IOR Newsletter

THE INSTITUTE OF OPERATIONAL RISK

Welcome to the latest edition of the Newsletter of the Institute of Operational Risk. This publication is designed to help keep members and non-members informed of developments within the industry and also within the IOR itself. If you would like further information about any of the issues raised in this newsletter, or have any suggestions about how we can improve the content or design, please do not hesitate to contact the Editorial team at the following address: info@ior-institute.co.uk

Message from the Chair

George Clark,
FIOR,
IOR Chair

Stewardship, Integrity and Respect

This is my first newsletter as the Chair of our Institute. I am humbled and honoured by the trust placed on me to continue the work of growing and maturing our Institute. I thank those Chairs and Office Bearers who have gone before for what they have left behind. I start from a good place, with enough challenges remaining to make it an interesting journey for us all. My first message to Council, and which I reiterate to all members, was that I hold 3 things dear:

Stewardship – We must leave things better than we found them and aim to protect and enhance our reputation and legacy at all times. We should pioneer innovative and better ways to do things.

Integrity – We must say and do the right things, even when no one is watching. We must challenge what we believe to be wrong and be open to the challenge of others. We must have rigour in what we do.

Respect – We must build trust with colleagues, members and the partners we work with. We collaborate to get the best results and put our shared interests ahead of any individual or group. We listen and are open to others opinions, even when we disagree.

I am prepared as Chair to be measured against these standards and acknowledge that it is all about the delivery, not the words.

With delivery in mind I am enthusiastic at the progress the team on Council has made in such a short time. As a volunteer Council we continue to progress the strategic direction developed by previous Councils even if the language and priorities reflect where we are today. Our current priorities fit into 4 main areas: Education, Chapters, Finances and Operations.

I am delighted that we will shortly commence a pilot of our Certificate in Operational Risk Management. This pilot will test the relevancy of content for practioners and new entrants, allowing us to gain experience of the challenges in delivering an accredited exam on an international basis. I cannot thank enough the volunteers who have got us to this point, historically and from the current team. I have reached out to our Fellows asking for their support in mentoring those taking part. Looking for support from the talent within our Institute is a theme I will constantly return to.

The Institute continues to seek to grow our Chapters and I wish to welcome our recently formed Irish Chapter to the fold. We also continue conversations in India, the US and Australia to name a few possible opportunities. Council have asked all of the Chapters to develop plans for growth and events aligned to our strategic imperatives. A one day conference between Council and Local Chapter Heads is scheduled for June in order to develop core relationships and agree how we can achieve our common objectives in a sustainable way. The Chapters continue to be our lifeblood in driving meaningful conversations and events which add value to our members.

Continued on page 3

Highlights in this issue

- Updates from the IOR Chapters
- IOR Education Programme
- Sound Practice Guidance
  - Embedding an ORM framework
- Cyber-security preparedness
- Special feature articles:
  - Systemic Operational Risk
  - CIR Risk Management Awards
  - Regulatory Update

Call for Articles

This is primarily a members' newsletter and we would be delighted to receive articles or submissions from any member of the Institute. These submissions may be in the form of research, review, comment, conference coverage or any other risk related article.

Contacting the IOR

Dedicated IOR telephone number

The IOR has a dedicated telephone line so that both members and non-members can speak to someone in person if they have, for example, any queries regarding membership, the application process, payment of annual fees or any other more general queries.

+44 (0)1920 443818

The number can also be found on the IOR website under the "Contact Us" section.

The IOR Education Programme

The Education Programme reached a significant milestone in March when a pilot of the Certificate in Operational Risk Workbook (CORM) commenced. The pilot incorporates 29 individuals supported by 13 mentors with a good international spread of participants. The pilot will give us the necessary feedback to make sure the CORM will be both fit for purpose and meet the standards of our accrediting body.

The pilot covers Phase 1 of our Programme with Phases 2 and 3 (Design and build of delivery platforms and Implementation activity) all targeting a launch of the CORM workbook and its multiple choice based exam by Q4 2016. The Programme's Phase 2 is where much of the critical delivery activity will be completed. We have already set up a trading arm and need to work through income and tax issues. Some of the additional activity we now need to focus on relates to: the selection of preferred suppliers, training and mentoring regimes, pricing models, linkage to existing IT and membership platforms, examination centres, banks of exam questions, to name but a few.

The Phase 3 activity incorporates our communications, marketing and sales launch and once delivered the CORM provides a core building block to professionalising both our Institute and our discipline.

The progress to date is entirely down to a small team of dedicated volunteers who make up the Programme Team, ably supported by a professional project resource. As always the Institute greatly appreciates the volunteer support from dedicated members. Without this, our progress and development would be impossible.

Sound Practice Guidance

The Sound Practice Guidance Committee has been busy during the 1st quarter of the year and has launched a new paper entitled "**Embedding an Operational Risk Framework"** and refreshed the "**Key Risk Indicators"** paper originally published in 2010.

These documents, along with all Sound Practice Guidance ('SPG') papers are freely downloadable for members by visiting: https://www.ior-institute.org/sound-practice-guidance. The publication of these papers is as a result of members volunteering their time and expertise to the development of these valuable papers. If you are interested in contributing to the refresh of existing papers or the development of new papers please get in touch [heather.morrison@skipton.co.uk].

It is with much disappointment that we must announce that Ariane Chapelle has decided to step down as the Chair of the Sound Practice Guidance Committee. Over the past couple of years Ariane has overseen the development and refreshment of the Sound Practice Guidance papers and supported the development of two new topics. The IOR thanks Ariane for her time, dedication and commitment and wishes her good luck with her next opportunity. Heather Morrison has volunteered to take over from Ariane.

The below text is an introduction to the full SPG paper on Embedding an Operational Risk Framework. IOR members can download the full guide via the IOR website.

"A key objective of an Operational Risk Management Framework (ORMF) is to identify, assess, monitor and report the risks to which an organisation may be exposed currently or potentially. To be effective, it is necessary for the framework to be cohesive, consistently applied and integrated with business processes if it is to be described as "embedded".

Many organisations have developed a fit-for-purpose ORMF and this can be evidenced by the existence of appropriate documentation, e.g. risk strategy, risk appetite statement, policies and procedures. They have taken steps to implement these, delivering communications and training material to raise awareness and understanding across their business lines and functions.

Then they are presented with what could be the biggest challenge of all – "embedding". This will ensure that business actions and decisions are demonstrably influenced by risk management considerations and risk management information, indicating integration of the framework itself and its alignment with business processes. The challenge may arise because the framework has been developed over a period of time and/or in separate component parts. In larger organisations, the framework may be managed in different parts of the business and perhaps different teams in central functions perform oversight of the outputs.

The aim is to attain a fully integrated and embedded ORMF that will bring benefits to the organisation in financial and non-financial terms. It will also provide a robust basis for demonstrating the value of operational risk management activity. Therefore this guidance seeks to explore what "embedding" really means from business and regulatory perspectives. The paper examines the critical success factors involved in achieving an embedded ORMF, how framework components and activities can be integrated, and how they can be aligned with business processes. It also addresses how the effectiveness of embedding can be assessed."

Message from the Chair – continued from page 1

With much to do we must make sure that we have stable finances. In creating the education programme we have now set up a wholly owned trading subsidiary through which we can operate our student growth and participation. Over the coming months we will develop that model with a view to maximizing income whilst prioritising value to members and supporting our Chapters.

Another core objective is to professionalise the operations of our Institute. For a body of our size we have too many processes that have built up over time and seldom been challenged. I acknowledge how those processes can impact upon you as members when you try to contact us, renew your membership, join for the first time or recommend others. Council have therefore embarked upon a series of technology upgrades which, over coming months, should simplify and improve our ability to do more and to do it better. This is the engine room of our Institute and while we work closely with preferred suppliers the work is another area which is volunteer led.

In other areas your Institute has been talking to many stakeholders and partners, including regulators. Our voice is starting to be heard more clearly.

I thank those members who took part in the recent survey on Cybercrime. This is the kind of conversation that we can influence and offer useful insight to our membership and discipline. We are also working on papers positioning our view as an Institute on proposed changes to regulation within Financial Services removing the AMA regime. We will seek to include and represent members' views within these conversations.

As promised, I now return to the theme of the talent within our Institute and how best the IOR can access and use volunteers given the exciting but challenging journey which lies ahead. At our core we remain a volunteer led Institute. Volunteers will also come and go and I was saddened when Michael Faber recently decided that it was time for him to move on. I do wish to recognise the invaluable contribution that Michael has made since the very start of our Institute. As a founding member, Michael has been at the core of our growth and his insight, guidance and support has been generously provided to every Institute Chair. Thank you Michael and I wish you all the best for the next part of your personal journey.

For those that remain though the more volunteers we have the easier it is to make progress. I see the immense success our current volunteers achieve, personally and for the Institute. As Chair I would like to support them and take some of the load off their shoulders. The only way I can do that is to ask you as members to consider how best you can make your contribution. If you love a challenge and don't mind hard work take one step forward by contacting me personally at gclark@ior-institute.org.

In summary, I believe we have momentum. I believe we remain the only Institute to have its sole focus on Operational Risk. I believe we have an opportunity to now become the Institute we set out to be. I believe that our continued success comes from you as members supporting the work that you want us to do. I thank you for the opportunity to be your Chair.

George Clark
FIOR
IOR Chair

Nordic Chapter

New Chapter Kicks-Off for the Nordic Region

20 attendees turned up at Saxo Bank in Copenhagen on 19 May for the 'kick-off' meeting of the IOR Nordic Region chapter. The event had been organised by Michael Jensen, Group Head of Operational Risk at Saxo, Flemming Bjerregaard also of Saxo and Tomas Hellum of LinkGRC .

The attendees for this first meeting were all from Denmark and came from banks, pension funds and consultancies. After introductions, John Thirlwell, IOR Council member, outlined the mission, ethos and structure of the IOR, including the critical importance of chapters in growing membership and running events. He also spoke about the current education programme, the IOR's response to the recent Basel consultation on replacing the AMA and the benefits of IOR membership.

It's intended that two events will be organised by the end of the year. To decide which topics should be covered in these events, the attendees broke up into couples after which there was a feedback session. Everybody participated enthusiastically and altogether there were more than a dozen suggestions put up on the white board.

The most popular were risk appetite and tolerance, the value created by operational risk, scenario analysis, IT and cyber security and its relation to operational risk management and risk culture.

Michael wrapped up the meeting with an appeal for volunteers to form a steering group for the chapter, after which everybody enjoyed networking over a glass of wine. Anybody who is interested in joining the Nordic chapter and hearing about their events should write to Michael Jensen at MIJE@saxobank.com.

Consultation on the Basel Committee's consultation document on SMA

In the aftermath of the Global Financial Crisis the Basel Committee is revisiting a range of modelling methodologies for calculating capital requirements, including most recently Operational Risk's Advanced Measurement Approach (AMA). The objective of the Basel Committee in proposing a replacement in the form of the Standardised Measurement Approach (SMA) is to produce a capital requirement with greater *"…consistency…simplicity and comparability*" whilst being "*sufficiently risk sensitive*".

In essence, the SMA is an enhanced version of the previous Standardised Approach (TSA) i.e.:

- Incorporating historical loss data;
- Extending the period of data considered to 10 years, making the methodology effectively "*through the cycle*", and hence more akin to Credit Risk models;
- Removing the volatility from the Business Indicator which meant that loss making trading & sales businesses could depress a firm's Operational Risk capital under TSA; whilst
- The different weightings for the 7 different Basel Business Lines have been removed and replaced with disproportionately higher capital requirements for larger firms.

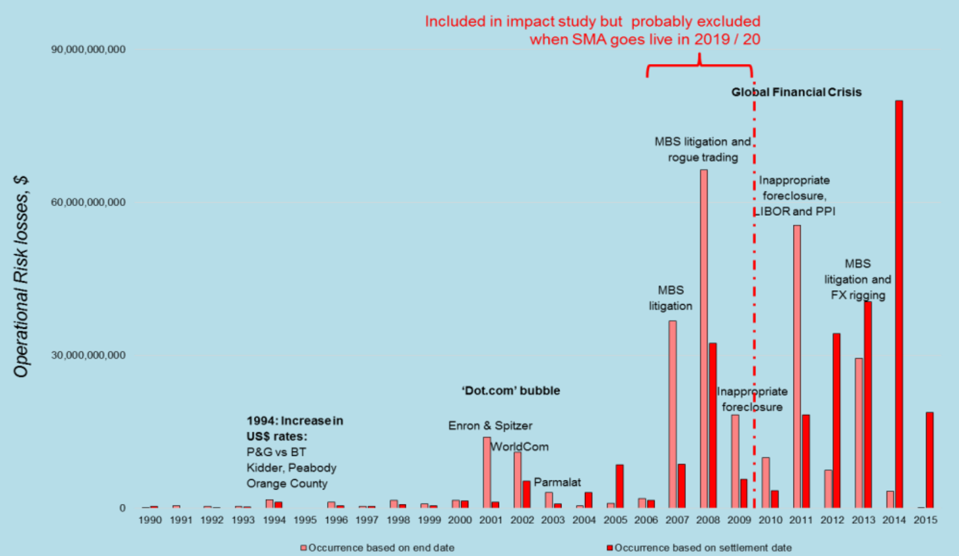
Although quantifying Operational Risk is patently inherently difficult, as currently designed, SMA is not an improvement on the AMA and hence the IOR has identified three key areas of improvement:

- Better rewards: Firms need to be better incentivised for good Operational Risk management e.g. allowing some deductions for both pricing / budgeting Operational Risk losses; transferring exposures via insurance policies; and leeway for local regulators to reward good practice.
- Backward vs. forward looking: The SMA approach is backward looking and some of the largest Operational Risk losses from the Global Financial Crisis will soon be dropping out of the 10 year dataset (see the chart below).

The backward nature of the methodology means that it will also fail to capture effectively emerging risks, such as cyber-crime; the consequences of the rise of fintech and the impacts of the reversal of negative rates. It will also be blind to changes in the business strategies of firms. Consequently, the Business Indicator should reflect both historical and forecast revenues. There should also be a continuing role for Scenario Analysis and modelling as inputs into Pillar 2a capital.

- Reflecting the Operational Risk profile: Operational Risk is notoriously diverse and complex and this cannot realistically be reflected in such a simple approach.

Large losses, > $0.1bn, suffered by 15 banks between 1990 and 2005 analysed by both the end date and the settlement date



Overview of the SMA methodology

Business Indicator (average of 3 year's of historical data) X LN (exp(1) – 1 + Loss Component (10 years of historical data) / Business Indicator)

Business Indicator:

Net interest income + Lease income + Dividend income

Net trading book revenues + Net banking book revenues

Other operating income + Other operating expenses + Fee income

Loss Component:

7 x average total annual loss + 7 x losses > €10m + 5 x losses > €100m

73.5% [1]

Buckets:
1. €0 to €1bn
2. €1bn to €3bn
3. €3bn to €10bn
4. €10bn to €30bn
5. >€30bn

Business Indicator component:
1. BI x 11%
2. €110m + 15% x (BI -€1bn)
3. €410m + 19% x (BI - €3bn)
4. €1,740m + 23% (BI - €10bn)
5. €6,340m + 29% (BI - €30bn)

Buckets 2 to 5 only.

1. % value of Op Risk losses by value of losses for 2008 to 2012 – source 2014 ORX report.

The Basel Committee should consider changes to better capture the risks of fee generating activities, given the scale of losses during the financial crisis arising from misconduct regarding the manufacture of asset backed securities and the sale of products, such as PPI and interest rate swaps. The Committee should also consider better reflecting the impact of losses that crystallise over long periods.

The IOR provided a formal submission on the consultation document at the beginning of June which is available on the IOR's website.

Michael Grimwade

Operational Risk Round-Table for Decision-Makers

On 15 April, the England and Wales Chapter hosted its first Operational Risk Roundtable for select Heads of Operational Risk from across the banking and cards sector. An invitation-only event, it was uniquely designed to provide the decision-makers a platform to share, discuss and debate their firms' position and challenges in day-to-day Operational Risk Management with select peers from their own industry sector. It was also hoped that the views and suggestions discussed amongst the leaders would provide practical and honest perspective on the topics to the larger community of Operational Risk practitioners that the IOR serves through its network.

The inaugural session was held at Eight Club Moorgate's Salon Privé and was attended by the Heads of Operational Risk at Bank of Ireland, Barclaycard and RBS. The discussion was facilitated and supported by IOR and Risk Universe. The leaders had identified four very relevant and practical topics for exploration. These were framed as follows:

1. What is a good engagement framework for Group IT-managed IT Risk such that the business is appropriately engaged and embeds the requirements within its First Line? Also, what is the role and ownership of the Operational Risk function in managing this risk?
2. What does a good framework for managing Outsourcing Risk look like, especially where much of the business operations is based on a partnership model with, say, distributors?
3. How does one embed risk appetite such that it is owned by the business, is part of the strategic and tactical tool set, and can be evidenced in decision-making and day-to-day business management?
4. Within a Three Lines of Defence construct what (if any) should be the role of Operational Risk beyond one of providing the Operational Risk Framework and assurance against its implementation (i.e. independent oversight)?

The tightly framed and relevant topics, company of select peers from the same industry sector, and secure environment to collectively explore provided the backdrop for the discussion. Each topic was tabled and discussed as currently relevant practical points requiring practical solutions.

As the discussion moved around the table all the executives pitched in with their respective views, specific personal experiences and practical approaches. There was never a dull moment as the desire to share, challenge and explore resulted in a stimulating exchange of ideas over the two hours that were allocated for the session. The group was able to cover only three of the previously agreed four topics; however, everyone had gained much from what was discussed.

The value is best reflected in comments from one of the executives "just a short note to thank you and the IOR again for this morning's round-table... I found the session engaging, and would be delighted to take part in future events".

The findings from the discussion have been documented and uploaded to the member's area of the IOR website. IOR members can learn more about the discussion points and the insights shared via this link: Roundtable

The IOR, with these round-tables, desires to support the senior executives in making informed decisions by providing them access to practical views and experiences across the industry. It also desires to facilitate alignment of good practices through sharing and collective exploration. Given the success with this inaugural session, planning for more such sessions is already underway.

Ravi Gupta

What is Systemic Operational Risk?

Dr. Patrick McConnell
Honorary Fellow
at MAFC

Since 2008, over $230 billion of Operational Risk losses have been incurred by the world's largest banks, mainly as a result of regulatory fines, lawsuits and provisions for customer redress for various types of misconduct, such as: manipulation of LIBOR and Forex benchmarks; mis-selling of products, such as PPI; tax evasion; money laundering and other serious misconduct.

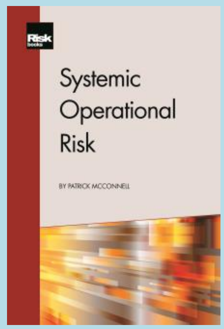
A recently published book[1] reported on a study that analysed public information on large operational risk losses, defined as greater than $5 million. The reason for looking at such losses is that the latest ORX report for 2014[2], noted that, as in the previous five years, only 0.3% of losses were over €10m but these accounted for over 75% of the total gross loss amount. And as in the prior five years, over 65% of losses were recorded in the loss event type 'Clients, products and business practices' (CPBP), which relates to fines for misconduct. This phenomenon has also been detected by the influential Conduct Costs Project[3] (CCP) in the UK.

Analysis of these 'large' losses produced some interesting findings. Only 10% of these losses were attributable solely to a single firm, and the vast bulk of losses were incurred by multiple banks being fined for the same misconduct, by the same regulators. Furthermore, it was the world's largest banks that were being fined, with some 87% of losses being incurred by the so-called Systemically Important Financial Institutions (SIFIs), or Too Big to Fail (TBTF) banks, and around 90% of losses were incurred by banks headquartered in the UK and USA.

The research identified 12 major groupings of these losses, which were termed Systemic Operational Risk Events (SOREs) with losses relating to Residential Mortgage Backed Securities (RMBS) accounting for some 47% ($109 billion), mis-selling of PPI and other products some 17% ($40 billion), and LIBOR and FX manipulation some 8.8% (over $20 billion).

1. McConnell (2015) *Systemic Operational Risk: Theory, Case Studies and Regulation*, Risk Books, http://riskbooks.com/systemic-operational-risk-theory-case-studies-and-regulation

So if the largest banks are incurring the largest operational risk losses at the same time for the same misconduct, this means that there is a 'systemic' dimension to operational risk. This finding was confirmed recently by researchers at the Federal Reserve Board of Richmond[4], who analysed operational risk losses for US banks over a ten year period. They concluded that there was evidence of "the presence of systemic risk in the simultaneous occurrence of operational tail losses in different large banks" and "the simultaneous occurrence of large losses [in large banks] may cause financial stress for the entire financial system and thus may be a source of systemic risk."



So having identified that the vast bulk of operational risk losses (> 80%) are 'systemic', two questions are raised: i) what are the root causes of such Systemic Operational Risk Events? and ii) what should regulators do about Systemic Operational Risks?

Taking the second question first, it is obvious from the findings of various research that regulators should ensure that the banks with the largest losses hold the largest amount of capital to cover systemic losses. The book[1] suggests several ways in which this could be done, including SIFI capital add-ons, similar to those proposed by the Financial Stability Board (FSB). And, when viewed at the level of the 'system' as opposed to the individual firm, operational risk losses have very different statistical properties, which should change the way that Operational Risk Capital (ORC) is calculated[5].

2. See annual ORX report at https://www.orx.org/pages/ORXData.aspx
3. See annual losses captured by the Conduct Costs Research Project at http://ccpresearchfoundation.com/
4. Abdymomunov A. and Ergen I. (2016) "A Correlations and Systemic Risk in Operational Losses of the U.S. Banking Industry" http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2741244

However, the recent proposal by the Basel Committee for a 'simplified' Standardised Measurement Approach (SMA) completely fails to take into account the growing body of evidence that, in addition to firm-specific operational risk, there is also a systemic dimension to operational risk. In a curious reversal of Pareto's 80/20 rule, regulators are focusing on the 20% rather than the 80% of such losses, ultimately to the detriment of the financial system.

The second question is more important: why do the largest banks engage in the same unethical, even illegal, practices at the same time? At one level the answer is simple, they compete in the same global markets, and practices (good and bad) disseminate very quickly between firms, because there is no concept of Intellectual Property Protection on banking products. This is a form of Groupthink, which can be termed 'SystemsThink'.

The traditional model of systemic risk transmission is known as the 'domino' or 'contagion' model and is based on the concept that when one bank has a problem this may cause a problem to another creditor bank, and then to that bank's creditors and so on through the system. This is a long-standing model of risk transmission in the credit markets and has been expanded recently to include a 'network' model of risk transmission, which envisages the financial system as complex network.

But operational risk is different. For example, between 2013 and 2015, Deutsche Bank was fined some $3.5 billion for LIBOR manipulation by various global regulators and, in 2013, JPMorgan was fined some $1.1 for the same misconduct. Several other large banks were also caught up in the LIBOR scandal with fines totaling over $10 billion (to date).

But Deutsche was not fined because JPMorgan was fined, nor vice versa – there were no dominos!

There is 'contagion' but it is not a contagion of mutual losses but of something more ephemeral – a contagion of flawed beliefs. The banks in the LIBOR case all believed the same thing, that manipulation could not be detected, until it was, and then they all suffered.

5. McConnell (2015) "Modeling operational risk capital: the inconvenient truth", Journal of Operational Risk, December 2015, Vol. 10, No. 4.

What is Systemic Operational Risk? – continued from page 6

Similar patterns have been identified in the cases of PPI mis-selling and also in the Global Financial Crisis, where investment management firms stopped believing the credit ratings of some complex mortgage backed securities, because of operational misconduct by credit rating agencies. When liquidity in this market disappeared, the banks holding incorrectly rated securities suffered serious losses and, in some cases, bankruptcy.

In economics, such a change in underlying beliefs about a market is called a 'regime change' and can be abrupt and devastating. Such a regime change can be likened to an 'earthquake' - short, sharp and destructive, especially to those structures (and people) near to the 'fault line'.

The book[1] develops a 'Seismic Model of Systemic Operational Risk', which considers such events as being similar to an earthquake (with foreshocks and aftershocks), and describes in detail how SOREs, such as LIBOR manipulation and the GFC, can be viewed from that perspective.

The distinction between the domino and earthquake models is far from academic. In the domino model, regulators would naturally concentrate on the individual firm and would work to ensure that each bank would not become the 'first domino to fall'.

On the contrary, in an earthquake model, regulators would work to ensure that firms were not near to, or worse straddling, 'fault lines' in the financial system and, as in seismic engineering, would work to ensure that firms (buildings) could withstand shocks without tumbling.

Furthermore, if a firm wishes to operate near a fault line, then its insurance premiums (its capital) should reflect that danger, not for the insurance to be spread across other smaller banks that operate far away from the fault lines.

The seismic model is a profoundly different way of thinking about systemic regulation and the risk contagion resulting from operational risks. It also has profound effect on individual banks as to how they should protect their shareholders from being casualties in the 'next financial earthquake'.

Patrick McConnell
Author: Systemic Operational Risk

Systemic Operational Risk is available through Risk Books via the following link

STOP PRESS !!!!!!!!!!!

IOR members qualify for a 25% discount on this book and all other Risk Books titles until the end of July 2016. The discount code for this offer is available via the members' area of the IOR website.

Hong Kong Chapter

The IOR's Hong Kong Chapter has worked with other financial associations in completing the joint research topics that cover 2015 capital market and risk management review, deflation risk, negative interest rate and market volatility etc. The deliverables include training to peers and publication of analytical articles to increase awareness of the risks in specific business areas.

It is our honour to work with the Risk Management Institute, National University of Singapore to develop training materials on operational risk for banking professionals in accordance with the requirements of the Monetary Authority of Singapore. The Hong Kong Chapter is the supporting organization of the RMBI Symposium of Hong Kong University of Science and Technology, SIA Partners Risk Seminar and Business Club Seminar of Hong Kong Polytechnic University. Also, we have deeply strengthened our strategic partnership with the Hong Kong Institute of Bankers and the Hong Kong Securities and Investment Institute on various events and functions.

Dominic Wu

Cybersecurity Preparedness Benchmarking Study

BRG Berkeley Research Group

The Berkeley Research Group recently conducted an international cybersecurity preparedness benchmarking study in partnership with the IOR with participants representing a broad industry demographic. The study was designed to deliver security performance metrics and benchmarks that will help organizations:

- Build a security performance management program based on objective, fact-based metrics; and
- Compare how the security programs of survey respondents measure against internal organizational goals, approved risk-management profiles, and industry peers.

The study examined six main areas: Leadership; Information Governance; Risk Management; Essential Protection; Incident Response and Security Culture. The results of the study will be released shortly.

THE INSTITUTE OF OPERATIONAL RISK

CIR Risk Management Awards

We are delighted to announce that CIR magazine has introduced 5 new categories to their annual risk management awards, 3 of which will be sponsored by the IOR:

- Operational Risk Achievement Award
- Operational Risk Initiative of the Year
- Quantitative Analysis of the Year

We are also delighted that IOR Fellow Andrew Sheen has agreed to join the judging panel. Andrew is well placed to lead the operational risk group. He is probably best known for the 9 years he spent at the FSA/PRA where he was responsible for Operational Risk Policy and the Operational Risk Specialists Team.

Further details about the awards can be found here:

Germany Chapter

Establishment and continuity of Germany's Chapter Working Group

Over the last year, the newly established Working Group of the German Chapter has held regular meetings in order to discuss further steps to strengthen education, offer corporate memberships and organize events to benefit the OpRisk and RepRisk community. The Working Group consists of the following members all of which have long experience with regard to Operational Risk Management. The group is backed by an Inner Circle, which consists of further senior members, who are available for discussions, the transfer of information and as speakers.

Working Group German Chapter: L to R Walter Dutschke (Head), Marion Bürgers (Education), Dr. Christian Einhaus (Members), Sabine Hauschildt (Communication), Dr. Andreas Seib (Quant Matters) and Rainer Sprengel (Finance)

The activities of the IOR German Chapter show continuity in their event structure, the following events took place recently:

OpRisk Forum

The Operational Risk Forum took place on 11 and 12 May, 2016 in Cologne. Under the title "Challenges in Operational Risk Management Continued", it dealt with the various and growing challenges for the stakeholders of Operational Risk:

- Which changes are there in the OpRisk landscape – mainly discussing cyber risk as one of the key future risks.
- Which new regulatory developments are there – mainly relating to the challenges of the new Consultation Paper on the Standardised Measurement Approach SMA (BCBS D 355).
- Which consequences must be derived from the changing OpRisk landscape.

The event had more than 60 participants, with around 20 speakers, panelists and roundtable-moderators. The Operational Risk Forum is organized by IOR and the magazine RISK MANAGER (further info in German under www.opriskforum.de or www.risiko-manager.com).

The next OpRisk Forum is planned for May 2017.

OpRisk Forum May 2016 in Cologne

Reputational Risk Forum

The last Reputational Risk Forum took place on 9 and 10 November 2015 in Cologne. Experts from banks and insurance companies, from other industry sectors, from the supervisory side, and from the consulting industry discussed the challenges that lie ahead for stakeholders in RepRisk Management:

- Which tools and methods exist for the analysis and measurement of Reputational Risk and how they are used;
- What are the characteristics of successful crisis management; is a crisis management plan beneficial;
- How can reputational crises be prevented;
- How should issue management be organized and implemented in an effective manner;
- Which benefits can be derived from the analysis of external RepRisk cases; and
- How do the supervisors rank the management of reputational risk at present and in the future? (SREP, complaints management etc.)

The upcoming Reputational Risk Forum will take place on 7 and 8 November 2016 in Cologne. The conference is again scheduled for 1½ days and includes speeches, panels, and roundtables.

The Reputational Risk Forum is also organized as joint venture by IOR and the magazine RISK MANAGER (further info in German for the last event under www.repriskforum.de or www.risiko-manager.com).

OpRisk Quant Workshop

The semi-annual OpRisk Quant-Workshops have been taking place for five years. The workshop is a trustful exchange of quants, with a good mix of seniors and juniors. The participation of BaFin and Bundesbank for regulatory matters has proven mutually beneficial.

The Quant Workshop on 2 March 2016 in Munich discussed the following topics:

- Internal Models and Solvency II (presented by Munich Re and Allianz);
- Experiences from OpRisk audits at insurance companies; and
- Presentation of the Basel Committee's Consultation Document D 355 (Standardised Measurement Approach) by the German Bundesbank.

The upcoming OpRisk Quant Workshop is planned for 15 September 2016.

OpRisk Forum May 2016 in Cologne

Regional Workshop

Regional workshops in the Rhineland take place on an irregular basis. In the last workshop, Dr. Peter Stemper (Chief Executive Officer of Portigon AG) presented experiences and facts around Operational Risk Management in a wind-down environment. Around 30 participants joined this local event.

Sabine Hauschildt

Ireland Chapter

The Irish Chapter is delighted to contribute its first update to the Newsletter. We held an initial event last year in order to gauge interest in the setting up of an Irish Chapter and were very pleased at the interest shown. We formed a group of interested individuals, as recommended by IOR, to lead the establishment of the Irish Chapter. This group is made up of myself (Enda Twomey), Enda Collins, (GE Capital), Tony Moroney (Berkeley Research Group), Alan Stewart (Pioneer Investments) and Ronan Scully (AIB).

We established the following priorities in 2016 for the Irish Chapter:

- Formal establishment of the Chapter;
- Grow membership of the Irish Chapter;
- Create network of Operational Risk Professionals;
- Host four events in 2016;
- Leverage off other IOR Local Chapter network activities;
- Be recognised as thought leaders in Operational Risk.

We would welcome, to the founding group, any other operational risk practioners who are interested in the building of the Irish Chapter.

Events

We have held two events in 2016 – "Upstream with a Cascade" and "The Virtual meets the Intangible". Our next meeting is planned for June (details to follow).

Upstream with a Cascade

This event was hosted by AIB (many thanks) and was very well attended and as expected a lively debate took place. The title derives from the twin themes of focusing on upstream regulatory developments and how risk appetite is cascaded in an organisation. John Byrne, Corlytics, presented on the topic "Horizon Scanning – How to Predict Changes in Regulator's Expectations". Developments in the regulatory landscape were reviewed along with the resulting personal, financial, time and resource consequences. John outlined that since 2009, 54,000 regulatory documents (!) have been published from 130 regulatory bodies in the G20 countries alone. The core theme of the presentation was how technological solutions can contribute to overcoming the cognitive challenges of the changing regulatory landscape – definite food for thought. Richard Pike, STIR, presented on the topic "Insights on Risk Appetite and Reporting". Richard outlined the significant challenge that financial firms face in ensuring that risk data is appropriately aggregated and presented.

These challenges include:

- Striking the right balance between presenting too little or too much risk information;
- Understanding risk data provided on a different basis, e.g. VaR vs. RAG status;
- Effectively communicating the relationship between different risks;
- Utilising consistent risk taxonomies; and
- Ensuring clear line of sight to the risk in businesses.

Richard outlined potential solutions to these challenges. Contextually, the need to consider organisations as complex dynamic systems was also discussed. This is a theme we will continue to explore. Both presentations are available on the IOR website at https://www.ior-institute.org/ior-news/upstream-with-a-cascade-member-event-presentation-slides

The Virtual meets the Intangible

Many thanks to Enda Collins and GE Capital for hosting this event which, again, was very well attended. The title derives from the twin themes of Cybersecurity and Risk Culture. We also introduced the Basle Committee's Consultation on the Standardised Measurement Approach.

Tony Moroney, BRG, presented initial high level findings of the BRG/IOR Cybersecurity Preparedness Survey. This created a lot of interest and discussion but, at the time of going to print, these results are not available for publication, so more anon in the next edition of the Newsletter. Enda Twomey presented on the topic "Exploring Risk Culture" and the discussion focused on the following:

- Why is Risk Culture important;
- What is Risk Culture and how is it formed;
- What are the views of Regulators on Risk Culture; and
- Other high levels topics such as the appropriate mechanisms for intervention.

This topic was chosen on the basis of the initial results from the Irish Chapter's Topics Survey. The importance of considering the nature of risk culture (i.e. is it a complex or complicated matter?) mirrors the theme in the previous meeting of understanding organisations as complex dynamic systems. Ronan Scully (AIB) presented on the Basle Committees consultation on the Standardised Measurement Approach. This was intended to be an introductory talk on the topic, however the level of interest generated by Ronan's presentation ensured a more detailed discussion ensued. The slides in relation to these talks will be available on the IOR website in due course.

To sum up, we are delivering on our mandate to build the IOR network in Ireland. We will be examining the results of the Topics Survey for input into future meetings. The results for 10 ten topics overall were as follows:

Rank	Topic
1	Key Risk Indicators
2	Risk Appetite
3	Risk Culture
4	Scenario Analysis
5	Outsourcing / 3rd Party Risk
6	Operational Risk in Strategy setting
7	Information / Data Risk
8	Operational Risk reporting
9	The Future of Operational Risk
10	External Loss data

As can be seen, we are in the building mode for the Irish Chapter and would welcome all ideas and assistance. If you would like to contribute, please email me at etwomey@ior-institute.org or contact one of my colleagues in the founding group.

Enda Twomey

Council and Local Chapter Heads one-day conference 9th June 2016

L to R: Iain Wilson; Bharat Thakker; Trevor Bedeman; Jennifer Moodie; Niall Kinloch; Caroline Tinsley; Matthew Behan; Enda Twomey; George Clark; Alan Dunk; Caroline Coombe; Alex Dowdalls; Edima Ben Ekpo; Walter Dutschke; Mervyn Pilley.

6th Annual CIR Risk Management Awards

The Risk Management Awards hosted by CIR magazine recognise those individuals, organisations and teams that have significantly added to the understanding and practice of risk management. Judged by an independent panel of experts (which includes former IOR Chair Dr. Simon Ashby) for exceptional performance, the awards provide an opportunity for organisations and individuals to showcase their best products, projects and people.

The 2015 Risk Management Awards were supported by Geminare, Google Cloud Platform, Alarm, CII, IIRSM as well as the IOR and are universally recognised as the pinnacle of success in the sector.

IOR Director Alan Dunk (left) presented the award for Risk Management Software of the Year (Financial Risk) to the winner: Quantifi.

The deserving winners were announced at a prestigious Gala Dinner and Awards Ceremony at the Cumberland Hotel, London in November.

Hundreds of guests attended the glittering ceremony hosted by comedian Jo Caulfield (pictured below).

Former IOR Director Michael Faber (left) presented the award for ERM Strategy of the Year to the winner: RSA Insurance Group.

The Post Office and Network Rail were the big winners of the night, taking home two awards each. Zurich Municipal won the newest category - the Public Safety Award. Congratulations to all the winners!

Calling all IOR members!

We are having a drive to improve our recording keeping, so that we can better stay in touch with you.

If you have changed jobs or roles recently or simply changed your email address, please let the membership team know so that you can continue to receive our email notifications and newsletters, as well as your annual membership renewal notice.

Please email the team with your new details at: membership@ior-institute.org

Did You Know?

Having started the IOR Discussion Group on LinkedIn a relatively short time ago in October 2010, we now have over 6,400 members!

It's a sign of the growing interest and development in the area of Operational Risk Management that we have been so successful with this group, including the impressive global reach and the quality of discussions debated.

Please continue to use this resource to post your views on current regulatory developments, comments on news events affecting the industry, and the sharing of your own experiences and achievements.

THE INSTITUTE OF OPERATIONAL RISK

Promoting and Developing the Discipline of Operational Risk Management

Disclaimer