

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](mailto:info@ior-institute.co.uk)

## Message from the Chairman



Dr Simon Ashby,  
FIOR,  
IOR Chairman

What makes for a good operational risk manager? Mathematical and statistical acumen, to help build all those risk models; an excellent knowledge of the relevant regulations; technical IT skills, people and negotiation skills, effective verbal and written communication, or all this and more?

Sometimes I am amazed by the range of competencies required to be an effective operational risk manager. Added to that list, there are a wide range of different risk types and operational processes to consider (lending, underwriting, insurance claims, investments, sales, customer services, marketing, human resources, etc.).

The range of competencies and risk/organisational knowledge required to be an effective operational risk manager is arguably one of the biggest attractions to the job – every day is different and often imaginative solutions are required for very complex problems. However this range can also be a source of frustration. It is difficult for every one of us to be a master in every single area of expertise. Certainly I know that I am not.

This is one of the reasons why I think our Institute is so important. As we get lost in the 'day job' it is easy to forget to keep our broad range of professional development requirements up to date. However by attending the excellent events organised by the Institute's hard working Chapters and by reading its Sound Practice Guidance Papers, it is possible to achieve this development in a highly efficient manner. The opportunity for networking with other professionals is also extremely valuable and helps us to share both common problems and potential solutions.

Remember that the Institute is here for you, to help you maintain and develop yourself as an operational risk professional, across all the competencies you require. As a result the more you participate in the activities of the Institute, the more you will get out of your membership. In particular I hope to see you at the November AGM (more details below). I also hope that you continue to work to expand our growing membership – the more members we have, the more colleagues with potentially different skills and experiences we can learn from.

## BREAKING NEWS

Please note that the venue for the IOR's Annual General Meeting on 28<sup>th</sup> November has changed. We are very grateful to Daiwa Capital Markets Europe for the use of their offices and to Thompson Reuters for supporting the event. For further details see page 3.

### 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.

### IOR Announcements

#### Dr. Ariane Chapelle appointed Fellow

The IOR would like to congratulate Ariane on being accepted into the Institute as a Fellow in August. Fellowship is the highest grade of membership, awarded when an individual can demonstrate significant contribution to either the Institute or the industry.



Ariane is a trainer and advisor in operational risk with 20 years experience in teaching both academic and executive audiences. She has been active in risk since 1999, with business experience

acquired in a managerial function, Internal Audit and Risk Management in banking academic research, consulting and training. Ariane holds a PhD in Economics, a Master in Econometrics and a Master in Management Science

### IOR Announcement (cont'd)

#### Dr. Ariane Chapelle appointed Fellow

from the Université Libre de Bruxelles (Belgium). She is Honorary Reader at University College London for a course on Operational Risk Measurement for the Financial Services. Ariane runs her own training and advisory practice in operational risk and will undoubtedly be a great asset to the Institute.

### 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 have it emailed straight to your inbox. So subscribe for free now to avoid missing an issue!

## England and Wales Chapter

The months since our last Newsletter have marked 2013 as a breakthrough year for Institute events in London. The establishment of a chapter for England and Wales at the start of the year, under the direction of Andrew Sheen, Helen Pykhova, Ariane Chapelle and Denis Lyons, has resulted in an almost unprecedented number of events for members. The leadership team continues to look for opportunities to provide members with the chance to network, discuss issues impacting on our discipline and opportunities for learning and development.

We are particularly grateful for the tireless efforts of Helen and Ariane in both arranging a number of events and obtaining sponsors to enable us to continue to provide events at no cost to members.



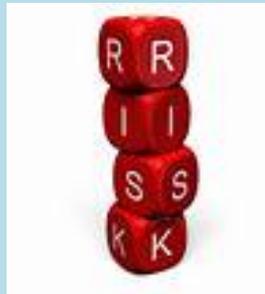
We are now looking to organise events for 2014 and we would welcome suggestions for events, offers to host and also offers of sponsorship. We are particularly aware that events have been concentrated in London and the leadership team would like to hear from members based outside London who would be interested in hosting an event. If you would like to contact the chapter please e-mail Andrew Sheen at [asheen@ior-institute.org](mailto:asheen@ior-institute.org).

The highlights of the period covered by the newsletter include an event in July on 'Modelling Operational Risk'. The event was generously hosted by Aon who joined with representatives of the PRA to discuss the challenges faced by Banks, Building Societies, Asset Managers and Insurance firms and sparked considerable interest amongst the audience. We were particularly pleased that the Aon team included Evan Sekeris, the author of the OpRisk CCar in the US Fed, who now works for Aon. During the same month we also held a full day event 'Operational Risk in the Insurance Business' which was generously hosted by Willis in their magnificent auditorium and sponsored by SAS. A packed full day saw presentations by a number of industry practitioners and experts, including IOR member Michael Sicsic, the Group Operational Risk Director at Aviva, and Paul Search, Executive Director at Willis.

## England and Wales Chapter

After a brief lull over the summer, events resumed with an evening seminar 'Examining Conduct Risk' generously sponsored by Norton Rose Fulbright. Peter Snowdon from Norton Rose Fulbright gave his view on various aspects of Conduct Risk. We also held a breakfast seminar on 'What Good Operational Risk Management Looks Like' which was hosted by Aviva and was oversubscribed. Richard Wilson, CEO at Newedge UK Financial Ltd, gave a CEO's perspective and other speakers included Michael Sicsic, Andrew Sheen of the PRA and Antonio Ybarra, Risk and Compliance Director at Bupa.

In October we held a specialist workshop on 'Challenges and Techniques of Scenario Analysis' which was led by Michael Grimwade, the Head of Operational Risk for Mitsubishi UFJ Securities. The workshop was a great success and covered: the challenges of scenario analysis; estimation techniques for scenario analysis; and validation of scenario analysis in practice.



At the time of writing we have scheduled a full day seminar 'Governance – The Heart of Good Practice' for 21<sup>st</sup> November. The event will take advantage of the recent work that included four members of the IOR and use the new and first British Standard in Governance (BS13500) – see page 5 for further details on the Governance Standard. The seminar will include a regulatory perspective and representation from the British Standard Institution.

As the year moves to a close we will be holding an evening seminar entitled 'The New EU Data Protection Regulation' on 3<sup>rd</sup> December hosted by the BBA at Pinners Hall in London which will be followed by drinks, generously sponsored by Promontory. The EU is currently debating the final text of a new EU-wide Data Protection Regulation. Melanie Shillito, Director, Promontory Financial Group, will highlight the important changes that the regulation is expected to bring, the impact it will have on firms and what organisations should be doing now to prepare.

## Scottish Chapter Update

The Scottish Chapter has enjoyed another year of continued support from both members and non-members. The membership has grown with new members commenting on how much 'value add' they get from local events with the opportunity to share views and experiences on Operational Risk related topics with others in the industry.

Four events have been held so far this year in Scotland, the most recent of which took place in September hosted by Lloyds Banking Group. Presentations were given by Dr. Simon Ashby, IOR Chairman and Caroline Coombe, Director of ABI ORIC. Simon took the opportunity to talk about the IOR's Sound Practice Guidance (SPG) papers past, present and future, generating thoughts and ideas from delegates as to what topics might be covered in future papers. Caroline, meanwhile, provided an overview of ABI ORIC's recently published best practice paper 'Creating Value from Risk Events' wholly endorsed by the IOR.

The main event of the year, the Scottish Chapter annual all-day conference takes place on Friday, 1<sup>st</sup> November. This year's keynote speaker is Jill Savager from the FCA who will be talking about Conduct Risk. She will be joined by several guest speakers throughout the day including John Thirlwell, Mike Finlay and George Clark, all directors / former directors of the IOR. The event is open to members, non-members and students. The Scottish Chapter would like to thank this year's sponsors Andrew Smart, CEO of Manigent and KPMG for their support and endorsement of its events.

If you would like further information on attending Scottish Chapter events, please contact Caroline Tinsley at [ctinsley@ior-institute.org](mailto:ctinsley@ior-institute.org).

## LinkedIn

The IOR LinkedIn discussion group goes from strength to strength. Since it was set up October 2010, the group has grown to over 2,350 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, we would 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](#)

## Netherlands Chapter Update

### New Netherlands Chapter!

The Netherlands is already well known for its tulips and windmills but less so for its powerful pension funds and significant financial services sector. Over the past five crisis years, this sector has learned that risk management and being 'in control' are key disciplines not to be taken lightly.

Operational Risk Management lies at the heart of risk management and internal control and is growing in importance both in the financial services sector and more broadly across the economy.

There was however little to no professional development support for risk managers wishing to focus on this discipline as it falls a bit between the existing bodies for auditors, accountants and controllers. There was a gap in the market!

Recognising this situation, a small team of enthusiasts has joined forces to create a new chapter for the IOR in The Netherlands with the objectives to share information, enhance the practice of operational risk management in the economy and to help professionals network together and learn from each other.

We are now planning our inaugural event in Amsterdam at BinckBank on 12<sup>th</sup> November – please contact us if you would like to know more.

*Alex Dowdalls*  
Head of Netherlands Chapter

## IOR Annual General Meeting

Please note that the venue for the 9<sup>th</sup> AGM has changed. It will now take place at 6pm on 28<sup>th</sup> November at the offices of Daiwa Capital Markets Europe, 5 King William Street, London EC4N 7DA. Refreshments will be available from 5:30pm.

The AGM is open to all Fellows, Members and Professional Members of the Institute (the Voting Members), while Associate Members are welcome to attend as observers.

The Agenda and all supporting documents for the 9<sup>th</sup> AGM will be distributed once the nominations for Directors have been finalised, along with details of all nominees and a voting proxy. Voting Members who are unable to attend the AGM may cast their votes for the Resolutions, including the nominees for Director, via proxy votes in accordance with the Articles of Association of the Institute, such proxy votes then being included in the vote for Directors at the AGM.

If you wish to attend the AGM please contact [info@ior-institute.co.uk](mailto:info@ior-institute.co.uk)

## German Chapter Update

On 13<sup>th</sup> September the first regional Operational Risk conference in Dusseldorf took place. Fourteen Operational Risk practitioners from banks located in Dusseldorf concentrated on the operational risk aspects of outsourcing and vendor management. The opportunity for an in-depth exchange and for networking was well received. It was agreed to come together again on an ad-hoc basis, for members to explore further operational risk topics of mutual interest.

The fourth semi-annual Reputational Risk Forum took place on 26<sup>th</sup> September. It was hosted by NORD/LB, Hannover. Again, a live case of reputational risk management was presented, with a lively discussion amongst the 25 practitioners from the financial industry in Germany and Austria. "RepRisk and Social Media" was another topic.

The finalisation of a best practice paper on Reputational Risk Management, written by a workgroup consisting of members of the forum, was also celebrated. The paper, which does not claim to present final positions, deals with definitions, tasks, governance, strategy, and the whole reputational risk steering process, incl. reporting, and will be available shortly (in German) via the German Chapter pages of the IOR website.

Around 30 specialists met on 30<sup>th</sup> September at the 5<sup>th</sup> OpRisk Quant Workshop, hosted by Deutsche Boerse at their headquarters in Frankfurt/Eschborn. As with the other Quant Workshops, one real life OpRisk Model of one of the participants was introduced and discussed. The contributions of the participants from banks and insurance companies showed the variety of existing approaches. Another highlight was the Q&A session with a representative from BaFin, who left none of the 15 answers open. A good example of how well supervisor and industry communicate with each other!

Once the dates for the forthcoming forum and workshops for spring 2014 have been fixed, they will be presented on the IOR website. Please save the date for the next full-day OpRisk Forum on 15<sup>th</sup> May 2014 in Cologne - an event which is jointly arranged by the magazine Risiko Manager and by IOR. (For May 2013 see under <http://opriskforum.de/>)

Please feel free to contact me for membership or for any recommendations!

*Walter Dutschke*  
Head of German Chapter  
[wdeutschke@ior-institute.org](mailto:wdeutschke@ior-institute.org)

## Hong Kong Chapter Update

Over the past summer, the rapid development of the China Shadow Banking System has generated much discussion by regulators, credit agencies, investors and analysts about the risks it could pose to the stability of the global economy. Operational Risk executives need to be aware of the potential impact that the rapid growth of the Chinese Shadow Banking System could have on their organisation, and to prepare to manage those risks.

In May, the Hong Kong Chapter organised two workshops which critically examined the features and risk in China Shadow Banking. In addition, on 5<sup>th</sup> July, the Chapter liaised with Thomson Reuters to host a global webcast which firstly examined the Chinese Shadow Banking System phenomenon, and then dived into more detail, exploring the specific risks the system poses to financial services firms, as well as looking at potential KRIs to track and actions that a risk manager should be taking. These events attracted an enormous and positive response.

On 29<sup>th</sup> July, the Chapter also provided a lunch seminar for the Hong Kong Chapter of the Australian Institute of Chartered Accountants to address current risk themes.

In order to help future generations understand more and engage in industry events, the Chapter worked with a group of students from the Student Association of the Risk Management and Business Intelligence of the Hong Kong University of Science and Technology to publish an article in the September issue of RiskUniverse magazine. A further white paper is also in the process of being published.



In the past quarter, members of the Hong Kong Chapter have continued to enrol in industrial roundtable discussions on operational risk and have provided support to the Hong Kong Institute of Bankers.

We continue to maintain an active and high profile in the industry and within the academic community.

*Dominic Wu*  
Head of Hong Kong Chapter  
[dwu@ior-institute.org](mailto:dwu@ior-institute.org)

**Preparing for War in Times of Peace**

The ideology to prepare for war in times of peace, and disaster in times of relative calm is what defines one of the major aspects of Operational Risk – business continuity management. This aspect is so broad that a tip of the iceberg is more than sufficient for discussion.

Business resilience and continuity, as one of the principles of sound management of operational risk being proffered by the Basel II convention, requires institutions to have plans in place to ensure an ability to operate on an on-going basis and limit losses in the event of severe business disruption.

A common saying goes: “the only thing constant in life is change”, although in our world today some environments change not only at a more rapid rate, but also more frequently than others.

Building a business in an unstable environment such as Africa or the Emerging Markets, calls for a high level of pro-active, preventive and recovery measures in the event of a disaster. In less laborious terms, we go through a process of risk identification, assign time limitation and highlight the impact of non-recovery.

Let’s rewind a bit and mention that there are various ways of gathering information - historical, external, internal, scenario analysis, discussion etc. - and coming up with possible risks, impacts and frequencies.

**“The ideology to prepare for war in times of peace, and disaster in times of relative calm is what defines one of the major aspects of Operational Risk – business continuity management”**

Building a business in an unstable environment will begin with a risk assessment of the business: internal processes, people and systems as well as external events. The processes being the steps in a series of actions, changes or functions used to bring about the expected business result. People related to these processes or procedures may be described as human resources that drive the process. Systems are not subjected to, but also include, the tools, conditions and environment (tangible and intangible) with which the business runs; external events are made up of all things beyond the control of the organisation, living and non-living. In extension: crimes, regulatory or political, perpetuated by human beings, natural disaster, etc.

The process of assessing the risks can be, in basic terms, broken down into two major fields: these being impact (financial, regulatory, customer service, personnel etc.) and frequency (how often these events take place). The impact has a second level of detail which defines the areas most directly affected by the impact, how critical recovery is and the likely effects and levels of damage with direct relation to increasing time and cost. Digging slightly deeper, we also look into the ripple effects on the business and customers (both internal and external).



Subsequently, two major questions arise; what do we do about it? How do we test if what we do is effective and efficient? In response to the first question, we ‘prepare’ - certainly not a “eureka!” moment, because the sub-question being asked is ‘how?’ Firstly, we take a hands on approach and get everyone in the business involved at their different levels, explaining the importance and mirroring the systems/ infrastructure at alternate sites which have very low possibilities of suffering impact during disruption or unavailability. For external events, we run scenario analysis and role-play events that have taken place in the world. These events include but are not limited to political changes, regulatory changes, weather disasters, armed robbery attacks, bombing and terrorist attacks.

**“Periodic testing of processes, systems and infrastructure....so that staff know exactly what to do.”**

Speaking on terrorist attacks, an event that took place in Kenya comes to mind. Let’s paint the picture. On 21<sup>st</sup> September 2013 unidentified gunmen attacked a shopping mall in Nairobi. The siege lasted four days, resulting in at least 67 deaths and over 200 reportedly wounded in a mass shooting. The location of the mall is about 200 metres from the Head Office of a bank. Saturday banking was in progress at the Head Office branch when the attack occurred. The branch was immediately shut down on the instructions of the Country CEO and Chief Operating Officer, with staff instructed to go home.

The area was cordoned off by security agencies and business operations were disrupted; the bank promptly activated its full business continuity process and provided services to customers despite the crisis.

How did the bank manage this crisis? I think I have finally grabbed your attention!!

The bank developed Business Continuity Plans, which entailed;

- A business risk assessment of all its functional lines to identify critical processes;
- Documentation of recovery processes, including manual work -arounds on how to recover in the event of disruption or disaster;
- Process owners taking ownership of their Business Continuity Plan process implementation;
- Constituting crisis management teams and building or outsourcing Disaster Recovery/Alternate sites;
- Periodic testing of processes, systems and infrastructure at the alternate sites to ensure they are functional, including continuous training and awareness, so staff know exactly what to do. The testing should be based on various crisis/disaster scenarios;
- Regular conduct of call tree tests.

Although there is more to it than literature, we know averting crisis with proper preparation is not as hard as it seems.



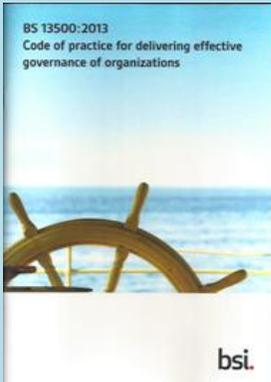
Business continuity is our glimmer of light in the darkness, giving us hope, the fuel for the energy to carry on and push, further and harder and believing that, just in case all seems to fail, we are assured it will be business as usual.

*Edima Ben Ekpo  
Head of Nigeria Chapter*

## Governance Standard

### BS13500 British Standard in Governance

Further to previous articles on this subject, we can confirm that this standard has now been published. Responsibility for the development and drafting of the Standard included four members of the IOR.



The Standard is designed for all types of organization, across all sectors (public, private, charity, not-for-profit etc.). It is hoped that it will provide high-level support and assurance for those who are already familiar with governance arrangements and those who come new to the subject.

A free BSI event is being held in London on 8<sup>th</sup> November to showcase the five pilot studies conducted against the Standard. More details can be found here: [Link](#)

In addition, the England and Wales Chapter will be running a full one day seminar and workshop on Governance, in London, on 21<sup>st</sup> November with details available from the IOR website under 'Upcoming Events'.

*Rubina Faber  
Vice Chair IOR*

## Risk Culture

### Risk Culture in Financial Organisations

On the 30<sup>th</sup> September, the final report of a joint Plymouth University and London School of Economics research project looking at 'Risk Culture in Financial Organisations' was launched. Dr. Simon Ashby, IOR Chair, was one of the lead researchers on the project.

The report suggests that current debates on the crisis and associated financial sector reform misleadingly equate risk culture with greater precaution and risk aversion.



The report also challenges the notion that there is a clear distinction between 'strong' and 'weak' risk cultures. A key theme in the report is that the risk cultures of financial organisations are full of trade-offs, and that it is the management of these trade-offs that is fundamental.

## Risk Culture (cont'd)

### Risk Culture in Financial Organisations (cont'd)

This includes, but is not restricted to, the need to balance risk and return. The report also finds that a 'good' risk culture is as much about organisational clarity and confidence in making these 'trade-offs', as it is about the level of risk taken.

**“The most fundamental issue at stake in the risk culture debate is an organisation’s self-awareness of its balance between risk-taking and control”**

The full report on the project can be downloaded via the link below. If you have any questions or observations about the report please contact Simon at [simon.ashby@plymouth.ac.uk](mailto:simon.ashby@plymouth.ac.uk).

IOR members will also be interested to note that their Institute is shortly going to publish its own Sound Practice Guidance Paper on Risk Culture, a document that has benefited from Simon’s association with this research project.

Click here for a [Link](#) to the report.

*Simon Ashby  
IOR Chairman*

## Did You Know?

We are delighted to announce that the Commissioners for HM Revenue & Customs have approved our application for income tax relief in respect of annual membership subscriptions. This applies to all current UK tax payers who are members and is effective from 6<sup>th</sup> April 2013.

As an employee/self-employed you may be able to reduce your tax bill by getting tax relief on the professional fees and subscriptions you pay – if the subscriptions are paid by your company then it can claim as an allowable expense.

## Disclaimer

The content of this document is the property of the Institute of Operational Risk (IOR).

Care and attention has been taken in the preparation of this document but the IOR shall not accept any responsibility for any errors or omissions herein. Any advice given or statements or recommendations made shall not in any circumstances constitute or be deemed to constitute a warranty by the IOR as to the accuracy of such advice, statements or recommendations. The IOR shall not be liable for any loss, expense, damage or claim arising out of the advice given or not given or statements made or omitted to be made in connection with this document.

The IOR recognises copyright, trademarks, registrations and intellectual property rights of certain third parties whose work is included or may be referred to in this document.

The content of this document does not constitute a contractual agreement with the IOR. The IOR accepts no obligations associated with this document except as expressly agreed in writing. The information contained in this document is subject to change. All rights reserved.

© The Institute of Operational Risk