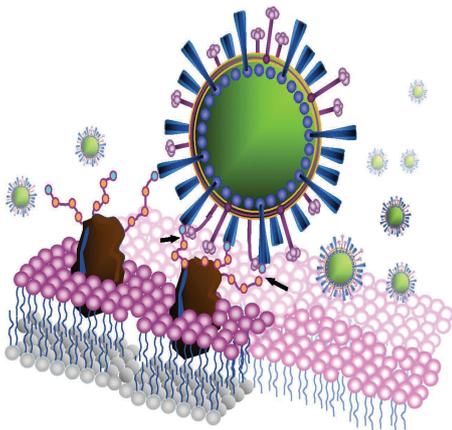


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## Pandemic planning

What can we make of the recent headlines regarding investigations into the money made from swine flu and wasted £1 billion on harmful drugs? Was it just hype? Is it another waste of time and money – the same as we experienced with year 2000? > P2



## From the Chairman

Dear Member,

This is my last letter to you as Chairman of the Institute of Operational Risk as I stand down at the AGM on April 15<sup>th</sup>. I propose to use this letter to reflect on the achievements of the Institute during its first five years of existence.

When you think that the Institute began in 2006 with just thirteen members and we entered 2010 with 200 members, it is no mean achievement when you consider that we recruit individual members by word of mouth. In 2006 our members were solely from the UK financial services sector. In 2010, we have members from all parts of the globe representing not just financial services, but also the nuclear, healthcare, construction, manufacturing, retail, law enforcement, defence, education, regulatory and oil & gas sectors. We have opened a local Chapter in Scotland and have re-launched the Chapter in Hong Kong. We intend to launch a Chapter in Nigeria later in the year. We have a website and a newsletter and our events. We are in the process of developing an electronic Knowledge Centre and have released the first in a series of Sound Practice Guidance Papers which have already received global recognition. There are more initiatives in the pipeline and these will be revealed over the coming months.



There will be a number of changes to your Council after the AGM as, in addition to myself, Michael Tripp is also standing down by rotation. Michael has worked tirelessly for the Institute since its creation serving as Treasurer and his experience and wisdom has been a constant inspiration for Council over the last five years. I am delighted to announce that Edward Sankey will assume the position of Chairman of Council after the AGM. In addition, Council will fill all of its seats with five new Directors.

These continue to be exciting times for the risk management community as the Banking regulators debate Basel III, the insurance regulators are embroiled in Solvency II, politicians globally are fighting over how to regulate an industry in which major players let the world down through their behaviour. Is it time to separate the investment banks from the retail banks? The arguments rage over banks that are too big to fail – or even banks that are big enough to cope. The only difficulty with this approach is that the management of such institutions may believe themselves to be invincible – and so the cycle starts again with no lessons learned or any real cultural change of behaviour.

So to close, as I retire back to the ranks of the ordinary member, it has been a real honour to have been asked to chair the Institute and it has been a privilege to work with my dedicated colleagues on Council and on the Executive Committee and its different workstreams. The Institute is blossoming and with your continued support it will thrive and continue to exert influence in important areas.

Good luck to you all.

## The Scottish Chapter Update

The Scottish Chapter of the IOR officially launched on 18<sup>th</sup> January 2010 when the inaugural event was held at City Council Chambers in Edinburgh. 36 individuals attended from across a broad spectrum of both public and private sector Scottish firms, with an opening address being given by Edinburgh City Councillor, Jenny Dawe. Much preparation was involved in the set up of this inaugural event and the current Scottish Chapter Committee consisting of Chair (Fred Bell), Secretary (Caroline Tinsley) and fellow Committee members (Joan Bryans, Brian Rowlands and Alan Barr) >P2



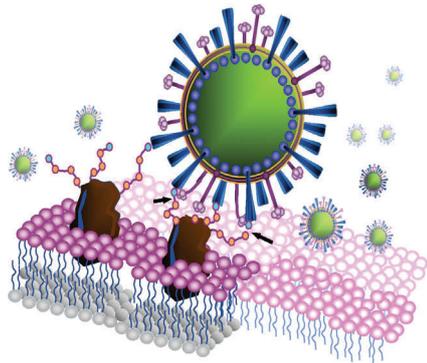
What is the connection between the recent vampire movie Twilight and the previous H1N1 pandemic ?

**QUIZ ANSWER - WINNER ANOUNCED - SEE PAGE 5**

## Pandemic Planning ( continued from page 1 )

It often feels to me that being in risk management is a no win situation. If we plan well, identifying risks, set up processes to reduce the risks and then prepare a contingent capability, the likelihood is that we, as risk managers will be criticised for making a drama out of a crisis.

However, if we do nothing or simply conduct limited planning we put our businesses more at risk and



will be criticised for not raising the profile enough, or not planning sufficiently to accommodate the threat.

It is a fact that the Spanish flu virus experienced in 1918 was deadly. Many millions of people died. Given this history, together with the unknowns associated with the recent H1N1 Swine Flu pandemic virus, a real threat had resurfaced that needed to be addressed.

One positive seen throughout this recent event was that the health authorities and medical researchers worldwide reported and shared information, much of which was also reported openly within the press and media.

This was truly a potential worldwide crisis and the global com-

munity stepped up to the mark in terms of a global response and action plan.

Arguably we were in part lucky that this pandemic has not as yet proved as deadly as that experienced in 1918, but we cannot be complacent in our work on pandemic planning now or in the future.

While risk and business continuity managers may on occasions be criticised for looking at worst case scenarios and it may not be nice to think about, it must be prepared for. I would much rather be criticised for planning for an event that didn't materialise, rather than not planning enough for when a major event materialises.

## Scottish Chapter Update ( continued from page 1 )

generated between them 80+ contacts who are now on the main Scottish Chapter mailing list.

Our local Chapter is now looking forward to hosting its 2<sup>nd</sup> (free)

*The Scottish Chapter Committee is very willing to share its approach on setting up a local chapter with other IOR members*

event, which will be held on Monday 26<sup>th</sup> April 2010, this time at Glasgow Caledonian University. Work is currently underway to finalise the agenda for the 2<sup>nd</sup> event and at this point we are pleased to be able to confirm 2

keynote speakers who have volunteered to support the event, namely Tim McGarr from the BSI, who will talk to BS31100 and Vicky Kubitscheck from Independent Audit who will talk to the Walker Report, specifically in relation to the impacts on operational risk.

The Scottish Chapter Committee is very willing to share its approach on setting up a local chapter with other IOR members who are currently looking to set up similar local chapters and would be very willing to share experiences. Please contact Secretary (Caroline Tinsley) in first instance [ctinsley@ior-institute.com](mailto:ctinsley@ior-institute.com)

The Scottish Chapter is now looking forward to converting future attendees into IOR mem-

bers and anticipates this will start to 'really' happen after a couple more local events have taken place.

**Coming next** - the Scottish Chapter is now working up a 3<sup>rd</sup> event that is looking to host a breakfast seminar during the month of May that will specifically focus on the 2 IOR sound practice guidance papers (Risk Appetite and RCSA) that the IOR have recently publicly launched and Bryan Rowlands and Caroline Tinsley will facilitate this event for those inter-

*"Note: the Committee would very much welcome further volunteers to support this local chapter going forward – do please contact the Secretary if you are interested in volunteering."*

## Cross-border Bank Supervision

The financial crisis has taught us many painful lessons and none more so than about the weakness around cross-border supervision of banks.

These weaknesses were apparent before the financial crisis but have proven to be more significant than originally thought. It was clear that several banks and security houses had grown to an enormous size and operated in dozens of countries often far apart; that they organised themselves in lines-of-business that cut across national boundaries; that transactions and products were international in character and were sold on a global basis. The banking systems of some countries were being run by banks domiciled elsewhere. In contrast, legal and regulatory systems operated on a national basis.

To counter this, a degree of mitigation had been put in place. Some were national in character; for instance, forcing banks to operate in national silos despite the inefficiencies, or to give preference to local nationals in the event of insolvency. Other mitigation was international; for instance, supporting international product standardisation, and strengthening international regulation through lead regulation.

*“The banking systems of some countries were being run by banks domiciled elsewhere”*

The financial crisis demonstrated that the mitigation had proved only partially successful. The main shock to the system came from the failure or near-failure of banks and security houses with multiple lines of business cutting across several major financial centres and/or countries. The ability of national regimes to untangle this spaghetti junction proved to be so difficult that international transaction systems almost came to a halt. Shareholder rights were often at odds with national interests. Governments and their regulators had difficulties co-operating so as to secure equitable burden-sharing as international firms began to fail.

Some national deposit guarantee schemes proved unable to cope, partly due to the sheer size of the crisis but also to their Byzantine cross-border applications. Fortunately, the world managed to avoid a major crisis in one country due to the failure of another country to support its banks in the first country – but even this was a close-run thing.



In order to deal with these problems, there have been several responses. One has been a revivification of the concept of international supervisory colleges. Allied to this has been the development of core colleges to ensure adequate wind-down procedures and living wills for banks, together with stronger national resolution regimes. There is renewed interest in stand-alone national banks, isolated from international complex instruments. More generally, additional capital requirements and tougher regulations are seen as part of the solution, and several large security houses have been absorbed as banks.

*“we await the next crisis of cross-border supervision”*

Will these measures work? Only in part. National authorities have a prime responsibility to protect their own national constituency, even if this is at the expense of others. Regulation and supervision, however well co-ordinated internationally, remain based on the nation-state. In contrast, globalisation continues apace and there will

always therefore be banks that operate as global institutions. In fact, due to enforced mergers, we may have even bigger international banks than we did before. In a perfect world, these international banks might be regulated by international laws and empowered supra-national regulators. In the meantime, we await the next crisis of cross-border supervision.

Jeremy Quick FIOR

### Obituary

Sir Brian Pitman died in March. He will be best known by Members as the Chairman of Lloyds TSB during its recovery. Professor Bob Garratt of the Cass Business School wrote the following Remembrance of him. Sir Brian's approach carries lessons for Operational Risk Managers, who if only by default probably have to consider the firm's strategic risk as well.

Professor Garratt wrote: In mid-1980s I was asked to co-direct the LloydsTSB Director Development Programme and was taken aside by Sir Brian Pitman. He explained that as I was not a banker, I needed only to know two things about banking. First, in retail banking you must know your customer, never lend them quite as much as they thought they needed and then to track them carefully. Done well, he explained, retail banking can be quite boring but hugely profitable

Investment banking was quite different and the only rule you needed was “never trade with your own money”, always trade with the client's money as this keeps you focused on client service.

Given that he doubled shareholder value every three years for fifteen years this is advice that is still needed desperately today.

(A version of this appeared in the *Lives Remembered* column of The Times on 17 March 2010).

## 2010 Membership Satisfaction Survey Results

Thank you to all of you who responded to the recent membership satisfaction survey. We achieved a response rate of approximately 40% of paid up members. The survey was divided into four key themes (Membership, Website, Events and Newsletter)

pective of their geographical location and, hopefully, improve the overall satisfaction ratings going forward. These include the creation of IOR Local Chapters, development of a specialist Knowledge Centre resource and enhancement of the web platform – which we

areas over the coming year, thanks to development work already under way.

### Events

The results on this section confirmed it to be one of the most visible member benefits the IOR currently offers, albeit historically events have been centred on London. Respondents cited topics, speakers and networking opportunities as the key factors behind their popularity. Some excellent suggestions of subjects and formats for future events were contributed and these are being keenly reviewed by the Events team, in developing the programme for the year.

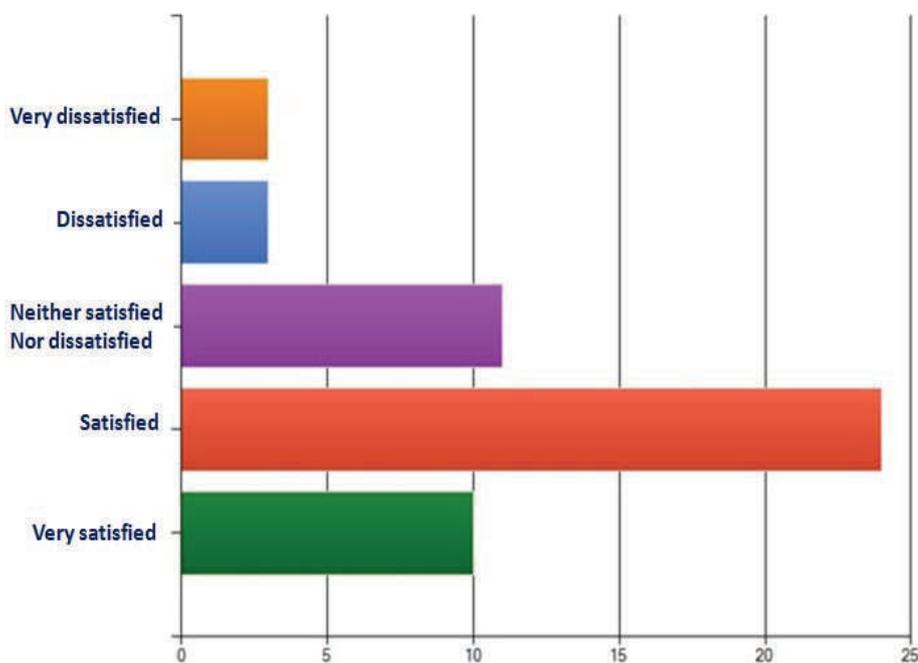
### Newsletter

Whilst the majority of respondents were satisfied or very satisfied with the length and frequency of publication of the IOR newsletter, the results concerning the range of content are more ambivalent, with nearly half of all respondents neither satisfied nor dissatisfied, or worse. Key suggestions for improvement proposed included more coverage of topical operational risk issues and professionalising the presentation.

### Next steps

Detailed responses from the survey have been distributed to the relevant Executive Committee workstream leads for further analysis and incorporation into the IOR's operating plan for the coming year. Progress will be reported periodically through the newsletter or website.

### Overall, how satisfied are you with your membership of the IOR ?



### Membership

The majority of respondents declared themselves satisfied or very satisfied with their membership of the IOR, which is very pleasing. However, this leaves 10% of responding members who are not satisfied with their membership and a further 20% who are neither satisfied nor dissatisfied. In most cases it seemed these were new IOR members, who had yet to take full advantage of their membership

A number of initiatives are already under way that should go a long way to allowing all members fully to exploit their membership irre-

will also use to keep our members better informed about overall IOR initiatives.

### Website

Over 90% of respondents consider the IOR website to be at least acceptable in terms of the usability, quality and range of content. The key areas where members would like to see improvement include making the website more interactive, more timely publication of event materials and other content and facilitating user forums and other means of member interaction. Members should start to see improvements in many of these



Hello to all fellow members of the Institute. By way of introduction, I am currently working as Director and Head of Operational Risk Management, Newedge Group (Joint Venture between Societe Generale and Cylon Bank).

I always believed that "common sense" is one of the key success factors in the business world, thus, I keep on strengthening my common sense in the following aspects after my graduation from the Hong Kong University of Science and Technology.

- Accounting – CPA and more than 3 years in KPMG
- Legal and compliance – LLB, China Futures Law examination and more than 5 years in the Hong Kong Monetary Authority
- Operational Risk – FRM and setting up the Operational Risk team in APAC for Newedge (former Fimat) since 2005.

Of the above, I found Operational Risk as the most interesting aspect in view of its scope, its impacts to

the operations, the values which it could bring to the employer and the most importantly the uncertainties as well as the challenges that lie ahead. Given operational risk is new to the market, IOR is a good platform to gather all the market practitioners to share and propose the market best practices. Hence, enforce the knowledge of the market practitioners and arouse the awareness of the non operational risk practitioners as well.

Besides, I would like to work with the peers to establish a reputable Asia chapter. In particular, set up the platform to share with deliverables and build up the social network for a wide group of members, including not only the market practitioners, but also for regulators, consultants, other professionals and university students (our future risk managers).

In the leisure time, I enjoy playing team sports and also am a keen hiker.

Best regards

Jacky Leung  
Director and Head of Operational Risk, Asia Pacific  
Newedge Group (Hong Kong Branch)  
Tel: +852 2848 3309  
Mobile: +852 9833 9565  
[jacky.leung@newedgegroup.com](mailto:jacky.leung@newedgegroup.com)

### New Guide to Scenario Analysis

The ORIC Loss Data Base Consortium with the ABI has published a sound practice guide entitled "Scenario Analysis of Operational Risk in Insurance." Including benchmark scenarios it is a valuable guide to approaching scenario analysis in a pragmatic way. It is worth looking at for its approach by anyone considering such work. IOR Fellow Edward Sankey was a collaborator in the project.

There is more information on <http://www.abioric.com/home/oric-guide-to-scenario-analysis.aspx> including how non-members can buy a copy. Edward assures us he has no pecuniary interest in its sales!

### Quiz Answer

And finally....the quiz question has been answered correctly.

**The original question was:**

*What is the connection between the recent vampire movie Twilight and the previous H1N1 pandemic?*

**Winning answer:**

*Back in 1918 H1N1 had another name – Spanish Influenza. That's the same illness Edward Cullen was dying from when Carlisle found him and turned him into a vampire in Twilight. The Spanish Influenza outbreak was global, ran from 1918-20 and killed as many as 100M world-wide.*

This detailed correct answer was submitted by Glenn Holmes an IOR member from MoneySupermarket.com.

Congratulations to Glenn on providing such a good answer. Glenn's prize contains the complete set of Twilight books, DVD's and a novel by James Barrington entitled Pandemic!



Perform your own Risk Assessment

		
Consequence Likelihood	Consequence Likelihood	Consequence Likelihood
Major Likely	Major Likely	Major Likely
Moderate Possible	Moderate Possible	Moderate Possible
Minor Unlikely	Minor Unlikely	Minor Unlikely