simply lumped together as operational risk losses. A minority of participants indicated that the banks that they worked for had some sort of definition of people risk, but none could recount the specific definition.

4.3 Regulatory capital adequacy requirements and people risk

Despite these definitional issues in the regulatory framework, participants appreciated the attention that Basel had brought to operational risk management, while at the same time recognizing its limitations in the context of people risk:

> At the moment [in the aftermath of the 2007–9 global financial crisis and the introduction of Basel III] regulatory pressure... has raised the profile of operational risk management. Apart from that I think approaches and methodologies are developing faster and things are becoming industry standards even if they have got massive holes in them.
>
> JOR01

> [The regulators] have brought us where we are, haven't they? So we may give them credit. But as a result of the losses, we are seeing, [we] can safely say their approach did not work or is not working.
>
> ORM07

The view by a number of participants was that the regulator had to do more to support firms in dealing with the more qualitative aspects of operational risk management:

> Since we have known [about operational risk], if you look at Barings, the impact of people risk is clear but what we have done is model and measure because we need to hold capital as required by Basel. We need a change in the whole measurement [versus] management thing.
>
> ORM04

> If people want to stick onto the number side, then what we have seen may continue; the failure will never end. The main part of operational risk is not to be managed through numbers.
>
> ORMC03

As practitioners focused on the necessary task of meeting regulatory capital requirements, some felt that this quantitative process was an end in itself. As one participant put it:

> Operational risk is a requirement under Basel II so you have to measure and model it.…You need a risk register, you need an operational risk database, [you have to] calculate your operational risk capital; you [have] got different models you can use to do that, but it's a regulatory requirement. Hence, banks are doing it.
>
> ORMC04

4.4 The embeddedness of people risk

As indicated earlier, it was clear from our results that participants regarded "people risk" as something that went beyond modeling and measurement and that was important in risk management at every level of the organization. It was therefore logical to investigate how people risk was treated at various stages of compliance with the Basel framework.

As discussions progressed, the "embedded" nature of people risk in the implementation of the operational risk management framework became clear:

> So, [people risk is] one of those categories that may not feature as a specific slice of risk capital, but there will be an element of it in every risk scenario.
>
> ORM05

> In terms of the actual capital [people risk is] not one that materially reaches the threshold, but from a scenario analysis perspective, because again people risk is considered in each of the different types of scenarios, … it's intrinsic, but it's not considered on its own to decide whether it's an issue or not.
>
> ORM15

These responses give typical examples of people risk losses that were set within scenarios feeding into capital allocation, but there was no capital specifically reserved for mitigating people risk (it was subsumed within a category of operational risk capital). In the event of a rogue trader, the often-asked question is: “How much capital has been set aside for such losses?” But, as participants reiterated, no specific capital was set aside for such people risk losses. This may also be a reflection of Basel’s focus, and therefore banks’ focus, on quantitative measurement and modeling, which is not being matched by developments of a more qualitative nature feeding into the regulatory framework. As two participants commented:

> I think operational risk probably evolved over that period in terms of people starting to think it was now structured, scoped and defined ... but people risk is still a very young discipline and I think we are learning about it more all the time, but it is not yet covered.
>
> ORM08

> If you are a manager of a large team and you have burning urgent regulatory issues and you have got issues that are “nice to have” but do not change that much, at least on the surface, then you may think that I am not going to bother with [the latter]; we put them in the plan of work for next year and then just forget about [them].
>
> ORMC04

While the management of risk under Pillars 2 and 3 of the Basel Accords, specifically Principle 1 of Pillar 2, requires banks to take account of “qualitative and subjective factors” in demonstrating that chosen internal capital targets are well founded, our results suggest that a greater focus on people risk is required. The relevance of this point is underlined by the inherent relationship, mentioned already, between people risk and the issues of risk culture, risk appetite and conduct risk, which are regarded as fundamental to good governance under the Basel Accords (Basel Committee on Banking Supervision 2015).

As efforts to develop metrics for key elements of a risk management framework such as risk culture and risk appetite continue, these may be considered as proxy measurements for the management of people risk, thus facilitating the management of such risk. Although challenges in developing such metrics have been recognized (Basel Committee on Banking Supervision 2018), progress has been made in linking such metrics to prudential outcomes. Research by Xu *et al* (2017) and Suss *et al* (2021) suggests that it may be possible to integrate behavioral issues into calculating and managing potential operational risk losses.

At the same time, it is important to note that no single set of measures may be sufficient to capture the varied nature of people risk across different organizations. Likewise, the view of some participants was that conduct risk is a narrow perspective of people risk, that is distracting attention from broader notions of people risk:

> A lot of it is down to people, and to me that is why this is interesting.... I do not think we have explored people risk enough.... I do not think enough focus is on people at the moment; with conduct risk now taking focus, it's kind of merging people risk with conduct risk, but conduct risk is just a small subsection of what I think of as people risk.
>
> ORM11

4.5 People risk and human resources practices

The relationship between human resources and operational risk management that is evident in the literature was also apparent in our discussions with operational risk practitioners. In discussing people risk, participants often turned to human resources practices:

> We kind of do not have any specific definition, but these are the kind of irregularities from people: ... failure to recruit and retain sufficient resource; failure to identify and educate the team; [failure to] comply with employment and regulation; inappropriate conduct. So those are the people risks.
>
> JOR03

> I think for us it's a challenge and people risk is still in the sense of what is our attrition rate, knowledge management, training, identifying knowledge gaps ... so, we monitor people through attrition levels [and] work knowledge gap.
>
> ORM04

Training, motivation, remuneration, conduct, absenteeism and attrition rates were commonly discussed in connection with people risk. When participants were then asked what these issues entailed for managing people risk, they often referred to human resources as being a partner that knew more about people risk. Nevertheless, we also found acceptance that approaching people risk in terms of human resources practices would inevitably only form part of a more holistic approach. As one participant commented:

> I think people risk for me materialises from anything, as banks involve people, but looking at the statistics may not be the right way [to manage] it. We have attrition rate, absenteeism and adversity measures and targets, but what do these tell us in the context of the people risk that you are talking about, I wonder?
>
> ORM04

This is because the human resources view of people risk provides a limited transactional perspective. People risk management in the context of operational risk management requires taking responsibility and the formulation of a comprehensive approach beyond a simple human resources characterization. Participants summed it up as follows:

> Who should be responsible? … Really it should be the risk managers and/or the experts…. And the expert should be whoever runs human resources; human resources is a transactional function … they [together] now need to stop and say what are the risks that we run in employing people, or does the way in which we recruit people fit in with our attitude to risk?
>
> ORMC01

> A human resource department may see [people risk] as employee engagement or staff retention or recruitment issue[s]. An operating center may see people risk as threats to resourcing capacity, and for operational risk we are yet to see people risk for what it is…. It is incredible that I am saying this, but probably more industry work needs to be done in this [people risk] area of risk management in the context of banking.
>
> ORM02

As a result, a number of operational risk managers that were interviewed regarded human resources as having an important role in people risk management, and in at least one case this resulted in human resources being embedded within the operational risk management function:

> Human resources provide … more … subject matter [expertise], which is important, but I think the risk management element of it is the sort of key…. Certainly in our HR area they have their own sort of risk embedded team with 2–3 people and they run the risk side of things.
>
> ORM04

This was not a general practice, but it is supported by Blacker and McConnell (2015) and Chapelle (2017), who have argued for the need to recognize the synergies arising from this collaboration in addressing people risk management. This is also further supported by Basel Committee on Banking Supervision (2020), which recommend banks map interconnections and interdependencies to set operational resilience and for the operational risk management function to work alongside other relevant functions, in order to manage and address risks that threaten the delivery of critical operations.

5 CONCLUSION

As "people" are identified as a key element of operational risk management in the Basel risk framework for banks, we have examined how people risk is managed in banks using interview data that was obtained from 25 operational risk management experts working in the UK banking sector. Several important themes have emerged. First, despite "people" featuring in Basel's definition of operational risk, and a general recognition of the potential impact of the behaviors of staff in banking business, people risk is still underdeveloped. The general absence of a clear or pervasive industry definition of people is clearly influenced by the Basel approach to banking risk management, which has continued to focus on quantitative capital allocation. The lack of development of a more qualitative side to people risk management in the Basel framework is therefore not a surprising finding.

While reforms and frameworks that followed the financial crisis resulted in a number of changes to strengthen banks' resilience (eg, emphasis on risk culture and conduct risk), with regards to people risk there are lessons to be learnt and further work required. Our research does illustrate, however, that the banking industry recognizes the importance of developments in incorporating qualitative elements within operational risk management. In this context, the greater emphasis that is now given to risk culture, risk appetite and conduct risk by regulators may be regarded as a recognition of the need to take a different approach in addressing the qualitative side of risk management. We believe that the continuing efforts to establish metrics in relation to these issues should be harnessed as the first step in measuring people risk. Just as there is no single risk appetite or risk culture, such metrics may vary from one organization to another, but this is simply an expression of the reality that the behavioral expectations of organizations can vary.

The current "embedded" nature of people risk in banks' approaches to operational risk may be partly due to the lack of a clear definition and a reticence to define and analyze people risk losses, as this is not required by regulation. While the risk arising from the behavior and omissions of individuals has generally been part of scenario planning or other tools within operational risk management, it has generally become subsumed within other risk categories that are reported on. This is a significant issue for banks, since there is a danger that, being embedded, people risk is overlooked at critical moments. Therefore, attempts to identify even proxy metrics that are allocated to people risk can be a step in the right direction.

In addition, Basel Committee on Banking Supervision (2020) suggests that banks' operational risk management functions work alongside other relevant functions to manage and address risk. In response to this suggestion, some operational risk managers have turned to human resources to improve their focus on people risk and in some cases have asked human resources to act as a "partner" or "internal regulator" in addressing "people risk" in the context of operational risk management. The emergence of, and interface between, human resources and risk management in terms of new teams and structures may enhance the comprehensiveness of people risk management. At the very least, acceptance that the human resources function is required in managing risks relating to areas including performance, talent recruitment and management, skills and training and succession means that human resources has an integral role to play in the operational risk management functions in banks.

As Basel moves into a new phase of quantitative reform, there is an irony in the fact that the issues outlined in this research remain. It may well be the case that, having managed with this state of affairs over two decades, banks and regulators will continue to do so more or less effectively. Our research also suggests that, without more regulatory provisions specifically relating to people risk, action by banks in this area may be slow. Nevertheless, as greater pressure is placed on banks to address conduct and culture issues and as we move into the full implementation of Basel III, this may be an opportune time to revisit the issue of "people risk" in operational risk management.

DECLARATION OF INTEREST

The authors report no conflicts of interest. The authors alone are responsible for the content and writing of the paper.

REFERENCES

Acharyya, M. (2010). The role of operational risk and strategic risk in the enterprise risk management framework of financial services firms. *International Journal of Services Sciences* **3**(1), 79–102 (https://doi.org/10.1504/IJSSci.2010.029865).

Ames, M., Schuermann, T., and Scott, H. S. (2015). Bank capital for operational risk: a tale of fragility and instability. *Journal of Risk Management in Financial Institutions* **8**(3), 227–243 (https://doi.org/10.2139/ssrn.2396046).

Basel Committee on Banking Supervision (1998). Operational risk management. Report, September, Bank for International Settlements. URL: www.bis.org/publ/bcbs42.pdf.

Basel Committee on Banking Supervision (2004). International convergence of capital measurement and capital standards: a revised framework. Report, June, Bank for International Settlements. URL: www.bis.org/publ/bcbs107.pdf.

Basel Committee on Banking Supervision (2015). Corporate governance principles for banks. Guidelines, July, Bank for International Settlements. URL: www.bis.org/bcbs/publ/d328.pdf.

Basel Committee on Banking Supervision (2016). Standardised Measurement Approach for operational risk. Consultative Document, March, Bank for International Settlements. URL: www.bis.org/bcbs/publ/d355.pdf.

Basel Committee on Banking Supervision (2018). BCBS SIG industry workshop on governance, culture and conduct. High-level Summary, November, Bank for International Settlements. URL: www.bis.org/bcbs/events/20181107_sig_summary.htm.

Basel Committee on Banking Supervision (2020). Principles for operational resilience. Guidelines, March, Bank for International Settlements. URL: www.bis.org/bcbs/publ/d509.htm.

Birindelli, G., and Ferretti, P. (2017). Operational risk management: organizational and governance issues. In *Operational Risk Management in Banks: Regulatory, Organizational, and Strategic Issues*, Chapter 4, pp. 67–110. Palgrave Macmillan Studies in Banking and Financial Institutions. Palgrave Macmillan, London (https://doi.org/10.1057/978-1-137-59452-5_4).

Bitsch, V., and Harsh, S. B. (2004). Labor risk attributes in the green industry: business owners' and managers' perspectives. *Journal of Agricultural and Applied Economics* **36**(3), 731–745 (https://doi.org/10.1017/S1074070800026985).

Blacker, K., and McConnell, P. (2015). *People Risk Management: A Practical Approach to Managing the Human Factors That Could Harm Your Business*. Kogan Page, London.

Blacker, K., Mills, R. W., and Weinstein, B. (2004). *People Risk in the Financial Services Industry*. Working Paper Series. Henley Management College.

Blunden, T., and Thirlwell, J. (2012). *Mastering Operational Risk: A Practical Guide to Understanding Operational Risk and How to Manage It*. Pearson, London.

Cagan, P., and Lantsman, Y. (2008). The cyclicality of operational risk: the tracking phenomenon. URL: https://bit.ly/3wbmCma.

Chapelle, A. (2017). *Reflections on Operational Risk Management*. Risk Books, London (https://doi.org/10.1002/9781119548997).

Doerig, H. U. (2003). Operational risks in financial services: an old challenge in a new environment. Working Paper, Credit Suisse Group.

Financial Conduct Authority (2013). Treating customers fairly. FCA News Web Page, May 12, FCA. URL: www.fca.org.uk/firms/fair-treatment-customers.

Financial Conduct Authority (2018). 2018 fines. FCA News Web Page, January 8, FCA. URL: www.fca.org.uk/news/news-stories/2018-fines.

Financial Conduct Authority (2020). Transforming culture in financial services: driving purposeful cultures. Discussion Paper, March, FCA. URL: www.fca.org.uk/publication/discussion/dp20-1.pdf.

Financial Services Authority (2002). An ethical framework for financial services. Discussion Paper 18, FSA (https://doi.org/10.1353/pfs.2002.0001).

Financial Services Authority (2008). The supervision of Northern Rock: a lessons learned review. Report, March, FSA. URL: https://www.fca.org.uk/publication/corporate/fsa-nr-report.pdf.

Financial Stability Board (2013). Guidance on supervisory interaction with financial institutions on risk culture: a framework for assessing risk culture. Advisory Paper, April, FSB. URL: https://www.fsb.org/wp-content/uploads/140407.pdf.

Fitz-Enz, J. (2000). *The ROI of Human Capital: Measuring the Economic Value of Employee Performance*. AMACOM, 's-Hertogenbosch, The Netherlands.

Flouris, T., and Yilmaz, A. K. (2010). The risk management framework to strategic human resource management. *International Research Journal of Finance and Economics* **36**(1), 25–45.

Hughes, B. (2014). The HR blind spot: people risk – a challenge (and opportunity) for HR. HR Spotlight Blog, Deloitte. URL: https://bit.ly/3LPYaO7.

Institute of Risk Management (2012). Risk culture. Resources for Practitioners, IRM. URL: https://bit.ly/3skOPpB.

Iraci, J. (2019). *Risk Appetite, Culture, and Conduct: A Guide for Risk Management*. Risk Management Association, Philadelphia, PA.

Jarrow, R. A. (2008). Operational risk. *Journal of Banking and Finance* **32**(5), 870–879 (https://doi.org/10.1016/j.jbankfin.2007.06.006).

Kingsley, S., Rolland, A., Tinney, A., and Holmes, P. (1998). Operational risk and financial institutions: getting started. *Operational Risk and Financial Institutions*. Risk Books, London.

Marshall, M. N. (1996). Sampling for qualitative research. *Family Practice* **13**(6), 522–526 (https://doi.org/10.1093/fampra/13.6.522).

Martin, P. H. (2009). As risk management evolves, is operational risk management important? *The Journal of Operational Risk* **4**(4), 75–84 (https://doi.org/10.21314/JOP.2009.066).

McConnell, P. (2008). People risk: where are the boundaries? *Journal of Risk Management in Financial Institutions* **1**(4), 370–381.

Meyer, M., Roodt, G., and Robbins, M. (2011). Human resources risk management: governing people risks for improved performance. *SA Journal of Human Resource Management* **9**(1), 1–12 (https://doi.org/10.4102/sajhrm.v9i1.366).

Miller, M. (2011). Operational risk. In *Financial Engineering: The Evolution of a Profession*, Beder, T., and Marshall, C. M. (eds), Chapter 25, pp. 455–464. Wiley (https://doi.org/10.1002/9781118266854.ch25).

Moosa, I. A. (2007). Operational risk: a survey. *Financial Markets, Institutions and Instruments* **16**(4), 167–200 (https://doi.org/10.1111/j.1468-0416.2007.00123.x).

Moosa, I. A., and Li, L. (2013). An operational risk profile: the experience of British firms. *Applied Economics* **45**(17), 2491–2500 (https://doi.org/10.1080/00036846.2012.667556).

Mullin, K. (2006). *Global Investment Banks: Trends, Strategies and Performance*. Thomson Financial Group, Hunt Valley, MD.

Paul, A. K., and Anantharaman, R. N. (2003). Impact of people management practices on organizational performance: analysis of a causal model. *International Journal of Human Resource Management* **14**(7), 1246–1266 (https://doi.org/10.1080/0958519032000145648).

Peters, G., Clark, G., Thirlwell, J., and Kulwal, M. (2018). Global perspectives on operational risk management and practice: a survey by the Institute of Operational Risk (IOR) and the Center for Financial Professionals (CeFPro). *The Journal of Operational Risk* **13**(4), 47–88 (https://doi.org/10.21314/JOP.2018.215).

Renel, G. (2010). Defining and understanding people risk – an overview. *PRiM Risk Newsletter* **8**(5), 11–12.

Rosenberg, H. R. (1999). Recognizing and managing risks in agricultural labor management. *Labor Management Decisions* **8**(1). URL: https://are.berkeley.edu/~howardrr/pubs/lmd/html/wintspring_99/LMD.8.1.laborisks.html.

Sands, P., Liao, G., and Ma, Y. (2018). Rethinking operational risk capital requirements. *Journal of Financial Regulation* **4**(1), 1–34 (https://doi.org/10.1093/jfr/fjx009).

Suss, J., Bholat, D., Gillespie, A., and Reader, T. (2021). Organisational culture and bank risk. Staff Working Paper 912, March, Bank of England (https://doi.org/10.2139/ssrn.3801088).

Thevendran, V. (2002). Risk management in the construction industry: the relevance of human factors. Research Project, School of Civil of Engineering, University of Nottingham.

Thevendran, V., and Mawdesley, M. J. (2004). Perception of human risk factors in construction projects: an exploratory study. *International Journal of Project Management* **22**(2), 131–137 (https://doi.org/10.1016/S0263-7863(03)00063-2).

Wahlström, G. (2006). Worrying but accepting new measurements: the case of Swedish bankers and operational risk. *Critical Perspectives on Accounting* **17**(4), 493–522 (https://doi.org/10.1016/j.cpa.2004.08.006).

Ware, J., and Grantham, C. (2010). Managing a remote workforce: proven practices from successful leaders. White Paper, Work Design Collaborative, LLC, Walnut Creek, CA.

Wilkinson, A. (1995). Towards HRM? A case study from banking. *Research and Practice in Human Resource Management* **3**(1), 97–115.

Xu, Y., Pinedo, M., and Xue, M. (2017). Operational risk in financial services: a review and new research opportunities. *Production and Operations Management* **26**(3), 426–445 (https://doi.org/10.1111/poms.12652).

Young, J. (2012). The use of key risk indicators by banks as an operational risk management tool: a South African perspective. *Corporate Ownership and Control* **9**(3), 172–185 (https://doi.org/10.22495/cocv9i3c1art2).