

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 Chairman



Dr Simon Ashby,
FIOR,
IOR Chairman

Welcome to the June 2013 edition of our IOR Newsletter and my first as your new Chairman. As usual there is plenty going on in the field of operational risk, though I am detecting a shift away from the historic dominance of developments in capital requirements and risk models towards a greater emphasis on what might be termed the softer side of operational risk management, and the hitherto neglected topic of risk culture.

On the subject of risk culture, March saw the publication of two significant reports, an investigation into the failure of HBOS ([link here](#)) and the Salz review of Barclays' risk culture in the light of the LIBOR scandal ([link here](#)). Both of these documents are essential reading for Operational Risk Managers and I would urge you to take some time from your busy day to read and digest these reports. They contain important messages for us all, even those of us who are fortunate enough to work for organisations (banks, building societies, insurers, or otherwise) not yet affected by such major crisis events.

Significantly when you read these reports you will see that many of the cultural antecedents of these crises are very similar, suggesting that there is a common pattern to such events. This came as no surprise to me, since there has already been a lot of work done to investigate the causes of crisis, financial or otherwise, and the same cultural corruptions come up time and time again. Factors like: weak leadership, poor risk reporting and incident escalation, ineffective governance and performance management, lack of buy-in for risk management processes, silo based systems and processes, and a culture of shooting the messenger. Almost all of which fall within the remit of operational risk, or at least should do. After all operational risk is often defined in terms of failures in people, processes, and systems and ineffective/corrupt risk cultures are about all of these things. Indeed in the case of the Salz review a lack of skilled operational risk personnel was highlighted as a factor that contributed to the problems Barclays has had with its risk culture.

So to avoid repeating the mistakes of the past I would urge all of you to brush up your soft skills and get to grips with topics such as risk culture. And what is the Institute doing to help? Well as you may know we have already had events which covered the topic of risk culture, both in our Scottish Chapter and the all-new England and Wales Chapter. Plus you will shortly be able to access a Sound Practice Guidance Paper on the topic. Keep your eyes posted for notification of this in due course.

Call for Articles

Your Institute need you!

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.

Sound Practice Guidance

Sound Practice Guidance update

Sound Practice Guidance (SPG) papers are designed to assist companies implement the various components that make up a robust risk management framework. There are already a number of these available via the members' only area of the IOR website.



A review and re-fresh of the Risk Appetite SPG paper has been completed to take account of feedback received following publication of the original paper in December 2009. This has now been approved and the revised version published on the website.

Sound Practice Guidance

Sound Practice Guidance (cont'd)

An updated version of the Risk & Control Self-Assessment (RCSA) paper, first issued in March 2010, has been drafted and is currently undergoing independent review and feedback before being re-issued.

New SPG papers covering Scenario Analysis and Risk Culture are both currently at the drafting stage. Further details on these will be communicated separately to members as well as being published in the next newsletter.

It is the Institute's intention that these Guidance papers evolve over time as we receive feedback and suggestions from individuals/companies who have used them. If readers of our Sound Practice Guidance have any experience or opinions that they believe may enhance the guidance offered, they are strongly encouraged to email:

standards@ior-institute.org

Scottish Chapter update

Since the publication of the last IOR newsletter in October 2012, the Scottish Chapter has continued to organise and host its ongoing calendar of events.

Our final event of 2012 ended with a return visit to Glasgow Caledonian University (GCU) to stage our 2nd annual conference during late October. The event was chaired by Caroline Tinsley, IOR Leader in Scotland. Conference speakers included Andrew Sheen, George Clark, Vicky Kubitscheck and Hansreudi Schuetter. The agenda covered a broad spectrum of Operational Risk topics, as requested by our members. 90 delegates attended.

Already GCU has asked us if we would like to host our 2013 conference at their venue in Glasgow once again and our conference date is now set for **Friday 1 November 2013**. This year we hope to have a 'live' link with the students at GCU's London Campus to enable them to also participate in the event.

2013 is set to be another busy networking year for the Scottish Chapter. To kick-start the year, Lloyds Banking Group kindly hosted a seminar focusing on the '3 Lines of Defence' model which was held in Edinburgh during late February.

“2013 is set to be another busy networking year for the Scottish Chapter.”

A breakfast seminar event took place on 26 April 2013 at which KPMG ran an interactive session on 'conduct risk', illustrating how a quantitative approach to conduct risk management can be utilised to identify emerging conduct risk issues. In addition, they also presented an overview of the new FCA regulatory structure. The event was held at the Standard Life offices in Edinburgh. Two further events (still to be finalised) will be scheduled for June and September. In June we look forward to discussing the merits of "Lean vs. Risk" with views from both Deloitte and IOR Scotland's current sponsor, the CEO of Manigent and Stratex Systems. The penultimate event of the year will take place in September at which we intend to provide an update on the latest Sound Practice Guidance papers prior to their launch. We very much hope the Association of British Insurers (ABI) will be able to join us at this event.

Please contact Caroline Tinsley at ctinsley@ior-institute.org in first instance if you would like to attend any of these events.

German Chapter update

There is growing interest amongst Operational Risk and Reputational Risk professionals in Germany, Austria and Switzerland in becoming members of IOR. The community is appreciating the events, which have almost become common.

The third full day Reputational Risk Forum took place on 21 February preceded by a networking evening. Both were hosted by KfW in Frankfurt am Main. AXA Group in Cologne hosted the fourth OpRisk Quant Workshop in early March. This year's OpRisk Forum on 16 May was jointly arranged by Bank-Verlag Medien and the German Chapter, and focused on "Risk Mitigation" (see website), with a representative list of highly esteemed speakers and around 70 attendees. Further events this year are the RepRisk Forum on 26 September and the OpRisk Quant Workshop on 30 September.

Ideas for additional workshops and other activities are welcome and should be addressed to Walter Dutschke, Head of the German Chapter, wdeutschke@ior-institute.org or +49 172 814 3603.

English and Welsh Chapter

Following decisions to launch chapters for Asia, Germany, Nigeria and Scotland, Council has now approved the creation of a new chapter for England and Wales. The chapter is led by a team comprising Andrew Sheen, Helen Pykhova and Ariane Chapelle and is committed to providing: opportunities for networking and social interaction; a forum to discuss issues affecting the discipline on a global basis as well as regional and local issues; local events; and opportunities for skills and career development.

The chapter's first full day event took place on 15 March and was entitled 'Key Themes for Operational Risk Professionals in 2013'. The event was sponsored by Toronto Dominion Securities and provided an exciting mix of speakers covering a variety of angles, from regulatory expectations to enhancing own brand. The event was free for members and offered an enticing 100% rebate against membership fees for non-members joining the IOR within a month of attending the event.

The Chapter welcomes suggestions from members for possible future events and activities both in London and elsewhere in England and Wales, as well as expressions of interest from those wishing to participate in the growth and development of the chapter. If you would like to contact the new chapter please e-mail Andrew Sheen at asheen@ior-institute.org

Membership and Fees

On 1 March 2013, the IOR switched from a chapter-based discount scheme for its membership fees to the World Bank based discount scheme. What this means, in practice, is that the Institute now operates an affordability fee discount policy which is based on independent country classification data from The World Bank and provides a discount based on where the member is located and the Gross National Income per capita of that country. Based on its GNI per capita, every economy is classified as low income, middle income (sub-divided into lower middle and upper middle) or high income and these are reset every 12 months.

The change was preceded by a mailing in February to all our members warning them of the change and we hope members will agree that this is a fairer method of applying membership fees.



In November last year, the final touches were put to the new Membership system and process. The objectives of the project were to increase automation and to reduce processing time for the various parts of the member on-boarding and membership renewal processes. At the same time the website was re-launched after experiencing issues last year and this continues to be an area of focus for the Institute. New functionality is planned for members – watch this space for announcements!

We are delighted that the number of 'active' members is on the increase and this is set to continue with the planned expansion of the Chapter network into new territories.

Did You Know?

Previous editions of the IOR Newsletter are available to view via the IOR website (scroll down to the bottom of the home page).

If you have not already done so, you can also subscribe to the Newsletter so that you can get it emailed straight to your inbox. So subscribe for free now to avoid missing an issue!

Regulatory Affairs

Managing the regulatory storm - the role for operational risk managers

At OpRisk Europe in 2012, an official from the then UK regulator, the Financial Services Authority, said that in his opinion the biggest operational risk facing the UK financial services industry was the high volume of regulatory change. I totally agree. As anyone who works in financial services knows, the sheer volume, complexity and reach of new regulations, especially post crisis, has been staggering. As the Bank of England's Andrew Haldane noted recently in a speech "Turning the red tape tide" (International Financial Law Review Dinner, 10 April 2013):

"In the UK, the Banking Act (1979) covered 52 sections and 75 pages. By the mid-1980s, the Financial Services Act (1986) and an updated Banking Act (1987) had expanded primary legislation to 110 sections (106 pages) and 212 sections (299 pages) respectively. The Financial Services and Markets Act (2000) took this to 433 sections (321 pages) and the new Financial Services Act (2012) takes this to 695 sections (534 pages) - a tenfold increase in primary legislation in a generation."

Haldane continues that in the US, growth in regulations is no less dramatic, noting that the US Dodd Frank which is the US regulatory response to the crisis "might run to 30,000 pages of rulemaking."

Regardless of the merits or otherwise of the tsunami of new regulations since 2008, regulatory change poses at least two very real operational risk challenges for firms.

First, firms must establish systems, controls, governance and tools for identifying new regulations, for assessing their impact and at a minimum taking steps to ensure compliance. Many organizations have gone beyond the 'passive' model of 'merely' reacting to regulatory change, to a more proactive and strategic model of regulatory change management. Through a more strategic approach, firms seek to influence regulatory change through engagement with policy makers to either combat threats or seek opportunities. Some leading institutions seek to initiate change through investment in thought leadership and sponsorship of academic papers. In the face of the increasing importance of regulation and recognition of the potential harmful impacts that regulation can have on business models, strategy and performance, many banks have now established regulatory affairs or government affairs functions to manage this monitoring and lobbying activity – it is one of the few growth industries in finance at present, along with compliance.

Regulatory Affairs (cont'd)

Second, once firms have identified changes (and regardless of whether they have been successful in their lobbying) they must create change programmes to implement the new regulations. This is easier said than done, for a number of reasons:

1) The sheer volume of change makes managing it a significant operational challenge. Most banks will now have multiple change programmes underway, consuming enormous resources, systems budgets, and senior management attention – another risk I shall come to later;

2) Regulatory agencies have multiplied voraciously since the crisis. No longer is it simply a matter of responding to the UK FSA; we now have 2 regulators in the UK since 1 April - the Prudential Regulation Authority, which is part of the Bank of England, and the Financial Conduct Authority. We have the European dimension, with Directives which must be transposed by national regulators, but increasingly we have EU regulations and the European Banking Authority creating detailed technical standards that are directly applicable on firms operating in the UK market. Through EU Banking Union the picture in the EU will become even more complex, with the ECB as single supervisor for Bank Union members. In addition, we have the G20, Financial Stability Board, and Basel Committee on Banking Supervision, all issuing guidance and standards. We have also witnessed, over recent years, a huge expansion in extraterritoriality, whereby regulations created in the USA ostensibly for the local market, for example, can have a direct impact on firms based thousands of miles away in London (see FATCA and Dodd Frank as two prime examples, and the EU's Financial Transaction Tax as another);

3) Not only are there more regulators and more regulations, the approach to creating new regulations has become more complex. Long gone are the days when the UK FSA would issue a Consultation Paper and later issue a Policy Statement with a reasonable lead time to allow firms to implement. Lead times have become shorter, consultation is often now a charade, and sometimes regulations are not even finalized before they are due to be implemented (as with recovery and resolution planning in the UK)! In a very topical example, the US regulator the CFTC announced on the day that overseas firms were supposed to have implemented a provision in Dodd Frank that they didn't have to! Regulatory agencies themselves are increasingly

Regulatory Affairs (cont'd)

incapable of dealing with the volume of change their political masters have committed them to – leading to uncertainty, short lead times, poor consultation and unworkable regulations.

4) The increased focus of financial services regulators on areas such as remuneration and tax, areas that were previously not areas of focus for financial services regulators, means that firms have to overcome challenging organizational barriers to managing regulatory change, with functions such as HR having to work closely with risk and compliance functions to comply with new rules.

Finally, the costs of non-compliance (i.e. failure to manage regulatory change) are only growing as regulators adopt US style approaches to enforcement and so called credible deterrence, levying large fines on firms and increasingly targeting individuals (especially senior management) through their powers under the approved persons regime.

I alluded earlier to the amount of senior management attention being devoted to regulatory change. There is a very real danger that so much of firms' resources and senior management time and attention is being focused on managing the current wave of regulatory change, that management are neglecting consideration of what will be the next 'big risk', through consideration of scenarios for example. Operational risk managers have a key role to play in ensuring that this is not crowded out and that the 'unknown risks' are captured.

What does all this mean for the operational risk managers? I believe it has a number of implications. First, operational risk managers must be fully engaged with regulatory change, and this means working closely with regulatory affairs, compliance and other functions. Operational risk managers are experts at looking at the 'bigger picture' and must be sufficiently assertive to bring their expertise to the table. Second, operational risk managers must ensure that change management or 'project risk' is high on their risk radars, and that appropriate overnight mechanisms (project governance, KRIs on project burden and so forth) are developed to monitor this risk. What is clear is that there is no sign of respite from the regulators, so regulatory change looks set to continue to be the biggest operational risk facing our industry!

*Dr Jimi Hinchliffe, MCSI, PIOR
IOR Council member*

London Events

Over the last 6 months, a series of well-attended evening seminars, morning and full day events have taken place in London.

At the end of 2012, BNY Mellon hosted a fascinating talk on managing people rather than processes, featuring psychologist and leadership branding expert David Royston-Lee.

In February this year, Wells Fargo welcomed IOR members to their offices in Fenchurch Street for a breakfast seminar on Business Process Outsourcing.

An exciting full day event entitled "Key Themes for Operational Risk Professionals" was hosted by TD Securities in March. The event featured seven speakers covering a variety of themes, and resulted in conference participants collectively agreeing a list of the Top Operational Risk Challenges for 2013 of which regulatory change and IT and data integrity featured strongly. The full list is now available in the member's area of the IOR website.



An evening seminar was also held recently at Pinners Hall in Old Broad Street on the subject of Scenario Analysis in the measurement of Operational Risk Capital which was presented by Dr. Kabir Dutta and attended by around 20 guests. Drinks followed the seminar, which were kindly sponsored by Wolters Kluwer.

A networking evening was also held recently which was generously sponsored by Oracle.

We are very keen to hear your views on what topics are of interest for future events. We would also love to hear from potential hosts as well as inspirational speakers!

For further information, please contact Helen Pykhova at the following email address: epykhova@ior-institute.org

*Helen Pykhova, PIOR
England & Wales Chapter*

STOP PRESS! – Save the Date

Operational Risk in the Insurance Business, Full day event on Thursday 11 July from 09:00 to 16:30, hosted by Willis.

IOR Technology

Last year we launched a newly designed IOR website, providing a more modern and simple design for the public, member applicants and existing members.

Visit the regional chapters' page to find out what is going on in the different regions, or log in to the members area and view all the highly regarded sound practice papers and presentations from past events. If you have any ideas of additional facilities you would like to see, please send your thoughts via the 'contact us' page.

*Michael Faber
IOR Council*

Code of Conduct

Coming soon - the IOR Code of Conduct

I am sure members are already acting with integrity in their Operational Risk roles but, in any event, the Institute believes that it should now have a formal code of conduct. Such a code is standard practice for similar bodies and should be a useful point of reference should any member feel conflicted in their duties, which can certainly happen to most people in the course of a career.

The code firstly requires us to be both honest and fair with each other, and of course to our customers too. Operational risk members, perhaps as much as any other, will be familiar with the dangers that reputational risk poses, and so better placed to avoid damaging the reputation of your organisation or our industry in the operational risk context. We are expected not just to attain a level of professional competence, but to maintain that level by keeping up to date, as well fulfil a key value of the IOR which is to promote the development of others. That would include, of course, supporting the Institute's developmental programme. The code recommends that we don't agree to act out of our competence level – not always an easy call! We are expected to maintain the highest standards – why, that is what the Institute is for...

Trevor Bedeman, PIOR

Disclaimer

The content of this newsletter is written by a variety of authors. The opinions expressed are the views of the author and not necessarily the views of the IOR or of the employer of the author.

LinkedIn

The IOR LinkedIn discussion group is going from strength to strength and since it was set up October 2010, the group has grown to over 2,000 members representing organisations all over the world.



It is a great opportunity to discuss and debate current Operational Risk stories and thinking. If you are not yet a member, I urge you to join and if you are already a member please take advantage of the network this brings for you by adding new discussions and commenting on existing entries. Click on the following to take you to the website: [link](#)

*Michael Faber
IOR Council*

Nigeria Chapter

Financial Inclusion Strategy - Agency Banking

The Central Bank of Nigeria has rolled out a Financial Inclusion strategy aimed at ensuring a clear agenda is set for increasing both access to and use of financial services by 2020. Currently 46.3% of the total adult population in Nigeria is financially excluded.

The strategy promises much for the ordinary person, including: increased access to financial services; a choice of products from several institutions (including pensions, insurance, money transfer, savings and loans); and more ATMs.

The success of the strategy depends, as always, on efficient implementation and for the nation's financial institutions to embrace 'agent banking' – the delivery of financial services outside of conventional bank branches.

There is much to do, the majority of which will entail an increasing element of operational risk – from the inability to identify customers for transactions to protecting customer data. However, following a successful implementation of the strategy by 2020, the common man is likely to witness a more regulated and efficient financial landscape in Nigeria.

*Edima Ben Ekpo
Head of IOR Nigeria Chapter*

IOR Strategy & Governance

At our Annual General Meeting in November 2012, I announced a revised three-year corporate strategy for the Institute, which included some proposed changes to our governance structure. These changes followed our membership survey which was conducted in 2012 and are designed to both enhance the management of the institute and ensure that we increase the benefits that we offer to our members.

I am pleased to report that we have already made good progress on our strategy and governance work, though there is still a lot to do. To date we have:

- Launched the England and Wales chapter; led by Andrew Sheen, with Helen Pykhova managing events. This new Chapter has already made its mark with an excellent series of topical events, past, present and future.
- Significantly enhanced the efficiency and security of our membership system. To ensure that new member applications and renewals are processed quickly and securely.
- Enhanced our website in terms of both its security and design. We have also included more content in the restricted 'members only' area. Only members can now access our popular Sound Practice Guidance Papers (with more on the way). Plus we have newsfeeds to relevant operational risk stories from recent months.
- Formed an Education Sub-Committee (lead by Peter McCormack), which is tasked with designing and implementing our own professional qualification in Operational Risk.
- Continued to work with a number of Universities, including Glasgow Caledonian, who once again hosted the Scottish Chapter's annual conference, University of East London and also Leicester University, who we are helping to develop a postgraduate level course in operational risk (especial thanks to Neal Writer, John Thirlwell, Mike Finlay and others!).
- Used the mandate we obtained at the November AGM and have held several joint Council/ExCo meetings. As a result we now have clearly defined terms of reference and strategic objectives for our Directors with Portfolio (see the website for their personal details). I am pleased to report that these meetings are working very well and are helping us to get things done more efficiently and effectively. Remember that in order to fully merge these two bodies we will

IOR Strategy & Governance (cont'd)

- need to change our articles and elect a number of our Directors with Portfolio into formal director level positions. These elections and changes to our articles will be presented to the membership in due course, either at a Special General Meeting or the next AGM.

- In March we had the most successful month over the last 2 years in terms of revenue generation from our membership fees, raising over £10k in fees, which not only demonstrates your support for the work that we are doing, but also provides us with much needed funds to ensure that we can deliver our plans.

"This is your Institute and it will only succeed if we all work together and continue to develop and promote the operational risk profession."

As I have said already there is much more to come. However, I would remind you that our success relies on much more than an active and committed Directorate. It is also important that, as members, you do your bit. Statements like 'you get out what you put in' may be a truism, but the IOR can only grow and prosper if you support it by paying your fees, attending events and volunteering your time to help your local chapter (e.g. by hosting an event or speaking at one), or supporting our strategic plan by helping to write sound practice guidance papers or participating on working groups. This is your Institute and it will only succeed if we all work together and continue to develop and promote the operational risk profession.

*Dr Simon Ashby, FIOR
IOR Chairman*

Hong Kong Chapter

This year the Chapter is intending to focus on more organized workshop-type events and to partner with other professional bodies and universities to organize joint events.

Under the name of IOR, members have contributed HKD2,000 (GBP170) to sponsor the inauguration ceremony of the Risk Management Business Intelligence Students Association of Hong Kong University of Science and Technology (HKUST). I was invited as the key note speaker to talk about the "Cool and Not Cool of a Risk Manager" and was appointed as advisor to the Student Association. IOR members have been invited as guests to join more than 10 inauguration ceremonies of student associations of various universities in

Hong Kong Chapter (cont'd)

Hong Kong to promote the risk profession to students.

I have written an article on risk appetite which will be published in the newsletter published by HKUST. IOR was named as a supporting organization of the Symposium on Risk Management and Business Intelligence 2013 organized by HKUST on 20 April. IOR had referred two close peers and reputable industry specialists, Vincent Lam and Stephen Chiu, to talk about risk management in hedge fund/private equity, the perspective of banking and the restructuring approach respectively. There were more than 200 attendees from both academia and the industry. This is the third year that the IOR Hong Kong Chapter has supported this event which produces overwhelmingly positive feedback.

The Chapter is currently discussing a Risk Governance and Practice survey exercise with the Hong Kong Regulator.

*Dominic Wu
Head of Hong Kong Chapter*

Governance Standard

BS 13500 Code of Practice for delivering effective governance of organizations

Following previous updates on the development of the first British Standard in governance, we are now coming towards the final stages of drafting the standard ready for agreement by the BSI committee to publish later this year. With the ongoing issues and concerns regarding governance, ethics, leadership, accountability and openness, the standard will provide guidance on what 'good should look like' and will be of value to all organizations whether large or small.



The BSI is also looking for a variety of organizations to trial the standard, developing a number of case studies for publication along-side the standard. If your organization may be interested in being involved in a trial of this British Standard, please let me know. In the meantime, I will provide further information to members when a publication date is known.

*Rubina Faber
IOR Vice-Chair*