

IOR Newsletter

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From the Chairman Edward Sankey

Dear Member

As the new chairman of the Council of the Institute of Operational Risk (IOR) I am delighted



to introduce myself to those who do not know me – a very large group in this international Institute! I have been appointed in succession to Philip Martin, who retired from the Council by rotation.

I've been a member of the IOR management team since 2005, and am a Fellow of the Institute. My main contribution has been to the programme of Seminars and Workshops. It is a tremendous honour now to be Chairman, particularly at a time when the importance and influence of operational risk management has gained widespread recognition.

Our members now represent a wide range of industry sectors from financial services to nuclear power

My aim is to continue enhancing the professionalism of the operational risk discipline and to extend access to the benefits of membership throughout the world. I'll say more about this on a later occasion.

Right now I particularly want to pay tribute to Philip Martin. During his tenure as Chairman Philip achieved notable success in multiplying many fold the number of IOR members and also for broadening the membership base to include Europe, the Middle East, Australia, Africa, Asia Pacific and the USA. Our members now represent a wide range of industry sectors from financial services to nuclear power. Philip also oversaw the delivery of numerous member benefits including the sound practice guidance papers, local chapters in Hong Kong and Scotland, the website, online resource centre and newsletters. His will be a hard act to follow.

I also want to thank Michael Tripp, who has retired from the Council by rotation, for his service as Treasurer. Michael's counsel from the very start was valuable to get the IOR established and his management of the funds has been essential to providing us with financial stability.

Our aim is to create ever more opportunities for members to develop their competencies

During the year George Clark resigned as Director and Secretary to the IOR due to work commitments which required him in Australia. Again, from the start of the IOR, George performed a number of duties. His commitment to the Institute and to ensuring all behind the scenes was well undertaken has been a rock on which the IOR could build its more public face.

Our thanks are due to them for their huge contribution to the IOR in its early stages of formation and growth.

At our recent AGM, four new directors to the Council were also elected:

- Simon Ashby, Senior Lecturer Financial Services, Plymouth Business School
- Mike Finlay, Managing Director, RiskBusiness International
- Yema Tucker, Group Risk
- Simon Wheatley.

Jonathan Birrell-Gray, Executive Director, WestLB was elected by the members as Honorary Treasurer of the Institute. I am very pleased to say that Council has subsequently co-opted Jonty to the Council.

I welcome them all to the Council.

The IOR website has been updated and lists all the Directors and their backgrounds. New work is continually being conducted on the website and I would recommend you particularly to look at the communication opportunities between members. This enables members to take advantage of the great amount of experience and expertise in the IOR membership.

Our aim is to create ever more opportunities for members to develop their competencies, and to achieve this through an expanding membership base. The more members who can give a little time to the Institute, the more it can meet your needs.

For this reason I am asking more members to try and assist in the general work of the Institute. Adapting slightly the words of JFK: "Don't just ask what the Institute can do for you, ask also what you can do for the Institute!"

To get involved, please contact me on 07966 031931, or email me at esankey@ior-institute.org or speak to any member of Council or the Executive Committee, listed on the website.

Congratulations Brian Toft OBE

Brian Toft has been awarded an OBE for services to healthcare in the recent Queen's Birthday honours.

Brian was a pioneer in thinking about the human factors involved in operational risk management and he was a participant in the expert Operational Risk Research Forum which was the precursor to the IOR.



He has taught, consulted and written widely in risk management and undertaken official enquiries into incidents in the NHS.

He is now Professor of Patient Safety at the University of Coventry and was a founder member of the Institute of Operational Risk.

How prepared is your Organisation for its next Major Disaster?

April 20th 2010, will be a date that the Oil & Gas industry will not forget. The Transocean Semi Submersible, Deepwater Horizon, was operating for BP in 5,000ft (1,525m) of water, 13,000ft under the seabed and some 52 miles off the coast of Louisiana in the Gulf of Mexico with a 126 crew on board. The rig was completing the final stages of a drilling program and the crew were preparing to put a temporary seal on a well before moving onto the next site. At approximately 10pm the rig started to shake and explosions began sending flames hundreds of feet into the air. The fire raged for 2 days and resulted in the rig sinking to the ocean floor representing a loss of about a billion dollars including the rig and other associated items. 11 crew members missing, presumed dead and 17 crew were injured, 7 critically.



It has been several weeks since the initial incident and still the situation deteriorates with approximately 5,000 barrels (200,000 gallons) per day of oil leaking into the Gulf of Mexico from several ruptures in pipes on the seabed and now the world faces what could be the worst Oil & Gas ecological disaster ever. At time of print the ongoing cost of the cleanup was \$6m/day. It could even exceed the 1989 Exxon Valdez disaster.

So what happened? It will take months to complete a formal investigation to determine the cause of the explosion but what can be certain is that it will have to do with Operational Risk. It is probable a series of unlikely events all occurred in a particular sequence causing the major disaster.

At time of print the ongoing cost of the cleanup was \$6m/day

Particular attention should be paid to some of the organisations involved. Transocean, owner and operator of the Deepwater Horizon, the world's largest drilling contractor with an exceptional safety record and regarded as the 'best' in the offshore drilling business. BP, one of the world's largest and well respected Oil and

Gas companies. A company that has considerably increased its reputation with respect to safety under new CEO Tony Hayward after the impact of the 2005 Texas City Explosion. And Cameron International, the manufacturer of the Blowout Preventer (BOP), the last line in defence in a subsea well. A BOP uses valves to close off the flow of oil and gas when pressures get too high. Cameron International is regarded as one of the best drilling system and subsea vendors in the industry. This disaster highlights that even such credible companies as BP, Transocean and Cameron who are regarded as very risk aware cannot account for all possible risks. Thus an organisation can never afford to be complacent towards risk management and should be continually looking for what's missing and what can be improved.

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One possible factor here could be with the shear ram within the blowout preventer (BOP). Tony Hayward was quoted by Bloomberg saying "he was mystified that the blowout preventer failed. The last-ditch shear ram is rarely tested under real conditions because of the destruction it causes." This highlights the fact that within all organisations and sectors, all aspects should be tested to destruction to determine the impact of failure.

The disaster has highlighted how good crisis management practises are crucial. The crisis management plans in place had crew members evacuating the rig minutes after the first explosion and vessels were on station to tackle the blazing inferno. This tragedy has cost 11 people their lives, 17 people injured and even more people could have died if the emergency responses had not worked properly. A very admirable point is also how quickly BP took responsibility. This meant that very early on, focus could be spent on managing the situation in hand instead of apportioning blame.

The disaster has highlighted how good crisis management practises are crucial.

The true cost and severity of the incident is yet to be calculated but we can all be sure that lessons will be learned and new measures/controls will be put in place to mitigate or manage such a situation again.

At point of writing this article, the world waited in anticipation. To see if the three fabricated 'dome' structures that were being lowered to the seabed would be successful in capturing the oil from the leaks on the seafloor.

I leave you with this question. How prepared is your organisation for its next major failure?

Daniel McAteer- BRM Europe

University of East London Postgraduate Qualification in Risk Management

This course was assessed by the IOR in April 2010. The following gives a summary of the key elements of the course.

The IOR considers the course fit-for-purpose; and appropriate for students seeking to build a career in risk management. Prospective students should consider this course in the context of other courses on offer from other bodies.

The UEL offers a Post Graduate Certificate, Diploma and a full MSc in Risk Management.

The IOR considers the course fit-for-purpose

Results other than MSc, however, are exit routes rather than a direct planned outcome. It is rare to exit without at least a certificate and few students fail to achieve the MSc

As part of its postgraduate programme in risk management the UEL offers the following modules:

- Managing Operational Risks
- Risk Financing and Portfolio Management
- Measuring and Modelling Risks
- Strategic Management of Enterprise Risks
- Applied Dissertation

All modules are worth 30 credits, except the dissertation, which is worth 60 credits.



Further information is available from the University of East London via their website:

<http://www.uel.ac.uk/programmes/business/postgraduate/summary/riskmanage.htm>

The Volcanic Ash cloud

The Volcanic Ash cloud in April illustrated the perpetual dilemma for risk managers.

The immediate closure of the skies was right – the cloud was moving over Europe and there was little information about it. It also appeared there were no standards about engines' tolerance.



However the closure increasingly seemed like a blanket ban at the sight of any risk whatever – there was no discrimination being made between varying ash densities at different altitudes and across Europe.

The airlines were suffering and they set out to get data. Their demonstrations that it was safe enough led to the authorities opening some of the skies. The lesson: hard data enables a good risk decision.

When risk managers are without adequate data, risk decisions can be based on factors like forcefulness, reputation and authority.

I do not suggest that passengers have been or should have been put in any jeopardy. I use this to illustrate two things: firstly the value of risk data, and secondly the pressures risk managers can come under. When risk managers are without adequate data, risk decisions can be based on factors like forcefulness, reputation and authority.

So if any plane had suffered engine failure the questions would have been whether commercial pressure had overruled safety or compliance requirements! Without hard data it is hard to counterbalance commercial pressures.

But we should remember that commercial managers can be right in their intuitive balance of risk, their confidence in the good sense of staff to handle the unexpected, and the contingencies. A risk manager needs to be able to judge the judgements – and be equally persuasive if concerns still remain.

Edward Sankey
*Chairman of the Council
Institute of Operational Risk*

The Scottish Chapter Update

On the evening of 26th April 2010 the new Scottish Chapter of the IOR had its second meeting hosted by Glasgow Caledonian University.

The attendees were welcomed by the Dean of the Caledonian Business School Professor Zeljko Sevic who was pleased to open the seminar and looked forward to further cooperation in professional development in the field of Operational Risk Management.



The Seminar heard a presentation by Tim McGarr on the BSI Risk Management Standards, drawing attention to the contribution the IOR's Vice Chairman Michael Faber made to their development.

Vicky Kubitscheck of Independent Audit briefed the attendees on the Walker Report on governance and the important implications for operational risk managers' work.

The interest in having a vibrant Scottish Chapter was evident

Allan Barr described the Knowledge Centre facility shortly to be implemented on the IOR website.

Edward Sankey and Caroline Tinsley described the Institute and encouraged those attendees who were not already members to apply. The interest in having a vibrant Scottish Chapter was evident.



The Chairman of the Scottish Chapter committee is Fred Bell.

The Asia Chapter Update

The Inauguration Ceremony of the Asia Chapter was held on 21 June 2010. In short, this was a very successful event with about 60 people turning up.



The agenda was well received and the participants were impressed with the introductory video of Edward Sankey and the guest speaker, Fred Au.

Among the participants, we had the Head of Risk from HK Stock Exchange, Chapter Lead of GARP & ISDA, professors, regulators, vendors and other professional bodies.

This was a very successful event with about 60 people turning up

In particular, the CEO of HK Institute of Bankers who came and has expressed a wish to form a strategic partnership with the IOR.



The response was positive and brought people together which resulted in a number of people expressing an interest in the IOR.

On behalf of the Steering Committee of Asia Chapter I thank Edward Sankey and other senior members of the institute for their support.

We have a good start and will work together to realise our objectives.

Dominic Wu
*Regional Head of Operational Risk
Nomura International (HK) Ltd*

IOR Word Search

A word search with a difference. Can you find the names of the following IOR Executive Committee members hidden in the grid:

- Allan Barr
- Asim Balouch
- John Chapman
- Michael Faber
- Richard Baker
- Yema Tucker

R	R	A	V	M	Y	Y	B	T	R	Y	A
M	I	C	H	A	E	L	F	A	B	E	R
A	T	C	B	F	B	N	O	O	A	M	N
L	J	O	H	N	C	H	A	P	M	A	N
L	M	C	B	A	L	C	H	S	N	T	O
A	R	R	K	E	R	D	B	A	I	U	T
N	I	R	E	A	R	D	M	E	B	C	H
B	A	C	K	F	A	I	B	M	B	K	N
A	S	C	H	T	S	U	I	A	K	E	R
R	A	K	E	A	U	S	T	U	K	R	R
R	J	O	H	N	R	R	A	T	M	E	N
A	S	I	M	B	A	L	O	U	C	H	R

Risk Management Meets Football



Absolute Risk
"No Goalie"



Controlled Risk
"With Goalie"



Treated Risk
"The Three Goalie Approach"