

HumanRisk

SCCE
September 2019

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“The risk of people doing things they shouldn’t, or not
doing things they should”

Christian Hunt

2

UBS was kicked off a \$1 billion bond deal because China is angry about a joke a senior economist made about pigs

HAWAII OFFICIALS CONFIRM BALLISTIC MISSILE ALERT WAS A FALSE ALARM

And the loser is – PwC: Oscars blunder beats any audit scandal

Envelope confusion puts auditor in the limelight, writes Andrew Hill



April 2019 Google Outages Due to Human Error

A Deutsche Bank junior employee accidentally sent a hedge fund client \$6 billion while their boss was on holiday

Human error blamed for fatal accident at level crossing

Japan says human error likely cause of F-35A jet crash

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“The riskiest part of our business nowadays is operational risks. We can have hours of discussion on credit or market risks. But the one thing that really hurt in the last 10 years of our industry is op risks, not credit or market risks.

If you do something wrong as a bank, or you have people doing bad things within the bank, it costs you much more than any credit risk or market position”



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Behavioral Science (BeSci)

“Understanding the real drivers of human behavior, so we can influence them to deliver better outcomes”

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The growth of BeSci

Academia

- Prospect Theory
- Nudging
- Predictable Irrationality



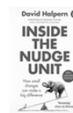
Technology

- Big Data
- Mobile devices
- The “Truth Serum” of Search



Governments

- Nudge Units
- Large Datasets



Regulators

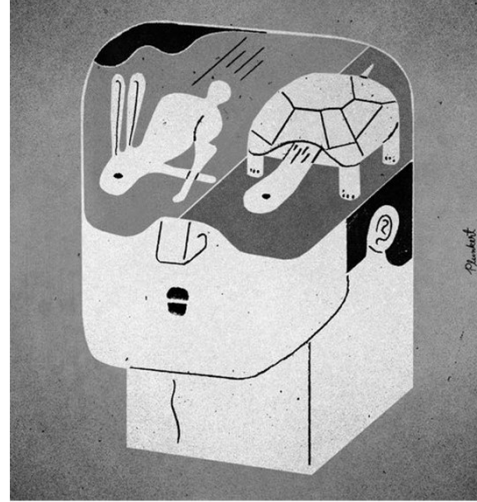
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How our brains work

System 1: Fast, automatic, frequent, emotional, stereotypic, unconscious



System 2: Slow, effortful, infrequent, logical, calculating, conscious



© New York Times

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How we take decisions



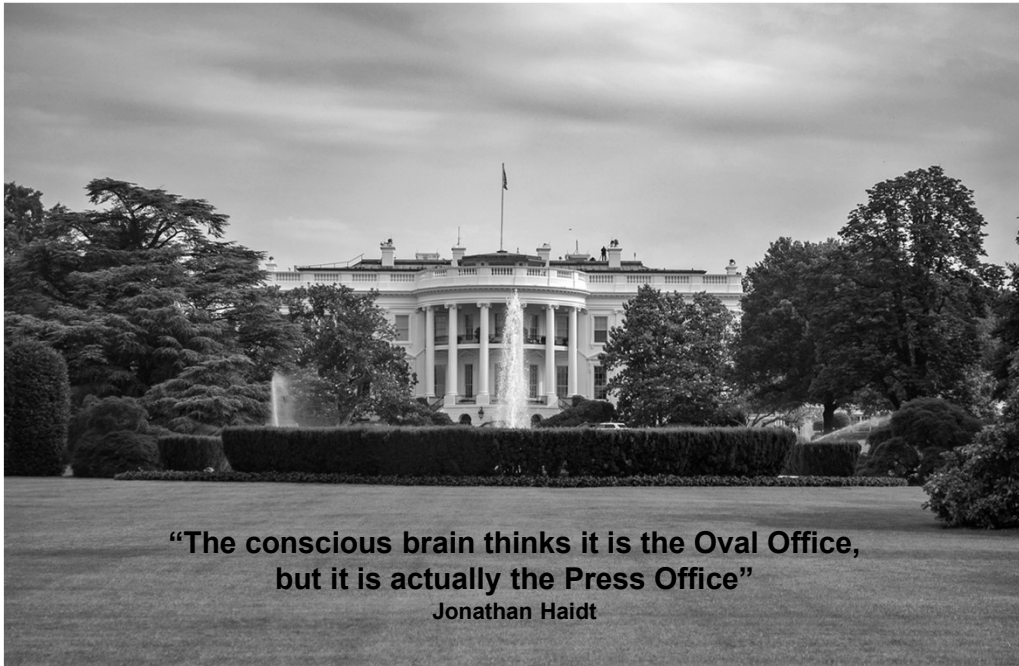
Cognitive Biases: predictable patterns of thought
"Look at all that money I've saved"

Heuristics: mental problem-solving shortcuts
"All those people can't be wrong"



Logical Fallacies: flaw in reasoning
"I'm full. But I'll eat more because I've paid for it"

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Evolution of motivation



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Not all Compliance aims are the same



The more the merrier

Behaviours where the desired outcome is to get as many people as possible to comply (eg. recycling)

It only takes one to help

Behaviours which we want people to exhibit under the right circumstances for the right reasons (eg. whistleblowing)



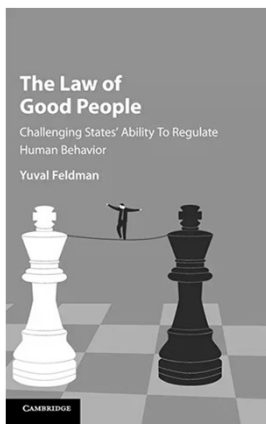
It only takes one to harm

Behaviours where it is necessary to have everyone comply at all times (eg. fraud)

Content adapted from Yuval Feldman "The Law of Good People"

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Employees have different motivations



Bad Actors

Engage in calculated wrong-doing

Ordinarily Moral Individuals

Wrong-doing based on a blind-spot with limited awareness of wrong-doing

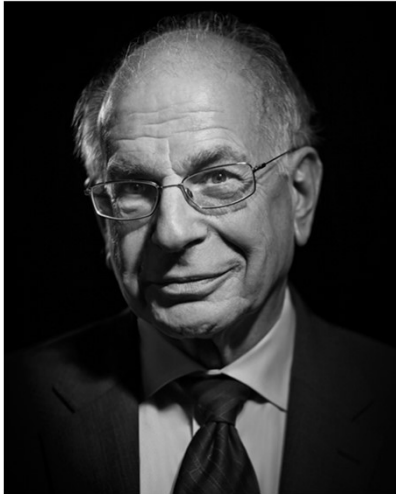
Situational Wrong Doers

Use social and situational cues to justify their unethicality

Content adapted from Yuval Feldman "The Law of Good People"

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Change the environment, not the person



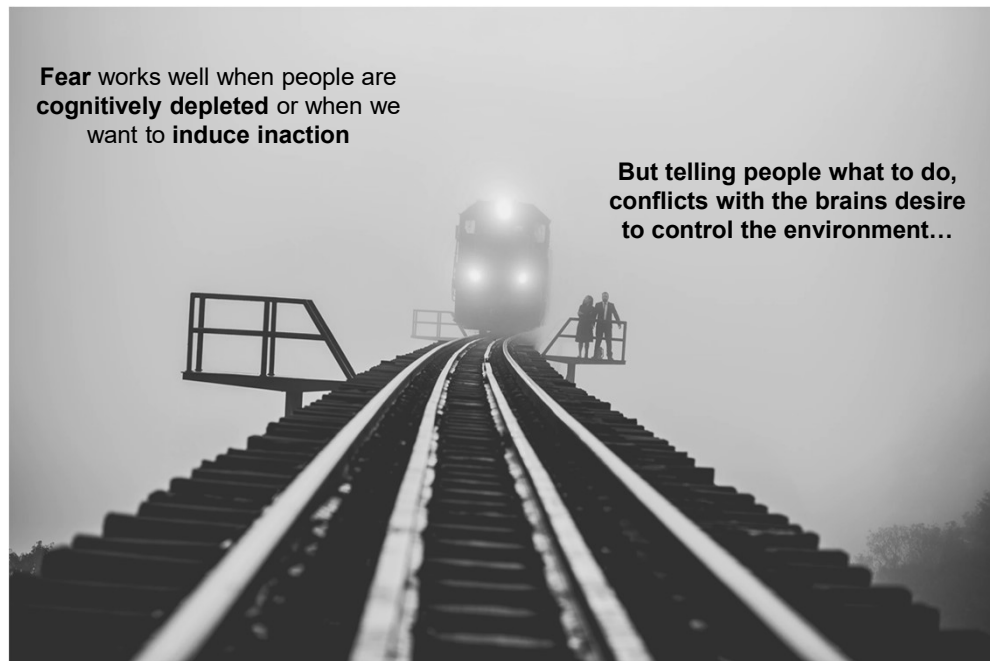
“There are driving forces that drive you in a particular direction. There are restraining forces, which are preventing you from going there.

If you want to change behaviour, there is one good way to do it and one bad way to do it. The good way to do it is by diminishing the restraining forces, not by increasing the driving forces.

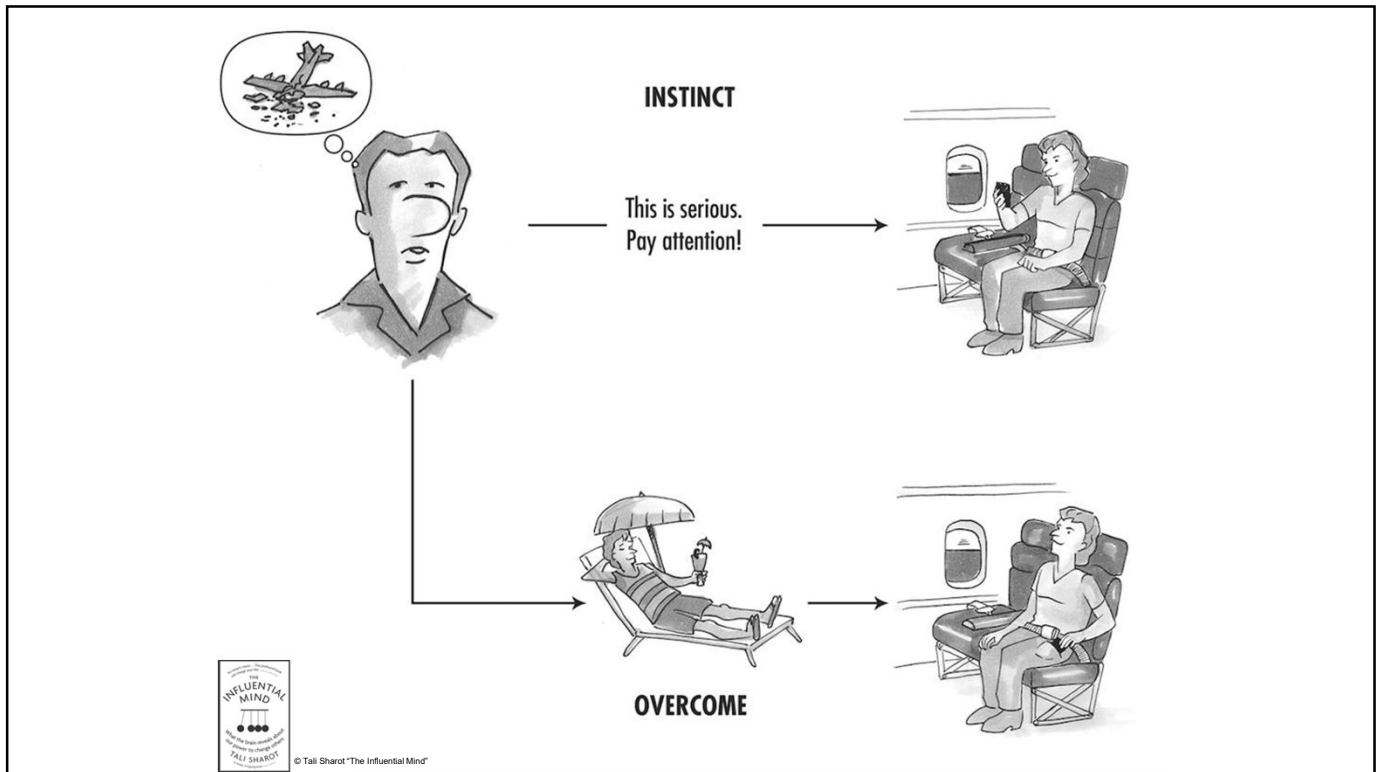
That turns out to be profoundly non-intuitive.”

Daniel Kahneman cit. Kurt Lewin

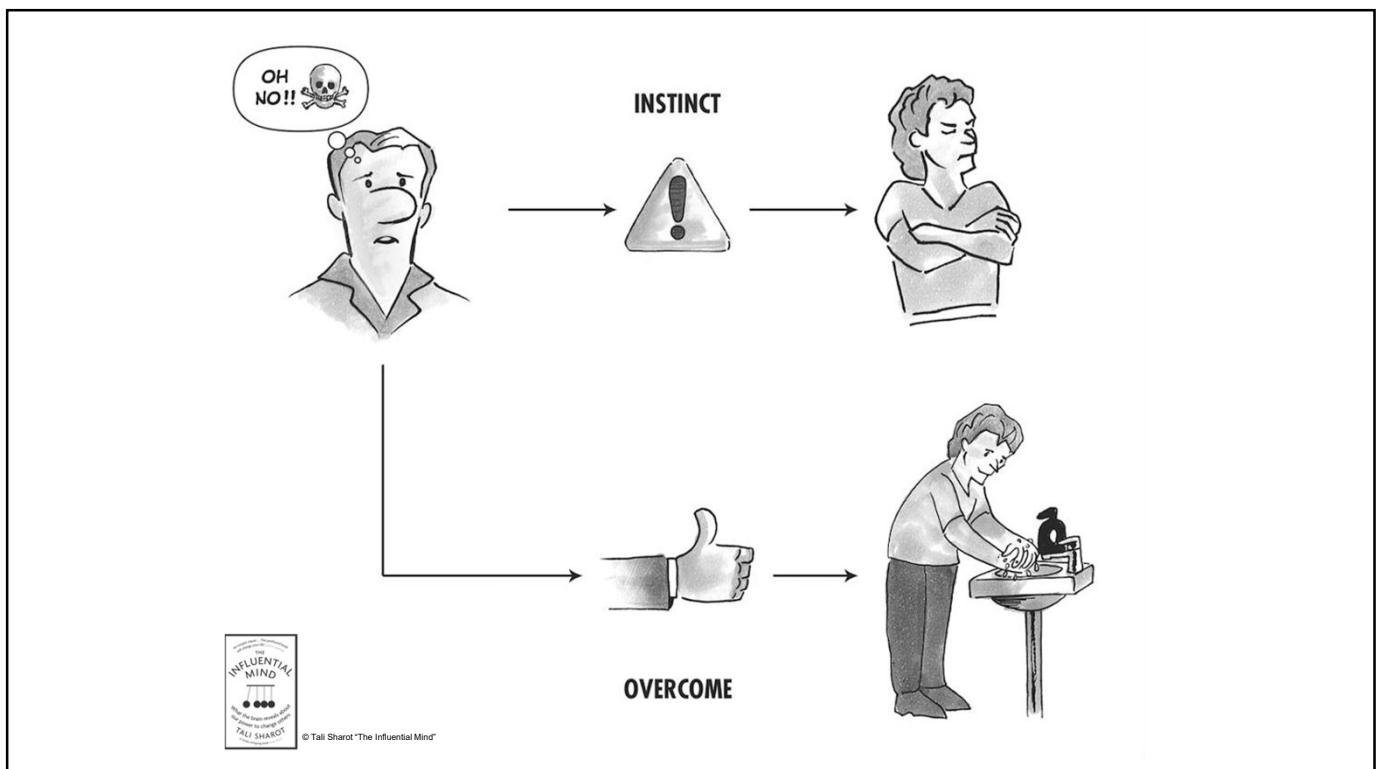
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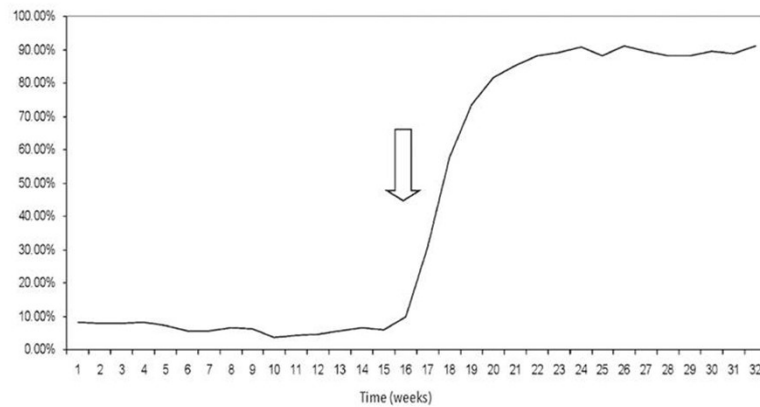
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© Tali Sharot "The Influential Mind"

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Mistake of the month

"At BA making mistakes is not something you tend to admit.

I've introduced...the 'Mistake Of The Month' because **I want people to know it's OK to make a mistake and it's OK to talk about it**, because that's how we actually learn.

There's 45,000 people in the company [and] no-one makes a mistake? Come on!"

Source: skift.com 30 May 2017

MISTAKE OF THE MONTH

Tim Richardson,
Head of Property

At Heathrow, the BA1 bus was used primarily to serve the Cranebank training site on the airport's north side. That facility closed at the beginning of the year when training moved to new facilities on East Base. The bus stopped serving Cranebank itself but continued to run to the north side of the airport, which was a mistake. We've changed the routing and the BA1 bus now starts and stops at Harlington Corner, reducing journey times for people travelling between Waterside, Cargo and T5. Because the route is shorter, we can run the new route with fewer buses, which saves money as well.

© British Airways

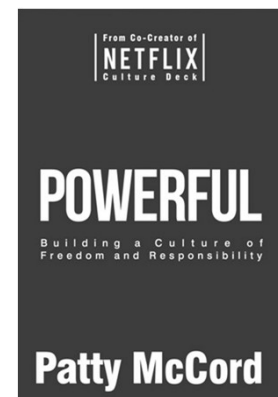
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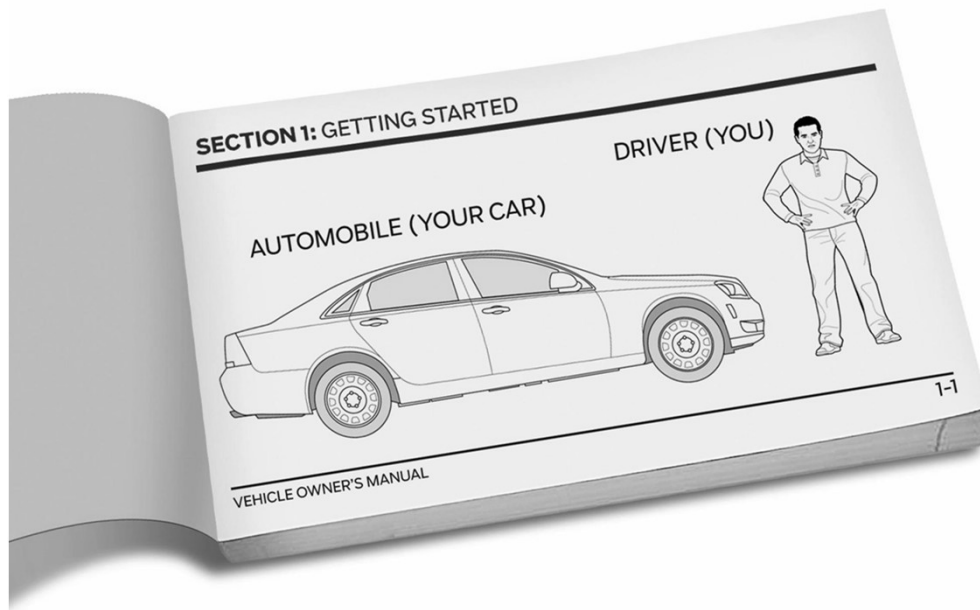
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Netflix's Freedom & Responsibility Culture

- “Good” process helps talented people get more done
- “Bad” process tries to prevent recoverable mistakes
- Necessary rules
 - prevent irrevocable disaster; and
 - moral, ethical, legal issues
- T&E Policy: “Act in Netflix’s Best Interests”
- Vacation: “There is no policy”



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© Chicago Tribune

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Technology and Human Risk



- Machines are better than humans are at repetitive, manual processes

However...

- Algorithms scale biased human behaviour and don't do nuance;
- Blind trust in the Black Box;
- Human rules don't work for machines, whilst machine rules don't work for humans; and
- Concentration of Human Risk

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