NOVEMBER 2015

IOR Newsletter

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 Chair

Mike Finlay, FIOR, IOR Interim Chair

Of governance, direction and achievement

In September, Simon Ashby stood down as IOR Chair for personal reasons and the IOR Council asked me to assume the Chair until a new Council is elected at our AGM on 18th November (at the offices of Daiwa Capital Markets Europe, near Bank Underground Station in London). During his time as IOR Council Chair, Simon contributed an enormous amount to the IOR, giving selflessly of his time, his energy and his personal wellbeing to turn the IOR around from the brink of disaster at the end of the global financial crisis. Simon oversaw the revision of our strategy and vision, then set about implementing that strategy, resulting in the IOR breaking through the 500 member barrier and being on the cusp of launching an accredited education programme. For all of this, the IOR owes Simon a vote of thanks.

The IOR now stands at another decision point in its development. It has always been primarily a volunteer driven organisation – Directors on Council are volunteers, Local Chapter Committee Members, who do so much at the grass-roots level are all volunteers and individuals who step forward to work on various initiatives, such as sound practice guidance, the education programme and regulatory affairs are all volunteers. As members of the IOR, we are all bound by the Code of Conduct contained within the Members Handbook and I urge you all to periodically refresh your acquaintance with the IOR's expectations of its members, bearing in mind the voluntary nature of our activities.

As we launch the Certificate in Operational Risk in 2016, we will need to address a component of the IOR's activities becoming "with profit", accompanied by the need for separate legal entities, the taxation implications and the increased governance requirements. This will, in all likelihood, require the IOR to start to utilise full-time resources for more of its activities, moving us to a more formal and professional basis. This will be one of the primary challenges awaiting the new Council when it takes office post the November AGM. However, the IOR will always need its members to work together to further our aims, so perhaps you can also reflect on whether you could volunteer some of your time as a Council Member, or as a member of one of our Local Chapter Committees. If you are interested in either, please make contact with one of the Directors of Council, details available on the IOR website. Remember that without volunteer support our Institute cannot function.

Mike Finlay
IOR Interim Chair
mfinlay@ior-institute.org

Highlights in this issue

Call for Articles

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.

The IOR Education Programme

Outline to the IOR Certificate

The Education programme is a key strategic initiative of the IOR, with the objectives of delivering an initial Certificate qualification leading to a Diploma in Operational Risk during 2016-2018. The initial programme consists of the products, processes and services to support the IOR 'Certificate in Operational Risk' ('COR').

- The COR will consist of a self-study Course Workbook of approx. 200 hours, with assessment by online Exams.
- The COR will be underpinned by a Quality Management System to support accreditation.
- Accreditation by a third party will ensure that the learners experience of the COR, is one where 'quality and fitness for purpose' continuously underpin and add value throughout the learning process.
- The programme aims to ensure that the COR adds value to the continuous development of risk management, of individuals, their organizations, the IOR, and the risk management profession - internationally.

Programme Team

The Education Programme is managed by Steering Group consisting of Simon Ashby, Michael Faber, Mike Finlay and John Thirlwell. After a significant initial contribution from Rubina Faber, the Steering Group recruited and appointed Iris Fenn, a professional project management officer, as the ongoing project manager.

To deliver the programme the following teams and their primary objectives are outlined below:

1. QMS Team - Accreditation
2. CW Authors Group – Course workbook
3. Review Group – Review of CW content and syllabus
4. Exam Group – Designing exam and assessment criteria, Developing exam questions
5. Product Launch Group – Marketing and PR, Sponsorship
6. Pilot Group – Pilot the COR materials and exam
7. Advisory team – dispute resolution

Plan dates (including Pilot and Launch)

The first draft of the Couse Workbook (CW) has been completed and reviewed. The IOR has short-listed two professional editors and is in the process of selecting and appointing the editor of the CW. It is currently intended that the CW will be ready for sending to the Pilot Group in January 2016 - subject of course to holidays and work plans. We are expecting a pilot of the COR including the exam to be conducted during Q1 and Q2 of 2016, with a formal product launch in Q3 2016.

The Pilot
The pilot is a trial run, a small-scale launch of the COR. The Pilot is a key milestone in the programme, as it will help us to:

1. Test our processes to ensure we are ready for a full-scale implementation
2. Receive feedback from our Pilot group (representing the target population)
3. Help us to make decisions regarding the Pilot group's reaction
4. Help ensure we are prepared for accreditation requirements

The Pilot Group - Selection criteria
The Pilot needs to represent our target audience, both geographically and at different levels of knowledge. However, the following selection criteria and restrictions will apply:

- Participation is open to both IOR members and the general public
- Only two corporate representatives from any single corporate member can participate
- Participants will need to sign a Non-Disclosure Agreement to confirm that the course materials and processes will not be disclosed, copied or shared with anyone else
- Participants commit to providing feedback
- Participants will be offered the opportunity to complete an accredited course once the accreditation is confirmed, at a rate to be confirmed

How you can help?
If you are aware of any individuals / corporate representatives whom you consider would wish to be involved in the Education programme, or indeed if you yourself are interested, please contact Iris Fenn via email on ifenn@ior-institute.org.

Sound Practice Guidance – UPDATED!

A revised Sound Practice Guidance paper for Operational Risk Governance has recently been posted to the Education/SPG area of the IOR website.

Risk governance is the architecture within which risk management operates in an organisation. It will reflect, and seek to sustain and evolve, the organisation's risk culture. Since risk management is fundamental to running any business, risk governance is a fundamental part of corporate governance. The British Standard BS13500 defines governance as: 'system by which the whole organization is directed, controlled and held accountable to achieve its core purpose over the long term'. The UK Corporate Governance Code states that 'good governance should facilitate efficient, effective and entrepreneurial management that can deliver the long-term success of the company'. Good risk governance should result in risk being accepted and managed within known and agreed risk appetites.

As shown in the IOR website diagram on Sound Practice Guidance, governance sits at the top providing the basis for direction, control and accountability. However all the subjects covered within the SPGs should be considered when setting up or working within an operational risk management environment.

Risk governance should put in place a structure of risk responsibility throughout the organisation.

As a result, everybody in the organisation will be aware of their own risk responsibilities and accountabilities and those of others with whom they work. Governance delivers effective accountability, including the accountability of the governing body to its owners.

Risk governance is an integral part of the day to day running of the business and is not about just complying with a set of rules. Since operational risk management involves everybody in the organisation, the risk governance framework should encompass everybody. That means that it can only operate successfully if there are clear and effective lines of communication both up and down the organisation and a culture in which good and bad news is allowed to travel freely.

This update in 2015 to the Operational Risk Governance Sound Practice Guidance paper originally developed in 2010, builds on the original paper, providing updates to the work, including reference and support to the published British Standard on Governance BS 13500. Governance is a word often used or misused in relation to the overall leadership of an organization and this SPG looks to help Operational Risk professionals deliver effective risk governance in their organization.

Visit the Sound Practice Guidance page or go straight to the revised Operational Risk Governance.

Did You Know?

Having started the IOR Discussion Group on LinkedIn a relatively short time ago in October 2010, we have recently received our 5,000 member!

It's a sign of the growing interest and development in the area of Operational Risk Management that we have been so successful with this group, including the impressive global reach and the quality of discussions debated.

Please continue to use this resource to post your views on current regulatory developments, comments on news events affecting the industry, and the sharing of your own experiences and achievements.

Scandinavia Chapter

A Scandinavian local chapter has been established. A two hour session was held in August at Saxobank during which members and potential members heard about the IOR and discussed areas of interest for future meetings. A second half day event is planned for the fall, again at Saxobank. Topics will be based on areas of interest from the first event.

The initial geographic focus on the Scandinavian chapter has been Denmark with a plan to expand to the rest of Scandinavia in the following years.

Michael Jensen

South Africa Chapter

South African Operational Risk Interest Group

On 19 June 2015, the University of South Africa hosted the second workshop on operational risk management for a South African Interest Group, facilitated by Prof. Jackie Young. The workshop was guided by the following discussion points:

- What are tertiary institutions offering in terms of operational risk education from formal qualifications and informal qualifications perspectives?
- What are the hot topics on operational risk that risk consultants are faced with?
- What are the practical issues on operational risk management that industries are focussing on?

After presentations and discussions, the workshop agreed to the following issues that require attention by tertiary institutions, consultants and businesses:

- Cyber risk
- Integration of strategic planning and risk management processes
- Impact of economic capital on operational risk in South Africa
- Three lines of defence and the role of compliance management
- Quality of insurance for companies and the role of the re-insurer
- Risks of outsourcing in South Africa

It was agreed that these topics could serve as an input to review qualifications and for research purposes by post graduate students.

In addition, it was decided that topics for a panel discussion during the next workshop will include:

- The effect of power outages on the economic growth of South Africa
- Challenges regarding the integration of an operational risk management framework into a practical application of a strategic management process
- Disaster management of a specific national key area

The workshop was attended by 15 delegates across a variety of industries in South Africa. A subsequent workshop was scheduled for 16 September 2015.

Prof. Jackie Young

Similarities and differences between COSO ERM and ISO 31000 standard

Manoj Kulwal,
Co-Founder and Chief Risk Officer at RiskSpotlight

COSO ERM and ISO 31000 are two of the most widely adopted risk management frameworks. And still there is no good quality publicly available analysis of similarities and differences between these two frameworks. To address this shortcoming, the RiskSpotlight team recently conducted a detailed analysis of the content covered within these two guidance documents. Our objective was to identify the key similarities and differences between the two guidance documents. Such analysis outcomes can be valuable for executives responsible for developing risk management frameworks for their organization.

Here are some of the key similarities we found:-

- ERM should facilitate achievement of objectives
- ERM facilitates identification & management of uncertainties
- Executive support for ERM initiative is critical
- ERM is not a static but an on-going process
- ERM should be integrated within the core business
- ERM should be based on analysis of internal & external context of the organization (e.g. stakeholders)
- ERM should cover assigning correct authorities, responsibilities & accountabilities throughout the organization
- Risk Identification should cover identification of potential events with negative and/or positive impacts
- Organizations should consider using multiple techniques for risk identification and analysis
- ERM should cover interdependent risks
- Organizations should conduct cost-benefit analysis when selecting new risk treatments (e.g. controls)
- Implementing new risk treatments (e.g. controls) may give rise to new risks
- Information on risks should be communicated to appropriate stakeholders
- Organizations should monitor risks and implemented risk treatments
- Separate evaluations/independent reviews of risks and risk treatments is important.

Here are some of the key differences we found:-

- COSO ERM only considers potential events with negative impacts as risks, while ISO 31000 considers potential events with negative and/or positive impacts as risks. This is a key difference as it can drive the perceptions about risk management within the organization. If risks are only considered bad for the organization, all risk management discussions will be about mitigating risks and organization may thus miss business opportunities which involves taking new risks or increasing the exposure of current risks
- Due to the first difference, ISO 31000 considers “Taking or increasing” risk as a valid risk response and COSO does not cover this as a valid risk response
- COSO covers both inherent and residual risk analysis, while ISO 31000 only covers residual risk analysis
- In COSO, Risk Identification and Risk Assessment are separate processes. However, in ISO 31000 Risk Assessment covers Risk Identification + Risk Analysis + Risk Evaluation
- COSO implies that likelihood analysis of risks should be performed at the potential event level. ISO 31000 highlights that likelihood analysis should be done at the impact level.

We found that COSO covers much more guidance compared to ISO 31000 on following topics:-

- Risk Appetite + Risk Tolerance
- Risk Culture
- Human psychological factors
- Risk Velocity
- Defining objectives
- Defining and implementing controls
- Implementation of policies
- Expected vs. Unexpected Events
- Risk Portfolio
- Technology & Information for risk management
- Communication and Monitoring
- Independent Evaluations/Testing
- Dealing with deficiencies identified during evaluation or monitoring
- Concept of significant risks.

We found that ISO 31000 covers much more guidance compared to COSO on following topics:-

- Guidance on defining risk management framework
- Process for defining and maintaining risk management framework
- Guidance on defining risk management policy
- Definitions of 50+ commonly used risk management terms
- Overview of 30+ commonly used risk assessment techniques
- Risk Criteria
- Understanding External Context
- Guidance on describing risks
- Understanding and analysis of impacts
- Recognize that controls may deteriorate over time
- Risks can also include events which may not happen.

Based on our analysis, executives responsible for developing risk management frameworks for their organization, cannot just use one of these two guidance as basis for their framework development. While there is a significant amount of overlap between the two guidance documents on important topics, the differences are significant too. So we would recommend that you utilize the ideas from both guidance documents for your framework development.

Finally, we would also like to highlight that external guidance such as COSO ERM and ISO 31000 are developed through a consensus building process between large number of individuals and organizations. Due to this, only widely practiced ideas will make their way into such guidance. New or innovative ideas that are only adopted by a small number of organizations will struggle to make their way into such external guidance. So you should not look for innovative risk management ideas or practices within such external guidance. Also aligning your risk management framework with such external guidance - should only be considered as a good starting point, which will make your risk management framework similar to thousands of other organizations. If you intend to develop your risk management framework into a competitive advantage, you will need to extend your framework beyond ideas presented in such external guidance.

You can watch the video we created covering our analysis from this link –

https://www.youtube.com/watch?v=3wh5rAUKQB8

Conduct Risk / People Risk – what is the difference?

Dr. Patrick McConnell

Co-Author: "People Risk Management"

The Financial Conduct Authority (FCA) has famously declined to define 'Conduct Risk', as "you'll know it when you see it". However, a recent report by Thomson Reuters[1] found that 81% of firms surveyed, including 26% Systemically Important Financial Institutions (SIFIs), said that they did NOT have a working definition of conduct risk. This means that a significant number of banks don't appear to know conduct risk when they see it!

Since 'Too Big To Fail Banks' have amassed well over $200 billion in fines and settlements for misconduct, since the Global Financial Crisis, it is important that at least SIFIs should understand the concept. Furthermore, there is no guarantee that SIFIs will have any consistency in the working definitions that they have chosen, leaving the door open to confusion and inconsistency as regards measurement of outcomes.

Barclays, a SIFI and a leader in conduct issues, does have a definition of 'Conduct Risk' (which incidentally is defined separately to Operational Risk) as[2]:

"Detriment caused to our customers, clients, counterparties, or the Bank and its employees through inappropriate judgement in execution of business activities."

In Basel II, Operational Risk (OR) is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems'. While 'people' is one of the domains of OR that banks must set aside capital for, and proactively manage, 'People Risk' is not defined specifically.

In a new book on People Risk Management[3], the Basel definition of OR is used as the foundation upon which to define People Risk as the risk of:

"Loss due to the decisions and non-decisions of people, inside and outside of the organization".

Note in this definition, 'loss' is more than financial but also includes: loss of human capacity (e.g. death and injury); loss of corporate reputation; and loss of organizational capacity (e.g. inadequate decision-making leading to sub-optimal shareholder returns or loss of key personnel).

It can be seen that if 'detriment' is replaced by 'loss' and 'judgment' by 'decisions and non-decisions' (which are the concrete outcomes of judgment) this definition of People Risk fully encompasses Barclays' definition of Conduct Risk.

The difference is that 'People Risk' is defined within the context of Operational Risk, as defined in Basel II, and is a true subset of OR. By this definition, then 'Conduct Risk' must also be considered a subset of Operational Risk!

Does this definition of People Risk add any important concepts to the definition of Conduct Risk (at least as described by Barclays)? The Barclay's definition is arguably (and in line with current thinking by regulators) asymmetric, based on 'detriment caused to' people, especially customers, whereas the People Risk definition is symmetric as being losses due to people inside and outside of the organization.

Examples of *external* People Risk are those that deal with 'Vendors and Suppliers' under the Basel 'Execution, Delivery & Process Management' (EDPM) category and in the 'Clients, Products & Business Practices' (CPBP) category 'Competitors', such as occurred with collusion with other firms and brokers[4] to manipulate benchmarks in the LIBOR and FX scandals. One cannot understand (and hence manage) such misconduct unless one understands both the internal and external perspectives.

Regulators, such as the FCA, and banks such as Barclays, have recognised that the conduct of external people, such as customers, is also important, in particular that customers do not always behave 'rationally'. This has raised the profile of the discipline of Behavioural Finance in understanding the biases that may cause customers to purchase a financial product, such as PPI, that is unsuitable, putting firms at risk of misselling such products.

But what has not been fully recognised is that people *inside* the firm are also beset with a range of cognitive biases, such as overconfidence and Groupthink, which will impact their decision making, also putting firms at risk of misconduct. Unless such biases are specifically addressed, misconduct and other People Risks cannot be managed. In other words, understanding culture starts with understanding the cognitive biases that drive individuals inside and outside of the firm. And changing culture means changing how people make decisions.

Why is the issue important?

It is important because the discipline of Operational Risk Management (ORM) has evolved, sometimes painfully, over 20 years and now has a modus operandi that is embedded within bank organizations. ORM has evolved a set of tools (admittedly incomplete) that address issues of identifying, measuring and mitigating different types of OR. And this model has become well understood and widely used within banking circles.

In many respects, the conduct risk debate is reminiscent of early discussions around operational risk in the mid-1990s, when the industry was searching for a definition and models of managing OR. It took many years for basic operating models to emerge and it would be a great waste of time and resources if the practice of Conduct Risk Management were to end up in the same place, with two parallel, but almost identical, frameworks and organizations.

On the other hand, the Operational Risk profession has got to raise its game. Traditionally dominated by solving technical problems related to the complex modelling of Operation Risk Regulatory Capital (ORRC) and with a focus on Process and lately System Risk, the softer dimension of People has not been addressed to any great extent, except as regards Internal and External Fraud.

From an organizational perspective, it would be preferable and more effective to have a single integrated picture of all People and Conduct Risks, and as Conduct Risk as a concept is still at the embryonic stage, arguably it should be considered a subset of People Risk which is already a subset of Operational Risk. But that means that ORM departments must be open to change and grasp the opportunity to manage the full gamut of Operational Risks, in particular reaching out to 'people experts' such as Human Resources.

[1] *See Thomson Reuters Accelus 'Conduct Risk Report 2014/2015'* https://risk.thomsonreuters.com/sites/default/files/Conduct_Risk_Report_Jan2015.pdf

[2] *See Barclays, Annual Report 2014* http://www.barclays.com/annual-report-2014.html

[3] *See Blacker and McConnell, 2015, 'People Risk Management', Kogan Page, London* http://www.koganpage.com/product/people-risk-management-9780749471354

[4] *See McConnell P. J., 2014, "Analysing the LIBOR manipulation case: The operational risk caused by brokers misbehaviour" Journal of Operational Risk, Vol. 9 No. 1*

People Risk Management

People Risk Management provides unique depth to a topic that has garnered intense interest in recent years. Based on the latest thinking in corporate governance, behavioural economics, human resources and operational risk, people risk can be defined as the risk that people do not follow the organization's procedures, practices and/or rules, thus deviating from expected behaviour in a way that could damage the business's performance and reputation. From fraud to bad business decisions, illegal activity to lax corporate governance, people risk - often called conduct risk - presents a growing challenge in today's complex, dispersed business organizations.

Framed by corporate events and challenges and including case studies from the LIBOR rate scandal, the BP oil spill, Lehman Brothers, Royal Bank of Scotland and Enron, *People Risk Management* provides best-practice guidance to managing risks associated with the behaviour of both employees and those outside a company. It offers practical tools, real-world examples, solutions and insights into how to implement an effective people risk management framework within an organization.

People Risk Management is available through Kogan Page via the following link:

http://www.koganpage.com/product/people-risk-management-9780749471354

IOR members qualify for a 25% discount on this book until the end of 2015. The discount code for UK-based members is available via the members' area of the IOR website. For members outside of the UK please contact the publishers directly at the following email address: Sblackwell@koganpage.com

The IOR has a CPD policy and it applies to you!

This is a reminder that all members should read the CPD policy on the Education Section of our website and complete their personal CPD log each year. A personal development log which should be completed each year is also available for download.

It is standard practice for professional institutes like ours to have a detailed policy on the need for all members to engage in Continuing Professional Development, and one of the things that members expect from an institute is guidance on a common approach.

The case for CPD is clear - for an IOR member, learning and development should never be 'over'. It needs to be seen as a continuing process as long as the individual is in professional practice, and as a benchmark of their standing.

The discipline of Operational Risk is in formal terms a very young one, and still clearly developing fast, though elements of its concerns can be traced back for centuries. What was seen as standard practice only a very few years ago may look quite outclassed and outdated now, especially in the light of the many high profile events that continue within our ambit.

In attending the excellent series of IOR training sessions, members are doing much more than just widening their personal knowledge. They are creating and strengthening a community of interest and expertise that is coming to be recognised widely as a major source of authority in its field. Attending these or other formal training sessions are just the start of a process that deepens and broadens our professional competence collectively as well as individually.

The recognised elements that make up CPD are of course not just the attendance of participatory formal training events. Self-learning is also a recognised element, made all the more current by the huge growth in internet based information from the soundly based regulations and advice of the FCA website to the seductive certainties of Wikipedia. But also we will recognise that members should all, to at least some extent, engage in the development of others. This can happen in many ways where they share their experience and provide leadership to others, even where their experience may be only a little greater than the recipients of their support.

It is advised by the Institute that each member should keep an up-to-date-log on a yearly basis. The policy available on the public part of the website gives details both of the rationale for CPD and how it can be achieved and recorded in detail. There is also a CPD Helpdesk. Any member is very welcome to e-mail the Helpdesk with any questions or issues they have, however minor they may seem. The Helpdesk will also be sympathetic and deal in confidence with any special needs raised.

Trevor Bedeman has been responsible for the development of the policy together with the CPD Steering Group. He will be very pleased to be contacted either via the Helpdesk or in person at many of the Institute's training and other events for discussion on any aspect of CPD including its administration or further development. In Trevor's words "Our CPD policy and its response from members is a key step in professionalisation."

2015 Business and National Government ('BANG') awards

Michael Faber

An industry group called 'BANG' (Business and National Government) - a Business Continuity and Resilience networking group - held its 7th annual alternative awards earlier this year in April and we are delighted to announce that Michael Faber, Director of IOR Council, won the "Best Contribution to the Profession" award.

Initially, BANG's main aim was to become a communication medium to understand the potential challenges posed by the London 2012 Olympics. Today it has its own online community for members to freely discuss business continuity and resilience issues and to share best practice using social media outlets such as Twitter, Facebook and LinkedIn. BANG groups have also formed in London, Bristol, Leeds, Manchester, Scotland, Dublin, Qatar and New York.

Cyber Security is now a top 3 Enterprise Risk – but so what?

For those of us involved in what is now being called Cyber Security, and those who recognized that addressing it should be driven by the business as 'just' another Enterprise Risk, getting it onto the Board's agenda seemed like the summit of our ambition. "Funds will flow and action will follow" we said, but has this really come to pass? If not, what still needs to happen?

Certainly the subject of cyber risk management is suddenly more popular than ever. The media coverage seems to be measured now in yards and is rapidly being added to. Indeed, both the BSI and our own Institute are in the throes of producing guidance (a Publicly Available Specification and a Sound Practice Guide respectively).

Obviously, cyber risk is not news but it is undoubtedly true that its complexity (some 40-odd types of risk, some 25 impact categories, about a dozen options for categorizing and scaling the impact and well over 1,500 countermeasures and control levels) means that assessment and management of risk is a non-trivial activity. Similarly, the historic lack of incident metrics has driven us down the qualitative route such that the step-change sought still requires something of a leap of faith - clearly not the most straightforward of paths to improved cyber security.

On the other hand, the issue appears to be the amount of risk assessment done rather more than the thoroughness of the assessment process. As Operational Risk Managers, we have a primary responsibility, obligation and opportunity to ensure that cyber security is considered as a part of all relevant assessments (e.g. of performance reviews, standards compliance, new systems developments) rather than the stand-alone exercises more often seen. But that points to the even bigger need, and challenge, which ultimately pays massively bigger dividends, of encompassing cyber security consideration into the Board's very consideration of corporate strategy and thus into its 'Direction' and 'Control' activities and to use it to scale, focus and shape the Audit activities that deliver it the assurance, to complete the BS13500 Organisational Governance cycle.

If your organisation's enterprise risk management framework – as recommended by ISO31000 – already delivers this then you'll already be experiencing the competitive or service delivery advantage that reflects the consideration of cyber risk as 'just another type of enterprise risk' and 'just a new way in which many of the same old risks can now be triggered'.

There are other benefits that will also flow from this approach. With a risk and strategy driven cyber security focus, an ISO27001 Information Security Management System – with its holistic implementation of people, process and technology controls within a Plan, Do, Check and Act cycle – becomes more deliverable, more sustainable and lower cost than ever a technology driven focus can ever have.

With cyber security addressing integrity and availability as well as the confidentiality rather more often thought of, it is not unusual to also see resilience and other management system improvements at a lower overall cost as the overlap of risk assessments is removed.

So what then? That what must be to play the Board at its own game if you want them to start taking cyber security seriously, prioritise it more highly and fund it sufficiently.

Steve Daniels FIOR, FMS, FBCS, CITP
Strategic Advisor – Cyber Security
CGI IT UK

Media Partnerships

The Institute regularly acts as a media partner with organisations to help promote events that are likely to be of interest to members. Such partnership agreements usually entail members receiving early notification of events, discounts to the advertised delegate fee rates and, occasionally the offer of a free place.

In July, IOR partnered City & Financial Global for the FCA conference entitled "Culture & Conduct: Implementing the FCA Agenda", for which we offered a Linkedin and website posting and mailshot to members and, in return, we received a free place at the event, IOR marketing content in their event literature, a 20% discount for members attending and distribution of 225 of the Institute's z-fold marketing leaflets.

Similarly, IOR partnered with the Centre for Financial Professionals for their conference in New York in October entitled: "New Generation Operational Risk: Americas". Members were offered a 15% discount, one free place, IOR marketing content on the event website and event brochure, IOR logo on their promotional emails and distribution of our leaflets at the event. We, in turn, offered a mailshot, Linkedin posting, website posting, newsletter feature and endorsement of their London conference in 2016.

The Institute was also very grateful to the UK FCA for extending us an invitation to attend their first Prudential Supervision Forum which took place in May. The aim of the forum was to share the FCA's strategy for prudential supervision; share risk management practices to identify prudential risks within firms; gather views from industry participants to inform the FCA strategy; and to discuss the recently issued regulation with industry participants.

The Institute was also pleased, in conjunction with Informa, to help promote an MSc in Risk Management distance learning course from Leicester Business School, De Montfort University which started in September 2015. The course's promotional material notes that "designed with employability in mind, the MSc in Risk Management is highly relevant in today's competitive marketplace. With continual input from leading employers and professional bodies, the course will equip the student with the professional skills and practical experience that businesses are looking for. The course is designed to appeal to a broad risk management body and recognises the inter-disciplinary nature of the subject."

Nigeria Chapter

In June this year the IOR Nigeria Chapter organized a breakfast session facilitated by an expert from KPMG Nigeria for operational risk management heads in banks in Nigeria to discuss the modalities for validation and inclusion of operational risk loss data in the risk asset pricing model.

Key drivers of the session:

- Since the emergence of operational risk management practice and the inclusion of operational risk capital charge in the Basel Accord of 2006, most National Banking Supervisors and banks have responded positively to the demands of Basel Accords as a matter of compliance.
- The Central Bank of Nigeria (CBN) in 2013 issued guidelines for the implementation of Basel Accord.
- Central Bank of Nigeria equally directed banks to adopt risk-based pricing model.
- Most banks do not consider inclusion of operational risk loss data in risk based pricing models.

The concern of IOR Nigeria Chapter is founded on the fact that most banks do not consider operational risk losses and loss event data as a key element in risk based pricing models. This informed the decision to provide an umbrella for a meeting of the Heads of Operational Risk Management in banks to discuss and a take a position.

The 'take away' for implementation by Operational Risk Managers was as follows:

- Losses and loss events data should be classified along the Basel II Accord losses and loss event categories.
- Losses and loss events data should be tracked along the Basel II Business Lines.
- Reconcile loss reported in the general ledger against losses and loss event database.
- The accounting for recoveries from previous losses should be defined in the operational risk management framework to drive consistent allocation.

Edima Ben Ekpo

Scotland Chapter

The Scottish Chapter continues to deliver an increasing number of events - it is looking like eight separate events this year for the benefit of our members and also non-members who attend.

Looking back at our earlier events; while the 7 May was the day the majority of the country were caught up in the general election a number of Scottish Operational Risk professionals found time to attend an excellent session hosted by Deloitte in Edinburgh focusing on the Senior Managers Regime and the Senior Insurance Managers Regime. Thanks to Lianne Ross and Stephen Boyd of Deloittes for hosting the event.

June saw us tackle the controversial question that is polarising opinion almost as much as politics and is causing heated debate in a number of financial services organisations "Conduct Risk – a subset of Operational Risk or is Operational Risk a subset of Conduct Risk". This event was hosted by Lindsay Ballantyne KPMG in Edinburgh and was a huge success. The session was, of course, held under Chatham House rules to ensure a free exchange of views – always an interesting challenge on such a controversial subject.

Phil Aitken of Lloyds Banking Group kindly hosted an event on Friday 25 September on the topic of Operational Risk Appetite. The event explored setting the appetite at a Group level and then implementing and embedding this at a divisional level. This event appealed to those working across all lines of defence who could appreciate the challenges this can bring.

In early November, David McKay of Clydesdale Bank is organising an event in Glasgow titled "The role of Operational Risk in Strategic Risk Management". We are looking forward to a lively debate.

The showcase event of the year for the Scottish Chapter is always our annual conference that attracts over 100 Operational Risk Professionals each year. This year's event involves a shift from the left of the country to the right as we relocate from Glasgow in the West to Edinburgh in the East to enjoy the superb facilities offered by RBS at their Gogarburn Campus on Friday 20 November. The agenda is being finalised and full details will be available soon. Please put the date in your dairy now.

Delivering the events above requires a lot of commitment from our Committee and we are delighted that Heather Morrison has joined the Scottish Chapter Committee. Heather has already made a significant contribution to the Chapter working with fellow committee members Brian Rowlands and Trish Crabb to successfully deliver the recent SPG paper on Internal Loss Events.

Finally a request for assistance – we are always keen to attract new faces to our events, if you know a colleague who may be interested in our programme and would like to be added to our mailing list for all events please ask them to email me at iwilson@ior-institute.org

Iain Wilson

Hong Kong Chapter

Members of the Hong Kong Chapter have spent a lot of time completing the new joint risk research project with other associations which covers Chinese Securitization, Shanghai-HK Stock Connect, US/Chinese Payment Systems, Chinese Banks Internationalization, China Outbound Investment, Interest Rate Marketization, Chinese Banking Reform under New Normal, Trading Misconduct, Chinese SME Lending, China Internet Finance, Wealth Management Product Distribution, Enterprise Risk Management Evolution, Risk Data Aggregation and Financial Innovation. The deliverables include training to peers and publication of analytical articles to increase awareness of the risks in specific business areas.

We have also set up a strategic partnership with HK Institute of Bankers (HKIB) and HK Securities and Investment Institute (HKSI), the two biggest financial associations in HK in joint seminars, examination, training, research and joint events. We have supported Peking University Outbound Training Unit in providing training to more than 1000 financial professionals and more than 200 financial institutions across China. We have liaised with Tsing Hua University, Hong Kong Computer Society and other industry institutes in setting up the HK-China platform on Big Data, Financial Innovation and Risk Management.

We are also working with the Hong Kong University of Science and Technology and Hong Kong Polytechnic University in captioned project and research. Hong Kong Chapter is named as the support organization to various industry and risk forums in HK and Singapore including RiskMinds Asia, HKIB Annual Conference, AsiaRisk, Enterprise Risk, MetricsStream, GRC and Marcus Evans. Finally, we have organized two high profile seminars of One Belt and One Road with HKIB and HKUST.

Dominic Wu

Germany Chapter

The activities of the German Chapter show continuity in their event structure. In the coming months the Chapter will also strengthen education, offer corporate memberships, and reorganize itself to even better benefit the OpRisk and RepRisk community.

The Operational Risk Forum took place on May 21-22, 2015 in the Collegium Leoninum in Bonn. Under the title "Challenges in Operational Risk Management (ORM)", it dealt with the various and growing challenges for the stakeholders of Operational Risk. The forum dealt with the following aspects:

- Growing uncertainty in the regulatory environment of OpRisk;
- Changing risk maps;
- Changing requirements for the parties involved, including growing needs for resources.

OpRisk Forum May 2015 in Bonn (from left to right): Stefan Hirschmann, Mike Finlay, Simon Ashby, Walter Dutschke, Stefan Lödorf.

A live demonstration of IT system penetration tests amazed many participants and helped to increase cyber risk awareness. The event had more than 70 participants, with more than 20 speakers. The Operational Risk Forum is organized by IOR and the magazine RISK MANAGER (further info in German under www.opriskforum.de).

Please save the date for the next OpRisk Forum on 11th – 12th May, 2016. Similar to 2015, a 1½ day forum is planned, including speeches, panel discussions and round tables.

The semi-annual OpRisk Quant-Workshops also show continuity, now into their 4th year. The workshop is a trustful exchange of quants, with a good mix of seniors and juniors. The participation of BaFin and Bundesbank for regulatory matters has proven mutually beneficial.

The Quant Workshop in March 2015 at Landesbank Berlin Holding, Berlin, was mainly dedicated to regulatory questions – the considerations about the, so-called, Simpler Approaches and about possible changes of the AMA.

The OpRisk Quant Workshop took place on 17th September, 2015 at Helaba, Frankfurt.

The last Reputational Risk Forum took place on 10th – 11th November, 2014 in Cologne. The overall topic was the question "Reputational Risk – the Risk of Risks?"

OpRisk Quant Workshop September 2014 at Commerzbank in Frankfurt

The forum dealt with the views on where we stand and which challenges lie ahead of us.

- How is Reputational Risk linked with other risk types?
- What is the supervisor´s view?
- Instruments to analyze, measure, and control Reputational Risks
- Examples for RepRisk crises

The event had more than 60 participants, with more than 20 speakers.

The 2015 Reputational Risk Forum took place on 9th and 10th November, 2015 in Cologne. The conference was scheduled for 1½ days and included speeches, panels, and roundtables. The Reputational Risk Forum is also organized as a joint venture by IOR and the magazine RISK MANAGER - further information is available (in German) for this event under www.repriskforum.de

Walter Dutschke (wdutschke@ior-institute.org)
Sabine Hauschildt (sabine.hauschildt@portigon.com)

Netherlands Chapter

2015 has been a year of growth and maturity for the Dutch chapter. We started with an event kindly hosted by ING at their premises in Amsterdam where approximately 70 guests attended an exciting event around IT and Risk Management. This was followed by an event looking at the results of a national risk survey on 4th June at the premises of PWC in Amsterdam. The next big event was on 10th September and looked at trends and developments in ORM. A shorter evening event is also planned at ABN AMRO in November.

Our membership affiliated to the local chapter has grown to more than 100 driven mainly by the corporate memberships of ING, ABN AMRO, ACHMEA, AON, SNS Bank, PWC, Deloitte and Marsh. In addition we have established a large community of followers and many individuals have also now chosen to become members.

Our day event in September aimed to help everyone understand the changes in our marketplace that impact us as ORM professionals and discuss the way in which we respond. These changes include the digitisation of business, increasing regulation and cost pressure on financial institutions. It remains an exciting time to be involved in ORM!

If you would like to contact us please email IOR@axveco.com

Alex Dowdalls

CIR Magazine Awards

The Institute was, once again, delighted to support the annual CIR Magazine Business Continuity Awards. IOR Council director, Michael Faber presented one of the awards (pictured here with awards host, comedian Josh Widdicombe).

England & Wales Chapter

The chapter had a great start to 2015 with 3 events held and it has been very pleasing to see the number of members attending these events. Our year opened with about 50 members and guests attending a breakfast seminar on 'Risk Appetite'. The event was opened by Bertrand Hassani of Santander who shared his thoughts and experience of using Operational Risk in an interesting and entertaining presentation. His insights into establishing and setting a risk dynamic covered three metrics, tolerance, appetite and resilience. Luc Brandts of Nasdaq BWise gave an industry view of current practices while also sharing an interesting insight into classic car ownership. Luc's session included an explanation of the role of risk appetite in the risk cycle and technological considerations. Caitlan Frost from ORX outlined the common challenges facing firms and outlined best practices. We are pleased to note that the seminar was highly rated by the attendees.


Luc Brandt

Luc Brandt also spoke at our second event 'Aligning Risk Appetite and Key Risk Indicators', sharing his thoughts on technology considerations and decomposing and aggregating indicators.

In addition to organising the event, Ariane Chapelle was also the opening speaker and her session included refining risk appetite limits, categorising KRIs and validating KRIs. The session was very well attended and all delegates would have left the auditorium with a very useful insight into issues they could focus on to enhance the benefit their firms receive from their KRI programmes and how to use these indicators to help manage risk appetite. Our first two events were very generously hosted by Nasdaq BWise and in addition to thanking them for their support I would like to thank Christopher Mann at BWise for making this possible.

July saw ORIC international host our breakfast seminar 'Scenario Analysis: Identification and Assessment' and we are very grateful to Caroline Coombe for both hosting and opening the event. Her session on exploring the scenario universe shared the work undertaken by ORIC's scenario working group and related these lessons to the scenario cycle: planning; assessment and measurement; validation and modelling; communication and reporting; and output socialisation. The structure and insight provided by Caroline will act as a great template for those dealing with scenarios for the first time. Bertrand Hassani discussed scenario analysis in the context of AMA and his session included details of the military approach to scenarios. This was particularly valuable for those of us who believe that the financial sector has much to learn from other industries and activities.

After such a good start to the year 4 further events were scheduled for the second half of the year and there are also plans for an end of year debate that we hope will appeal to all members. In September we scheduled a seminar on 'Practical Solutions to Seemingly Intractable Operational Risk Measurement Problems. This was followed by an event aimed at asset managers on 15th October and on 15th November we held a crisis management event. In addition we held an event in Manchester on 6th October with the theme of the value in Operational Risk Management.

I look forward to seeing you at future events. Further details of these will be made available nearer the date.

Chapter members can contact me at asheen@ior-institute.org

Andrew Sheen

Caroline Coombe, Chief Executive ORIC International, presenting at the Scenario Workshop

Disclaimer