

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

This year marks the 10th Anniversary of our Institute, which first came into being in January 2004. At that point we only had a small handful of members and over the last 10 years our numbers have grown substantially and now encompass 6 local chapters and our first corporate members (Barclaycard and ING). This growth is in part thanks to our hard working Chapter Heads; the many other members who have supported the Institute (organising events, editing sound practice guidance papers, working on the Council, etc.); but most of all it is thanks to you, our members. Without your support and commitment our Institute could not succeed.

2014 is going to be a really important and exciting year for the Institute and I am very grateful to play my own small part in this. Notably:

- The Institute is looking to significantly revise its Articles of Association. This is primarily to ensure that our Articles remain up to date with current regulations and legal precedent. However it is also important that they reflect the growth and increasing diversity of our membership base. To get our new Articles approved we will be calling a Special General Meeting, please see the 'Breaking News' announcement below.
- We have launched a new corporate membership offering – which will allow corporations to purchase block memberships for their operational risk and related staff. This will not only provide corporations with an effective mechanism to support the professional development of their staff, but it will also demonstrate their commitment to the Institute and the discipline of operational risk.
- The Institute has reviewed and enhanced its Fellowship appointment process. This process is now managed by a Fellowship sub-committee of the Council which is made up of existing Fellows and chaired by John Thirlwell. It is our hope that, as the number of Professional Members expands; so will the appointment of new Fellows. A profile of the Committee and its membership will be published in the next Newsletter.

[continued on page 2]

BREAKING NEWS

Please note that a Special General Meeting of the IOR will be held on 4th June 2014 at Minster Exchange, Minster Pavement, Mincing Lane, London EC3R 7PP. The meeting will be immediately followed by a drinks reception and dinner. Further details are on page 2.

Call for Articles

Your Institute needs 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

1st Corporate Members announced

The Institute is immensely proud to announce that both Barclaycard and ING have agreed to join us as our first Corporate Members.



Barclaycard launched the first ever UK credit card in 1966 and now have over 21 million customers world-wide, more than 10 million of whom are outside the UK. Barclaycard credit cards can be used to pay at over 27 million outlets and withdraw cash from over 1 million ATMs. Over 85 million merchants use Barclaycard as their financial partner in business.

ING is a global financial institution of Dutch origin which offers banking, investment, life insurance (NN Group) and retirement services.

IOR Announcements (cont'd)



ING draws on experience and expertise, commitment to excellent service and global scale to meet the needs of a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments.

The launch of Corporate Membership, which was ratified recently at Council, is a significant step forward in the development of the Institute and we look forward to a long and mutually beneficial relationship.

For more details about the benefits of Corporate Membership please see the article on page 5 or email us at:

info@ior-institute.co.uk

Message from the Chairman (continued)

- As the Institute has grown so much in recent months we are getting close to the threshold for charging VAT (to UK members). We would like to assure our individual members that we will not apply any VAT related price increases to their membership subscriptions in the first instance, however we cannot rule this out in the longer term. Though I am sure you will all agree that this is a positive development, as with increased resources we can invest more in developing the Institute and the benefits we offer our members.
- Although many of our members attend the events organised by our various Chapters we also know that they value Institute-wide events. With this in mind we are working on the organisation of an Annual Dinner (further details below). In addition a global IOR webinar, in association with RiskBusiness, took place on 4th April. The topic was Risk Culture and focused on our recent Sound Practice Guidance Paper. The Webinar was open to both members and non-members and was free of charge.
- The Institute is continuing to develop its educational work and we expect to launch a Diploma in Operational Risk Management for Quarter 4 of this year. This will allow members to obtain a high quality qualification in Operational Risk Management, created by operational risk professionals for both existing operational risk professionals and those looking to pursue a career in the area.
- The Institute is continuing to develop its sound practice guidance papers, with further output expected this year, including revisions of existing Risk Control Self-Assessment and Key Risk Indicators papers, as well as a new paper on Reputation Risk.
- The Institute will continue to offer high quality events in all of its chapters, while looking to increase the number of chapters so that more of our members can benefit from local events and networking opportunities.

As ever, our success over the coming year will depend on your support – both in terms of your membership subscriptions and willingness to volunteer to work on projects such as our education work or sound practice guidance papers. If you are willing to help please feel free to contact me (sashby@ior-institute.org) and I will put you in touch with the relevant project lead.

IOR Special General Meeting and 10th Anniversary Dinner – 4th June 2014 Venue: Minster Exchange, Minster Pavement, Mincing Lane, London EC3R 7PP

We are delighted to confirm that a dinner will be held immediately following the Special General Meeting on 4th June to celebrate the 10th Anniversary of the Institute. As well as a pre-dinner drinks reception we are planning a special guest speaker and an awards presentation courtesy of *The Risk Universe*. The drinks reception is scheduled to commence at 7pm with the dinner following at 7.30pm. The dress code is lounge suits. Tickets, which are priced at £50 (and which include wine with dinner), can be purchased by emailing events@ior-institute.co.uk. It will also be possible for groups to arrange for a table (s) of 8-10 people to be reserved in advance (at the same price - £50 per head) – please confirm details with your booking.

The IOR, as part of celebrating its 10th Anniversary, is calling for nominations for two special awards, to be conferred on the winners in each category at the Dinner:

OpRisk Manager of Note:

- Open to any individual, whether an IOR member or not, based on demonstrable improvements in practices within operational risk over the past 24 to 36 months.
- Individuals may self-nominate themselves or may be nominated by others, including by their employing firm. If nominated by another party, the nomination must include the nominee's permission to be nominated.

Nominations should contain:

- The rationale for nomination (maximum 350 words);
- The firm or environment within which the individual worked throughout the period;

- An overview of the starting point, the required improvements and changes, an outline of the plan and approach to improvement, the outcome and indications of how success is being measured.

Contribution to the Discipline of Operational Risk Management:

- Open to any individual, whether an IOR member or not, risk management team or risk management initiative, based on demonstrable contribution to an improvement in practice, thinking, approach, use of information, sharing of information or other initiative which has impacted upon the discipline of operational risk management over the past 24 to 36 months. Examples of eligible entities are:
 - Individuals
 - Groups
 - Departments
 - Companies
 - Regulators
 - Academics
 - Regulators
 - Working Parties
- The initiative must have advanced the discipline of operational risk management. Examples of appropriate initiatives include:
 - A revolutionary risk management process;
 - A new software platform;
 - A data provider;
 - A research paper;
 - Something around risk culture;
 - A measurable approach to risk appetite;
 - New thinking on key risk indicators;

- A new modelling technique;
- An industry association initiative to share information.

- Individuals or entities may self-nominate themselves or may be nominated by others, including by their employing firm. If nominated by another party, the nomination must include the nominee's permission to be nominated.

Nominations should contain:

- The rationale for nomination (maximum 350 words);
- The firm or environment responsible for the activity;
- An overview of the starting point, details of the initiative and approach, the outcome and indications of how success is being measured.

General rules:

- Short-listed nominees are expected to attend the Anniversary Dinner.
- Nominations should be in written form (Adobe pdf), sent by e-mail to events@ior-institute.co.uk and close on 9th May at 17h30 GMT.
- Nominations will be assessed by the IOR Awards Committee, which will select a short-list of potential winners from the nominations received.
- Short-listed nominees will be informed by no later than 23rd May 2014. Actual winners will only be announced at the Awards Ceremony.
- The decision by the IOR Awards Committee will be final.

England and Wales Chapter

The start of the year is a good opportunity to pause and reflect on the success of the England and Wales Chapter during 2013 and to thank all those speakers, sponsors and organisers involved in making the year such a success.

A total of 12 events were held during the year and it was great to be able to close the year with a networking event sponsored by our friends at Oracle. I am particularly grateful for the tireless efforts of Helen Pykhova and Ariane Chapelle in both arranging a number of events and obtaining sponsors to enable us to continue to provide events at no cost to members. I am pleased to be able to report that Helen Pykhova has kindly agreed to become co-head of the chapter. The leadership team of Helen, Ariane, Denis Lyons and myself are striving to make 2014 another notable year. The need to juggle work (all the team are facing new work challenges) while arranging events and promoting the chapter is proving difficult for such a small team and we would welcome any members who would like to join us in making sure the Chapter actively promotes Operational Risk in England and Wales. 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.



The chapter has made a good start to the year and two events have been held already. The first – Cyber Space the New Background – was held in response to requests from members. Graeme McGowan, Director, Cyber & Cyber Security and Independent Cyber & Cyber Security Consultancy Services opened the event followed by Dan Solomon, Director of Cyber Risk and Security Services division at Optimal Risk. The feedback to the event showed it to be very well received and informative.

Our second event – Operational Risk Appetite - was unsurprisingly oversubscribed as it dealt with an issue with which many of us are struggling. Feedback shows that the attendees benefited considerably from participating.

England and Wales Chapter

The event was hosted by Chase Cooper and the speaker and facilitator was Professor Tony Blunden, the Head of Consulting at Chase Cooper. Tony is a well-known author and speaker on risk management across the world and we are very grateful for his support.

In conclusion I would like to thank Helen, Ariane and Denis for their considerable efforts both last year and also as we move forward into 2014. If you would like to contact the chapter please e-mail Helen Pykhova at epykhova@ior-institute.org, or Andrew Sheen at asheen@ior-institute.org.

*Andrew Sheen
Co-Head of England & Wales Chapter*

IOR Webinar: Risk Culture

On 4th April, in association with RiskBusiness International, the IOR organised a webinar on the subject of risk culture. The webinar looked at the recent Sound Practice Guidance paper that was published by the Institute and covered issues such as:

- the nature, scope and importance of risk culture within operational risk management;
- monitoring risk culture;
- controlling and changing risk culture;
- regulating risk culture (including thoughts on the recent guidance from the Financial Stability Board).

The webinar was co-hosted by Dr. Simon Ashby, Chairman of the IOR and an expert on the subject of risk culture and Mike Finlay, Vice-Chair of the IOR and CEO of RiskBusiness International. Simon is also one of the authors of the IOR's Sound Practice Guidance paper on Risk Culture and recently completed a major research project on Risk Culture in Financial Organisations with colleagues from the London School of Economics.

The webinar was free for IOR members and attracted participants from all corners of the globe.

Given the webinar's popularity, there are sure to be others organized through the Institute in the near future and these will be advertised, as usual, on the "Events" page of the IOR website. You can access this through the following: [Link](#)

Scottish Chapter Update

The Scottish chapter is seeking a successor to Caroline Tinsley who, after many years of incomparable dedication to the IOR, has had to stand down as Chapter head for personal and business reasons. The IOR wishes to thank Caroline for her contribution. Members interested in the role of Scottish Chapter lead should contact Mike Finlay (mfinlay@ior-institute.org). Meanwhile, the Chapter is working on three key events for 2014: a breakfast briefing in June; an event looking at scenarios in September and the Chapter's annual conference in November. A 'conduct' event was held in April.

Please visit www.IOR-institute.org for information on local chapter events close to you.

Operational Risk: Back on the Agenda

Peter McCormack and Andrew Sheen have had an article published in the Journal of Risk Management in Financial Institutions with the title 'Operational Risk: Back on the Agenda'. Apart from the missing word 'against' (as in 'hold capital against operational risk') which somehow got lost in the editing, the article sets out the role of operational risk as a foundation building block of Enterprise Wide Risk Management, and the role that operational risk can play in establishing and embedding an appropriate risk culture. The article also summarises recent risk developments and should contain some useful information for operational risk practitioners. The article reference is - *McCormack, P., and Sheen, A. (2013), Operational Risk: Back on the Agenda, Journal of Risk Management in Financial Institutions, Vol. 6. Issue 4, pp 366 - 386.*

LinkedIn

The IOR LinkedIn discussion group goes from strength to strength. Since it was set up October 2010, the group has grown to over 3,000 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, 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](#)

Hong Kong Chapter Update

In the fall of 2013, the Hong Kong Chapter liaised with Thomson Reuters to publish the first Whitepaper on the Risks in the Chinese Shadow Banking System phenomenon - exploring specific risks the system can pose to financial services firms, as well as looking at potential KRIs to track the development of risk. The whitepaper has seen a very high download rate and can be accessed [here](#)

Recently, I wrote an article on the subject of Risk Appetite for the newspaper of the Hong Kong University of Science and Technology Risk Management and Business Intelligence (HKUST RMBI) to promote the best practice guidance paper of the IOR. A link to the webpage detailing all the IOR's SPG papers is included here: [Link](#) although these are only available to IOR members.

Aiming to get closer to our future risk generation, a group page has been opened in Facebook for peers and students to share information; discuss common topics; and exchange views.

A group of peers and students from various universities are now working on another Whitepaper to examine the Risks in Financial Services in 2015 and beyond. This will consist of predictions and analysis of the possible outcomes as well as risk prevention. The output will consist of a series of seminars to discuss the topic with industry peers, the academic world and regulators.

The Hong Kong Chapter continues to engage in speaking in various industry events, for example, the 4th Annual Operational Risk Conference by Marcus Evans and training events with various universities.

On Friday 11th April, the Hong Kong Chapter in conjunction with the Hong Kong Institute of Bankers ran a half-day training course on Scenario Assessment for the collective benefit of members of both organisations. It attracted around 75 participants, representing the majority of the banks in Hong Kong, helping to further raise the IOR's profile amongst Hong Kong banks.

*Dominic Wu
Head of Hong Kong Chapter*

Hong Kong Chapter (cont'd)



On 10th April 2014, Mike Finlay, Vice-Chair of the IOR, attended the inauguration of the new Risk Management and Business Intelligence Association at the Hong Kong University for Science and Technology's Student Council, and gave a keynote address, accompanied by fellow guests of honour Dominic Wu (Chair Hong Kong Chapter) and Eddie Leung (Committee Member Hong Kong Chapter). A photograph showing Mike giving his keynote address is shown above.

The IOR was a sponsor of the event and plays an active part in the association's activities, also mentoring many of the students, several of whom have contributed to white papers and research work undertaken by our Hong Kong chapter.



In the group photo shown above (of speakers and the cabinet), Eddie Leung is far left, Dominic Wu is second from the left and Mike Finlay is second from the right.

**THE
INSTITUTE OF
OPERATIONAL RISK**

Promoting and Developing the Discipline of Operational Risk Management

German Chapter Update

The activities of the IOR German Chapter show continuity in their event structure, however, some considerations are taking place for modifications due to growing participant numbers and memberships.

What has happened?

The fifth **Reputational Risk Forum** on 19th February 2014 was hosted by Allianz Group in Munich, with a dinner the evening before. Tom Wilson, CRO of Allianz Group, welcomed the participants with a keynote address about the growing importance of reputational risk. Three parallel workshops took place in the morning and in the afternoon of the day, dealing with:

- concrete effects from a bad reputation;
- risk culture and reputational risk;
- identification and monitoring of the top 10 reputational risks;
- criteria for the classification of reputational risk as “material” risk;
- the additional benefits of a central reputational risk management; and
- reputational risk reporting.

More than 25 participants attended from the major financial institutions, mainly from Germany (plus Austria and Switzerland). The main day as well as the evening before, were highly appreciated both for the trustful exchange and for networking.

On 20th February the **OpRisk Quant Workshop** took place for the sixth time. Postbank AG, Bonn, was hosting the event. As a kind of tradition the host, Postbank, gave an overview of its risk organization. Its AMA model was well described – giving the participants the opportunity to add remarks from their own company’s perspective.

Further topics were:

- a brainstorming about approaches for the quantification of risk types other than credit, market and operational risk;
- a presentation about stress testing and scenario analysis (ST+SA); and
- a discussion about methods for the estimation of correlations.

The authors of the ST+SA presentation are currently considering a distribution of their work to a wider audience. There were more than 20 participants in attendance from the financial institutions sector in Germany (plus Austria).

German Chapter (cont’d)

What will come? / What is planned?

The third **Operational Risk Forum** on 15th May 2014 in Cologne (Köln) bears the title “The Future of Operational Risk Management” – dealing with the general questions, which changes in Operational Risk Management have to be expected and how these can be met. New developments affect the OpRisk heat map, and current structures and procedures may no longer turn out to be sufficient. Some of the questions put on the table are shown on the IOR website (see the announcement of the event). We would be happy for readers to add questions or remarks before the event.

The forum is organized together with Bank Verlag/Risiko Manager (further info in German under <http://opriskforum.de/>). The event is limited to 70 participants and almost fully booked, with only some spare places left.

Please save the date for the **next OpRisk Forum** on 20th - 21st May 2015. According to demand a 1 ½ day forum is planned, including speeches, panel discussions and workshops.

The coming **OpRisk Quant Workshop** is planned for **September / October** this year. Commerzbank AG has agreed to be the host. It is intended to continue the beneficial dialogue with the supervisor then.

In line with growing interest the RepRisk Forum will be extended. A **Reputational Risk Conference** is planned for the first half of November this year. The conference is scheduled for 1 ½ days and includes workshops.

I would like to express my thanks to all supporters, both within the German Chapter and from the IOR center, and to the hosts of the events and sponsors.

*Walter Dutschke
Head of German Chapter*

South Africa Chapter

We are delighted to announce that a South Africa Chapter has recently been formed and is due to hold its first committee meeting shortly.



A significant recruitment process is envisaged to boost the number of new members.

Corporate Membership

The IOR is committed to the promotion of skills and standards associated with the profession of Operational Risk Management. It is an independent, not for profit, professional body designed to support its members through the provision of:

- Professional standards
- External events
- Research
- Sound practice guidance

By becoming a Corporate Member your organisation will directly support the work of the IOR. You will also receive a range of benefits for both your organisation as a whole and your operational risk and related professionals.

Corporate Membership Benefits

- Affiliation to the local chapter in which your Head Office is located, where available.
- Access to events across all IOR Chapters (including seminars, forums, conferences and social events).
- Many events at zero cost for nominated corporate representatives.
- Chargeable events at the discounted member rate (where available).
- Your logo, plus an acknowledgement on the IOR website to demonstrate your commitment to the Institute and the discipline of operational risk management.
- Access to the members only area and associated resources, including all Sound Practice Guidance Papers (for nominated corporate representatives).
- Regular IOR Newsletter.
- Automatic notification of official IOR events and IOR accredited events.
- Access to general meetings and voting rights for one senior official.

Obligations of Corporate Members

- Corporate members are asked to host one IOR event per year, to support the Local Chapter to which they are affiliated, where one is available.
- To ensure that nominated individuals abide by the Institute’s member code of conduct.
- To keep the IOR informed of any changes in the details of nominated corporate representatives.

For more information about joining as a Corporate Member, please email us on info@ior-institute.co.uk

The IOR recently endorsed OpRisk World 2014, held on 12th and 13th February 2014 in Amsterdam. The IOR had an exhibition stand, manned throughout by an economics student from the University of Exeter, resplendent in an IOR Polo shirt, which gathered considerable interest from delegates, while Simon Ashby, the IOR Council Chair participated in a panel discussion on Culture and Behaviour. Mike Finlay, the IOR Vice-Chair chaired the entire event and Walter Dutschke, chair of the German Chapter of the IOR and Alex Dowdalls, chair of the Dutch Chapter of the IOR, were both in attendance, as were several members of the Dutch local chapter.

Alarm Management of Risk Course - Alarm National Educational Forum

The IOR is please to advise readers of the following opportunities that may be of interest to them.

Alarm is the Public Risk Management Association which aims to make a positive contribution to loss reduction in the Public Sector. Members are from a range of public sector organisations which include: Local Government, The Police Service, Fire and Rescue Services, Water Authorities, Probation Service, Universities, The Environment Agency, Housing Associations, Health Authorities, National Parks and The Construction Service Agency.

[Alarm Management of Risk \(MoR\) Course.](#) M_o_R® is part of a suite of Best Practice Guidance publications published by HM Govt, which is the basis for various accreditation and qualification schemes. M_o_R® covers a wide range of topics, including strategic, programme / project risk management and operational service risk management as well as business continuity management, security and health and safety. These topics are placed in the context of an organisational framework for the management of risk. IOR members can attend this course for the discounted Alarm Member Rate of £995 +VAT (non-member price £1195 +VAT).

[Alarm National Educational Forum](#)

The 2014 Alarm National Educational Forum is taking place from 22-24 June and will be returning to Manchester University for its third consecutive year. The Forum will focus on the theme 'Managing Risks in Austerity'. IOR members can attend this event for the discounted Alarm Member Rate of £395 +VAT (non-member price £695 +VAT).

THE INSTITUTE OF OPERATIONAL RISK



10th Anniversary Dinner

4th June 2014

Minster Exchange, Minster Pavement, Mincing Lane
London EC3R 7PP

**Promoting and Developing the Discipline of
Operational Risk Management**

We are delighted to announce that Caspar Berry will be the after dinner speaker for our 10th Anniversary Dinner. Caspar is a keynote and motivational speaker and trainer. He began working with Ant and Dec when they were kids together on a famous children's TV programme, then went to Las Vegas as a professional gambler and, for some time, has been a speaker presenting on Risk and Chance. He has delivered over 1,200 speeches and seminars to some of the world's biggest companies, including Google, IBM, Esso, KPMG, Orange, ASDA Walmart and Visa.



When the Basel Committee initially published the “Sound Practices for the Management and Supervision of Operational Risk”

in 2003, the prevailing view of business operations centered around business processes, IT applications which support these processes and role definitions in an organisation. It is therefore not surprising that Operational Risk Management (ORM) was defined in this light and worded as “the risk of loss resulting from inadequate or failed processes, people and systems, or from external events”.

Much has changed since that time. Facebook, LinkedIn, Ebay, Bitcoins, Crowd funding, Mobile Banking, Ubiquitous WIFI, 4G, Smartphones and Tablets, 365x24 online service, the financial crisis and of course Cybercrime in all its manifestations. The way we do business today is fundamentally different from the way we did business in 2003 – we are now much more “online” and “real-time”. We also see much more complexity in the range of products on offer to customers and the extent to which these can be tailored to individual needs. Our world is more complex than it was and this trend is unlikely to slow down.

The financial crisis also reminded us (again) that humans can be very creative in thinking up ways to circumvent guidelines, rules and control systems and act in their individual self-interest assuming that wins yield personal bonuses whilst losses would be borne by other parties – including the public. After so many scandals we became accustomed to losses or fines in units of hundreds of millions or billions.

“The financial crisis reminded us that humans can be very creative in thinking up ways to circumvent guidelines, rules and control systems”

Now let us consider one more factor. Following the swathe of regulations, financial institutions were compelled to set up compliance and risk management functions, in addition to their internal audit capability. These “three lines of defence” were established to encourage business people in the first line to take ownership of risks, aided by a second line, with independent assurance from the third line. Most institutions in the industrial, energy and food producing sectors had already learned to set up Health, Safety and Environment teams to address these key risks.

The people who were recruited into the “second line of defence” (and particularly in ORM) were typically those who understood financial management and most often came from an accounting, audit or otherwise numerical or “hard” disciplines. Very few psychologists or human resource professionals migrated into the world of ORM. In addition we saw the rise of the Chief Information Security Officer (CISO) and the application of risk management in the IT domain in response to cybercrime and the need for business continuity. This is most often organised outside of the ORM function and often resides in the IT department despite being a major business issue and a core facet of ORM.



Thus the key question is whether the ORM function is equipped with the right skills for the current and future business environment?

“The key question is whether the ORM function is equipped with the right skills for the current and future business environment”

In short I think the answer is no. The shift towards online business models and the need for greater influence upon human behaviour call for new skills and capabilities in the ORM organisation. Three skills in particular require attention:

1. Change skills - to address culture and behavioural issues.

Given the need to raise business awareness of risk management and engage not only the top executives but also the broad community of staff in business today, the risk management function must be capable of detecting, analysing and addressing “soft” factors such as organisation culture, management behaviour and leadership style. The risk manager is not alone here as the human resource function may be a great partner in this initiative but the risk manager must be aware of soft factors and how to deal with these.

2. Online business skills – to address cybercrime, data integrity and emergent risk.

The world today is online. The traditional focus on business processes with IT applications which support them is no longer sufficient. We also need to revisit where we draw the line between risk management and the “IT department”.

Risk managers must understand and engage fully with the with the new online business model including the impact of social media and the dangers of cybercrime. This requires increased insight and understanding of the online world as a core aspect of ORM. The traditional view that the IT department deals with IT security, data quality, business continuity and cybercrime is no longer valid and represents an abdication of responsibility. The ORM manager needs to migrate into cyberspace!

3. Environment scanning skills – to detect and respond to emergent threats.

If one thing is clear from the past ten years, it is that our business environment is continually changing and new services (e.g. for social media) can become well established in a relatively short period of time. This changing environment will present our organisations with new “external events” and ORM must change gear to be able to detect and respond to these new challenges as they arise. This requires an outward looking, scanning capability to detect risks at an early stage and the ability to interpret signals or incidents at other institutions and act upon these in an appropriate way.



The ORM function must evolve in response to the changing business environment in order to adequately fulfil its role. ORM Managers have a key role to play in leading their teams through this change.

If you would like to comment on this article, please do so, on the IOR LinkedIn forum discussion.

Alex Dowdalls
Head of Netherlands Chapter

Risk Culture



In our firm, there is considerable attention paid to ensuring an appropriate level of risk awareness across all staff and recently, together with some of my colleagues from our Business Continuity Management and Information Security

functions I presented to more than 400 of our London-based staff on the subject of risk culture. The simple fact is that risk culture, as an element of a firm's risk management program, is here and it isn't going to go away anytime soon. Indeed, a recent Google search on "risk culture" produced 624,000 results – obviously lots of other people are talking about it as well.

But what do we mean by risk culture? Probably the best, and simplest, definition I've seen is that it can be defined as the system of values and behaviours present throughout an organisation that shape risk decisions. So even though employees and management alike may not be consciously weighing up risks and benefits, risk culture will ultimately influence their decisions.

Late last year, I attended the launch of a new white paper entitled "*Risk Culture in Financial Organisations*" in the vain hope of finding a panacea to the problem of embedding a sound risk culture within a firm. The research was principally conducted by a team from the London School of Economics and the Plymouth University Business School. Needless to say, there was no panacea to be found, but the paper (or at least the Executive Summary!) gave some interesting pointers. The research noted that "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". It also noted that, prior to the financial crisis, many senior people within financial organisations were either unaware of, or completely indifferent to, the actual trade-off or risk profile of their organisation as a whole.

Risk Culture (cont'd)

There appeared to be a potentially dangerous mix of control functions being ignored or fragmented and "of revenue-generating functions being given star status" - rendering the actual trade-offs effectively impotent. For this reason, one of the key conclusions of the report was essentially that firms should focus on their "capability to make visible, to understand, and to accept or change the actual risk/control trade-off". This acceptance or change of the risk/control trade-off is something that firm's Board Risk Committees should be focused on and their various control functions, no doubt, have to articulate for their Risk Appetite Statements.

Similarly, back in April 2013, the Director of Supervision at the Financial Conduct Authority (FCA) gave a speech to the Chartered Financial Analyst (CFA) Society in which he bemoaned the "erosion of trust in financial services" caused by the financial collapse in the banking sector and the seemingly endless stream of large-scale conduct failings. These have ranged from endowment and pensions mis-selling to the more recent payment protection insurance (PPI) mis-selling and LIBOR rigging scandals.

He argued that all these events, and the associated lack of trust that has resulted from them, had imposed substantial costs on firms, consumers themselves and the overall economy. Underpinning all of this, he noted, was that a cultural issue was at the heart of the problem and that a cultural approach of "doing the right thing" had been lost by financial services.

So what are the key drivers of culture at a firm and what should we be doing to ensure we are doing the right thing? Firstly, setting the "tone from the top" which is all about creating a culture where all staff feel ownership and responsibility for doing the right thing. Most large financial services firms have a set of corporate principles which define what that means in practice.

Risk Culture (cont'd)

But corporate values are just that, basic tenets or principles that help to guide employee behaviour. An even better solution to the problem of implementing a risk aware culture is to translate this "tone from the top" into real business practices that drive how we make business decisions, how we as a firm respond to events, how we as individuals behave and how issues are escalated in a transparent way. The right behaviours can be supported through effective performance management and employee development and reinforced through appropriate reward programs. These can help nullify the "what's in it for me?" question by incentivising the required approach.

We know that regulators are focusing on risk culture, but how might they encourage positive culture change within firms and, perhaps more importantly, how might they assess it? The above mentioned speech to the CFA Society gave a few clues, namely: how firms respond to, and deal with, regulatory issues; what customers experience when they buy a service from front-line staff; how firms run their product approval process; the behaviour of a firm in the marketplace; the manner in which decisions are made or escalated; and potentially even a firm's remuneration process.

The examples I've touched on really only scratch the surface of risk culture. It is clear that there is no "one size fits all" answer to the problems identified. Ultimately, however, adopting and maintaining a sound risk culture comes down to individuals acting with integrity and taking responsibility for their actions. At the end of the day, we should all be conscious of how our actions or behaviour might look to someone independent looking in. In that way a strong "tone at the top" is likely to be supplemented by a good "tune in the middle".

Alan Dunk, Member of IOR Council

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