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

Christian Hunt
“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.”
Behavioral Science (BeSci)

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

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
How our brains work

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

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

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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"
“The conscious brain thinks it is the Oval Office, but it is actually the Press Office”
Jonathan Haidt

Evolution of motivation

“Compliance”  Marketing  Economics  BeSci
RULES & REGULATIONS  AWARENESS CAMPAIGN  PENALTY OR REWARD  BEHAVIORAL DESIGN

EXTRINSIC MOTIVATORS  INTRINSIC
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)

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
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

Fear works well when people are cognitively depleted or when we want to induce inaction

But telling people what to do, conflicts with the brains desire to control the environment...
INSTINCT
This is serious.
Pay attention!

OVERCOME

INSTINCT
OH NO!!

OVERCOME
“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
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”
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