

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

Your Institute Needs You!

This year, 2015, is going to be a very important one for our Institute. We have already seen significant membership growth and are now in a strong financial position for the future.

However we cannot rest on past achievements and in particular it is important that we invest our resources to ensure continued growth and success, while at the same time retaining the culture and identity that we have built up. We need to retain the benefits of a 'small' institute (close personal relations, responsive to member needs, democratic decision-making) with much bigger ambitions.

A key element of this is our work on education and I and my fellow Council Members remain committed to delivering a Certificate in Operational Risk. I am also extremely grateful to all the chapter committees, corporate members and sound practice guidance paper authors who are supporting this work. Without all of us pulling together on this project we will not succeed.

Equally we have work to do updating our strategy, which was first communicated nearly 3 years ago. While we remain committed to fulfilling this strategy it is imperative that we review where we are and adapt to the changing needs of our members. It is also essential that our strategy can grow with us and ensure that we continue to achieve our vision to be the preferred association for operational risk management professionals.

All of this means that we have a lot of work to do, and it is clear that we can no longer solely rely on the work of volunteers, however committed they might be. As a result, following a full recruitment process, we have appointed Rubina Faber as Programme Director for our education work. We may also, in due course, recruit a part time Chief Executive, to help support the work of Council.

Further announcements on our strategy and education work will follow, as well as the potential recruitment of a paid, part-time CEO. It is also likely that we will be sending out a new member survey soon. So please look out for that and ensure you let us know your opinion on the future direction of the Institute.

Volunteering will though still remain at the heart of the running of our Institute. I am tremendously grateful to all those who give their time freely, as well as for their considerable dedication and commitment. Our Institute could not survive without you.

In this regard we continue to need more people to volunteer their time, to help share the load in an equitable way. We continue to need fresh volunteers to help support the work of our chapters, the many projects and initiatives that we have (such as our sound practice guidance papers) and the work of Council. So if you are interested in volunteering please do contact myself or your local Chapter Head. None of the benefits we enjoy as members will continue without your support. As members we all have the potential to contribute to the running of our Institute, and I can speak from experience when I say that there is much you can receive in return, both in terms of your personal development and the personal satisfaction of helping our Institute to succeed.

I would also remind you that there will be at least one vacancy on Council coming up in November, when I step down as Chair. So if you are a Professional Member or Fellow who will have at least 2 years of membership come November and you are interested in standing for Council please do let me know. No board can survive without fresh ideas and perspectives and this is your chance to have a key input into the direction of the Institute.

I look forward to your e-mail.

Simon Ashby
IOR Chair
sashby@ior-institute.org

New Local Chapter for the United States

One of the key strategic objectives for the IOR is the establishment of new chapters in areas of the world where there are sufficient members to warrant it. We are, therefore, delighted to report that an inaugural 'kick-off' event in the United States took place on 28 January 2015 in Manhattan, New York at the offices of Rabobank International. The event featured an overview of operational risk practice from around the world and was followed by an introduction to the IOR, what it is and what it offers. A presentation then followed on the benefits of establishing a local IOR chapter in the US.

This exciting news comes in addition to announcements that we will be making shortly with regards to the development of new chapters in South Africa, Denmark (for Scandinavia), Australia, Ireland, Saudi Arabia (which will initially support all of the Gulf Cooperation Council states) and Argentina.

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

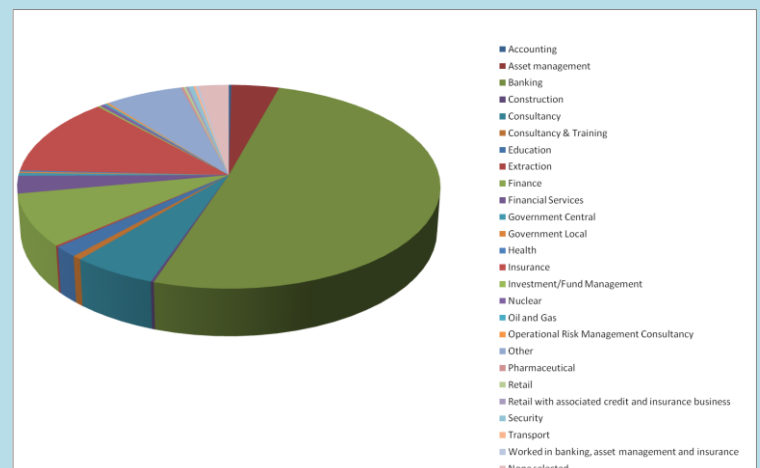
- Corporate members are asked to host one IOR event per year, to support the Local Chapter to which they are affiliated, where one is available.
- To ensure that nominated individuals abide by the Institute's member code of conduct.
- To keep the IOR informed of any changes in the details of nominated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

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

IOR Membership Profile

Have you ever wondered what industries our members hail from?

Well, here's your answer. As you might imagine, the Banking industry is well represented, followed by Insurance, Consultancy and Asset Management, but the Oil & Gas and Nuclear sectors and well as Local and Central Government and Construction are also represented.



At the recent AGM in November last year, we announced our plans for the IOR to become more proactive and higher profile in responding to regulators and policy makers. The post-financial crisis regulatory tsunami shows no sign of abating and the IOR is in a unique position as an independent professional institute to make valued contributions to policy debates and to seek to ensure that common sense prevails.

Since the AGM we have taken a number of steps towards achieving our objective. First, we have agreed at the IOR Council the governance and process around responding to regulatory consultations. We have formed a sub-committee of the IOR Council to lead the work and approve our submissions to consultation papers. To support the sub-committee we've established an Expert Panel, which includes former IOR Chairman Philip Martin, non-executive Council Member John Thirlwell and academic/ consultant Ariane Chapelle.



In addition to process and governance, we've also made a positive start to actually responding to regulatory consultations. We submitted responses to two BCBS consultations: BCBS 291 on Revision of the Simpler Approaches to Operational Risk; and BCBS 294 on Revised Corporate Governance Principles for Banks. Both papers were issued in October 2014 and we submitted the responses before the January deadlines. Both responses are available on the IOR website.

Our response to BCBS 291 is of particular note. As we all know, there is no easy solution to calculating operational risk capital. The formulae used for the simpler approaches in Basel 2 which was implemented in the EU through the Capital Requirements Directive, were based on income (attributed to business lines in the case of the more sophisticated standardised approach). The simpler approaches in Basel 2 were always designed to be a crude proxy for estimates of operational risk capital. Whilst they lacked any general validity and therefore credibility in terms of being risk sensitive proxies for operational risk, what they lacked in risk sensitivity, they more than made up in simplicity.

Moreover, by introducing operational risk into Basel 2 (and the CRD in the EU), operational risk was propelled into every board room.

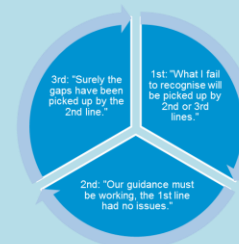
We argue in our response that the proposed new approach from BCBS achieves, at best, marginal improvements in risk sensitivity at the significant cost of additional complexity and potentially significant costs of compliance. Further, policy-makers and supervisors would be better to focus their efforts on raising the standards of operational risk management within the industry, rather than focusing on changing the maths. If, as is widely believed, the Basel Committee's underlying intention is to increase the levels of regulatory capital allocated to operational risk within large international banks, it could have done this by simply increasing the alpha/betas in the existing approaches. The existing BIA/TSA approaches are more than adequate for the majority of smaller and less complex firms, and for more sophisticated firms who have decided not to adopt AMA. Many national supervisors already require them to conduct modelling/more sophisticated analysis as part of their Pillar 2 assessment and require additional capital as a result, so the fact that the Pillar 1 calculation is rudimentary and not risk sensitive is generally immaterial. For the largest most complex firms, policy makers and supervisors should require the adoption of AMA. It is only through an effective Pillar 2 ICAAP process that the appropriateness of the operational risk capital assessment can be determined and regulators should focus attention on this process (including to introduce some semblance of global consistency), rather than on an ultimately spurious mathematical formulae.

I believe we have made a positive start to our more proactive regulatory strategy but there is much more to do to stem an increasingly politically motivated red tape tide of regulation. By leveraging the wealth of experience and knowledge of our membership, I believe we can make a positive contribution to regulatory policy debates and introduce some much-needed practical common sense. As always, we can only do this with the support of our membership, and if you would like to get involved in this work, we would love to hear from you – please contact me.

Dr. Jimi Hinchliffe
Member of IOR Council

jhinchliffe@ior-institute.org

The Nigerian Chapter held a very successful Annual Operational Risk Conference at the Ikeja Sheraton Hotel and Towers on 3 December 2014 with the theme of: "Value creation through embedding risk culture in the organization". This was an all-day event which was kicked-off by Edima Ben Ekpo (Nigeria Chapter Head) with an opening address that focused on information about the IOR, the Nigeria Chapter, the benefits of joining the body and the content of the conference. The first paper entitled "An overview of the new Basel changes in operational risk capital calculation and the building blocks for compliance" was presented by Ademola Adeniran, Director, Deloitte. The presentation gave a simplified view to the computation of OR Capital under the revised Standard Approach highlighting the differences between TSA and RSA. Kevin Ugwuoke, CRO Mainstreet Bank Limited, presented a paper entitled: "The Three Lines of Defence is Integral to the DNA of the Firm". Kevin was able to demystify the 3 lines of defence that has become a recurring decimal in Risk Management Frameworks without the tangible benefits espoused. It was a truly enriching session and it seemed that the whole conference was in agreement that there was much work to be done to ensure the adequacy of the 3 lines of defence.



A presentation on Operational Risk and Strategic Planning anchored by Eneni Oduwole was enriching as this came from the perspective of the Financial Services Professional now in the Manufacturing Sector. SAP and Northern Sparks Limited also made presentations on supporting Operational Risk Management within the GRC framework of an organisation. There was also a break-out session of two teams coordinated by Niyi Olalemi on Sustainable Banking.

The event was sponsored by SAP, Northern Sparks and Deloitte and there were 50 attendees in all. The conference was a great success as attested to by various participants and the take away is unquantifiable.

Edima Ben Ekpo
Head of Nigeria Chapter

England & Wales Chapter

The England and Wales Chapter would like to take this opportunity to thank Helen Pykhova for her help in establishing the chapter and organising a great number of the chapter's events. Unfortunately Helen is stepping down as a member of the leadership team although her commitment to the institute remains and we look forward to seeing her at future events. I have always wondered how Helen managed to juggle the demands of her own consultancy practice and the resultant interim role at Santander and her significant role at the Association of Foreign Banks. We thank Helen for the time she devoted to the institute over the last years.

I am pleased to be able to announce that Philip Martin, Ravi Gupta and Clare Acaye have stepped forward to join the Chapter's leadership team. As most of you will know Philip was previously the Chairman of the Institute and the knowledge and experience he brings is very welcome. The leadership team now comprises Ariane Chapelle, Denis Lyons, Clare Acaye, Ravi Gupta, Philip Martin and Andrew Sheen. We continue to look for opportunities to provide members with the chance to network, discuss issues impacting on our discipline and opportunities for learning and development, and the leadership team welcome suggestions and offers of assistance from all members.

The start of the year is a good opportunity to look back over 2014. During the year the chapter organised 9 events around specific operational risk elements, including a one day event on Operational Risk in the insurance business. We were also pleased to be able to hold a networking event in December. It is good to see the number of members who attend these events and the leadership team were pleased to be able to end the year with a social event.

The leadership team are currently organising events for 2015 and we hope to be able to organise seminars on scenarios and Operational Risk for asset managers over the next few weeks. We are also interested in holding an evening debate on the validity of the three lines of defence. Should any members be willing to argue in support of the three lines of defence or host one of our seminars please e-mail me at asheen@ior-institute.org.

Further details of events will be released once arrangements are formalised.

Andrew Sheen
Head of England & Wales Chapter

Dutch Chapter

On 19 March 2015 the Dutch chapter held a major event which was kindly hosted by ING Bank. The event began with presentations and discussions and was rounded off by a "borrel" (which can mean many different things to different people but in this case is probably best described as "meeting like-minded professionals at a work-related reception").

The Dutch Chapter was privileged to have Peter Jacobs, CIO ING Bank Nederland, make a presentation on risk culture and the "Tone at the Top" within ING Bank. This was followed by Jan van der Weijde, Program Manager at ERM ING Bank, who described the ING Bank approach to Enterprise Risk Management.

We have grown our membership significantly and are delighted to welcome ABN AMRO, ING Bank, SNS Bank, Achmea, AON and PWC as corporate members. For further information mail us at IOR@axveco.com.

Alex Dowdalls
Head of Dutch Chapter

Hong Kong Chapter

Last quarter, the Hong Kong Chapter continued to represent the 'voice of the risk industry' having been invited to meet the Hong Kong Monetary Authority (HKMA) to discuss the top emerging risks in order to establish a platform for industry-regulatory dialogue. It is also an honour to be appointed as the Examiner of the ORM paper of the Diploma Program of Hong Kong Institute of Bankers which is recognized by the Hong Kong Regulators as part of the industrial competence development program. We are working to produce two case studies and the marking scheme. On 17 January I was also invited to provide a full day's training in Beijing on the prospects and risks of Chinese Securitization for senior government officials and industrial practitioners. This is one of the top agenda items of the national economic reform policy. The members currently work with a group of industrial peers, undergraduate students and university professors to conduct research on various financial topics and will publish papers focusing on risk implication and business perspectives.

Dominic Wu
Head of Hong Kong Chapter

Order Please!! Questions to the Prime Minister...

On 10 February I attended, together with a fellow IOR Council member, the 2015 British Chambers of Commerce annual conference entitled: "A Business Plan for Britain". Speakers included the British Prime Minister, Deputy Leader, Columbian Ambassador, Polish Ambassador and other figures from top business and government. After the Prime Minister David Cameron finished his speech, he asked for questions and I was able to put a question to the PM. My question was associated to my work on behalf of the British Standards Institution regarding Board level Governance, relating to the limited training and education often provided to board members required to ensure or improve their competencies. Overall he agreed and would like to see more done to improve board competencies through education and training. He also noted that while all FTSE 100 companies may have at least one female member on their boards, more needs to be done to provide a further level of gender balance on boards.

I do feel passionately about the need to focus more on organizations governing bodies / boards and have for several years now been chair of the BSI committee responsible for delivering the first British Standard in Governance BS13500. If either nationally or internationally you would like more information on this work and the standard, please let me know (mfaber@ior-institute.org).

I have enclosed a link to the PM's presentation at the BCC conference. If you want to skip to 21:47 minutes into the presentation, you may be interested to hear a question from the floor...

<https://www.youtube.com/watch?v=XUZUJcLyF0s>

Michael Faber
Member of IOR Council

OpRisk World 2015 Conference

In February, the IOR once again endorsed the OpRisk World conference held in Amsterdam which was hosted by RiskBusiness International and *The Risk Universe* magazine. There were well over 100 attendees with IOR members enjoying a 15% discount on their delegate fee.

In addition to the popular panel discussions, the conference also benefitted from three keynote addresses: the first from Judge Mervyn E. King, perhaps the foremost expert on corporate governance and also chairman of the King Committee on Corporate Governance in South Africa, which has published the King Reports – referred to as “the most effective summary of the best international practices in corporate governance”. This was followed by addresses from John Coates (trader and research fellow in neuroscience and finance at the University of Cambridge) on the interaction between stress and risk taking and the world of a rogue trader from Toshide Iguchi, once of Daiwa Bank in the USA and Nick Leeson, formerly of Barings Bank. The IOR’s Chair, Simon Ashby also participated in a panel discussion addressing risk culture.

The presentations from the rogue traders were interwoven with references to ethics, culture and conduct and also touched on the themes of accountability and responsibility that pervaded the debate throughout the two days.

CFP’s New Generation Operational Risk 2015

In March, the IOR was pleased to promote CFP’s New Generation Operational Risk 2015 congress which took place in London and attempted to address critical operational risk challenges in 2015, such as:

- Conduct risk and culture and where this stands within the institution;
- Regulatory compliance and capital requirements;
- Cyber-crime, vendor risk and technology;
- Reputational and legal risk within financial institutions;
- Data management; and
- Effective governance, culture and operational risk appetite.

IOR members benefitted from a discounted delegate fee and one lucky member, Daniel Golding, whose name was drawn at random, was able to attend the event for free!

The agenda for the congress was based on research undertaken with over 50 Operational Risk professionals and was complimented by a stellar line-up of speakers from the world of operational risk, including recently appointed IOR fellow, Michael Sicsic.

Risk Minds Insurance Conference

IOR was once again delighted to endorse and be a media partner for the 4th annual RiskMinds Insurance conference which took place at the Hotel Okura in Amsterdam in March. In its short lifetime, the conference has become the most cutting edge and comprehensive event for risk management in the insurance industry.

The IOR was able to obtain a discount for its members and those who attended were able to hear from key regulators, CROs and industry practitioners discussing the future of global financial regulation, the impact on the insurance industry and the strategic and practical challenges of implementation.

As well as the main summit, there were interactive ‘strategy-lab’ working group sessions allowing participants to work through their key challenges with their peers and to garner defined outcomes to take back to the workplace.

Additional, closed-door supervisory discussions were held to discuss the important regulatory developments with leading supervisors and to enable views to be put across in a closed-door environment.

‘Tech spot’



In January we reached the 4,000 member mark for our IOR LinkedIn discussion group and already the number has increased to over 4,400. This group provides a great opportunity to seek advice, share experiences or comment on current news and events – so please take advantage of this ever growing network.

As mentioned previously, if there is anything extra we can do in terms of the design and content of the IOR website and, in particular, the facilities within the members area, please contact us at: info@ior-institute.co.uk marking it for the attention of ‘Tech Spot’.

IT Continuity tip: make sure out-of-site is not out-of-mind! Often when running recovery sites with dedicated workstations, they can be missed when updating user workstations with new or updated applications. Results can be that the recovery workstations don’t work as required when needed in a crisis. So, look to ensure that IT treat the dedicated recovery workstations as ‘production’ and ensure that they are tested in the same way as the day-to-day user workstations.

*Michael Faber
Member of IOR Council*

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.

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.

Please send any articles for consideration to info@ior-institute.co.uk with the subject line of “IOR Newsletter”.



External operational risk events are just that – incidents that happen outside the firm.

We shouldn't be too concerned about them ... or should we?

I'm writing this at the end of the autumn conference season for the main political parties in the UK. Former Labour Party leader and Prime Minister Harold Wilson once famously said that "a week is a long time in politics". Well, given the torrent of recent publicity over data leakage incidents from around the world and their impact on firms' risk management frameworks, a week seems like an eternity in the world of operational risk.

First out of the blocks was the Munster rugby team who erroneously received an email in their inbox. The squad received a document appraising each member of the team - a confidential review and analysis of each individual player, including details on the players' strengths, weaknesses, recent performances and any issues. What was meant to be confidential information, acknowledged behind closed doors, was now in the public domain. Imagine something like that happening at your firm. The incident was reported to the Data Commissioner, who decided to take no further action.

The second issue came from, of all people, the Chartered Institute of Internal Auditors and related to a security breach at the Institute concerning some of their membership data. As a result of fraudulent activity, it was announced that IIA member data may have fallen into the hands of a third party. The data concerned the membership number, email address, name and designation of each IIA member. Although no other personal or financial data was involved all possible steps were subsequently taken to identify its cause. The breach was also notified to the Police and the Information Commissioners Office.

In October JPMorgan Chase, one of the largest banks in the US, said that a massive computer hacking incident had affected the accounts of more than 76 million households and about 7 million small businesses. Although financial information wasn't compromised, the names of customers, email addresses, phone numbers and account holder addresses had been captured by the hackers. The firm is continuing to work with the FBI and the US Secret Service to determine the roots of the attack, although suspicions have centered on Russian hackers.

In September, Home Depot confirmed that its payment systems had been breached in an attack that was estimated to have impacted 56 million payment cards.

The final incident was the recent announcement from Japan Airlines (JAL) concerning a recent data breach of JAL's Customer Information System. They found evidence that the personal information of some members of JAL's frequent flyer club (JMB) may have been compromised due to malware illegally installed on some of the airline's computers. The company contacted each JMB member to offer their sincere apologies for the "concern and inconvenience that this situation has caused". JAL are still focusing their efforts on identifying the data that was compromised and to determine the root cause of the data breach. The incident was identified when an investigation was conducted into a slow response of the affected system, which occurred on 19th and 22nd September. It was found that over the 2-day period, personal information of approximately 190,000 customers may have been compromised.

So, as you can see from the above examples, although external risk events may not necessarily directly affect us as individuals or the firms that we work for, by analysing what caused the issue and what control gaps or weaknesses failed

to prevent the incident, we can hopefully learn some useful lessons and implement changes to what we do in our day-to-day work in order to prevent a similar issue occurring.

Given the nature of these examples, it's probably an opportune moment to use these rather embarrassing and unfortunate incidents to brush up on our data protection laws, and to think twice about who the recipients are the next time we send a confidential email. Data protection is an important concern for all of us, but especially for HR professionals and managers who look after confidential files and information about company employees. Below are a few reminders of your own responsibilities when holding personal data on individuals:

- Information must be obtained and processed fairly;
- The data must be kept for a specified, lawful purpose;
- The data should be used and disclosed only for the specified purpose;
- The data must be kept safe and secure;
- The data must be up to date, accurate and complete;
- The data must be relevant, adequate but not excessive;
- The data must be retained for no longer than is necessary;
- A copy of the data must be made available to the data subject, on request.

I mentioned Harold Wilson's famous quote at the top of this article. Wilson also (perhaps less famously) once said that he was "an optimist, but an optimist who carries a raincoat" – as an operational risk manager in the current climate, I can only sympathize with this viewpoint.

*Alan Dunk
Member of IOR Council*

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