

Welcome to this 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

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Looking forward to 2018

The year 2017 was a significant year for our Institute. We launched our accredited qualification, the Certificate in Operational Risk Management (CORM), we moved to an upgraded technology platform which allowed us to automate our corporate membership processes, we introduced a series of Webinars aimed at those members who cannot access a Chapter, we developed responses to the BIS proposals on Basel III and we partnered with the Centre for Financial Professionals in launching a major international survey on the future of Operational Risk. That says little about the background stuff on improving our engagement with Chapters, getting GDPR ready, improving processes and records, creating the potential to improve Sound Practice Guidance and related white papers and expanding our partnerships to improve member benefits. It's been a busy year!

Our success continues to depend on our volunteer model and it is with sadness that we saw some Directors step down. The Institute would like to acknowledge the considerable contribution made by these individuals, in some cases over many years:

- John Thirlwell, Non Executive Director
- Jennifer Moodie, Non Executive Director
- Michael Grimwade, Director Regulatory and Industry Bodies
- Stephen Murgatroyd, Director Operations
- Trevor Bedeman, Director Risk and Compliance

Thank you and all the best for the future, whatever it holds for you.

It's true that 2018 will be no less challenging as we strive to deliver our vision of being the professional body of choice for Operational Risk Practitioners. At our AGM we highlighted where our strategic focus will lie. The Chairs address and Minutes are available in the members area of our website (www.ior-institute.org).

In the first newsletter of 2018 we will provide more detail on our immediate priorities but we will continue to rely on volunteers. It was therefore with great pleasure that we were able to welcome new Directors to our first Council meeting following the AGM. We welcome on board:

- Andrew Sheen, Non Executive Director
- Aidan Brock, Non Executive Director
- Dr Caitlin Frost, Director, Regulatory and Industry bodies

The astute amongst you will have seen that there are still some Director vacancies available: Chapters, Operations and Risk and Compliance. We would welcome applications and if you are interested please contact info@ior-institute.org for further details. We can certainly promise challenge, growth and opportunity. That is also true for individuals who don't feel able to take a leadership role in the Institute but wish to help with our core teams in Marketing, Operations and Risk and Compliance. Please step forward, your support is welcome.

As we enter into a new year full of opportunity and potential may the Institute thank all its members for your continued support during the year. We hope that you have the opportunity to spend valuable time with friends and family over the festive season. May we also wish everyone all the best for the New Year, here's to a successful and prosperous 2018 everyone!

Events

In addition to our new series of Webinars, the Institute continues to run successful events through its Chapters. Here are just a few examples over the last few months. Our thanks to all of the people who support these events and to our volunteers who lead our Chapters.

An update from the England and Wales Chapter

2017 has been a busy year in the England & Wales Chapter. When Dr Jimi Hinchcliffe took over as Chairman of the IOR's largest chapter in May, he identified 2 strategic priorities. First, to build a leadership team and committee capable of providing strong governance and professional management of the chapter. Second, to focus on delivery of high quality events, and delivering on our commitment to members of providing at least 4 events a year.

Here is Jimi's update.

On the former, we established an impressive Chapter Executive Committee, comprising Andrew Sheen, Aidan O'Brien, Jeronimo Souza, Armel Massimina, Ravi Gupta and Brian Thornhill. Each member of the ExCo has a clear role and responsibilities and presents an update to the team on their portfolio at the monthly ExCo meetings.

On events, I'm please to say that we delivered 8 events since May, including 2 joint masterclass events with Xactium and a Christmas networking drink, also generously sponsored by Xactium. We held our inaugural Autumn Debate on the subject of operational risk modelling chaired by Tony Blunden of Chase Cooper, and a very lively evening event on the subject of accountability, kindly hosted by one of our corporate members, RBS. We held events on culture, with speakers from HSBC, and fixing operational risk capital where Michael Grimwade gave a fascinating talk on the characteristics of operational risk losses and the implications for quantification and capital. We held a well attended event in collaboration with the Association of Foreign Banks, and finally, a Masterclass event on COSO and ISO standards on operational risk.

Our priorities for the coming year include continuing to enhance the member proposition by delivering even better events for our members, and we will soon be releasing our exciting programme for 2018. Our events programme for 2018 will be more closely aligned to the priorities of the FCA and PRA. In addition to our regular programme of events for our members, we are working with the Centre for Financial Professionals to run a 1 day

Masterclass before the New Generation Operational Risk conference in March. We will also be creating 2 new working groups, one to focus on regulation and another on events, so that we can provide more opportunities for members to get involved and support the core activities of the chapter. Finally, we will continue to work closely with the IOR council, particularly on promoting the Certificate in Operational Risk to our members, on the enhancement of the SPGs and development of new operational risk standards, and on supporting the IOR on their regulatory agenda, including responding to regulatory consultations.

It goes without saying that everything we do in the Chapter is for our members. We hope that you will continue to provide the exceptional support that you have in 2017 through attendance and engagement at events, and that we can continue to meet your expectations.

Another successful Annual Scottish Conference

Over 100 delegates attended the 7th IoR Scottish Chapter Conference at the RBS Conference Centre in Edinburgh. The theme of the day reflected the environment in which we all, as risk professionals, encounter on a daily basis "in an unexpected world expect the unexpected".

A number of industry experts delivered thought provoking sessions on a range of topics using a mixture of plenary sessions and smaller breakout sessions where topics could be explored in more detail including discussion points throughout each session.

The day got off to a superb start with Rik Ferguson from Trend Micro examining the challenges and threats the next stage the evolution the internet of things will bring as connectivity becomes ever more embedded and what is needed to avoid the "internet of unsecure things". Another session involved Manoj Kulwal, Chief Risk Officer from Risk Spotlight challenging the traditional focus of Risk Management and proposing an alternative by moving the focus from managing events to managing uncertainties to make risk management a more dynamic and value add activity for organisations. Manoj, this time in his role a Director of Marketing for the IoR, also gave delegates an insight on the successful launch of the IoR CORM qualification and the risk webinars now available from the IoR.

Building on the theme of the day were interactive sessions on all aspects of Business Continuity including putting plans into practice and a 7 day exercise plan in order to ensure Resilience Plans are in shape, these sessions were delivered by Martin Creasey from Co-operative Bank and Scott Hughes from Coventry Building Society respectively. Richard Mais from Ernst & Young also provided an overview of observations in the current Operational Risk environment drawing on the key findings of a recent EY survey.

In the final session of the day Alex Ellerton from Grant Thornton looked to the future by exploring the challenges faced by over competition and new entrants to the Banking Market and how technology and innovation could further change or disrupt the landscape.

Thank you to all the speakers for delivering such high quality sessions, a special mention of thanks to RBS for the use of their fantastic Gogarburn Conference Centre and Heather Morrison and Trish Crabb who ensured the day was a huge success.

The focus of the Scottish Chapter Committee now moves to arranging an attractive programme of events for 2018.

Operational Risk Quant-Workshop: Germany



On 14 September 2017, Rainer Sprengel, Head of the IOR German Chapter, organised and moderated the 13th Operational Risk Quant-Workshop at the BaFin in Bonn. Together with 29 OpRisk experts from banks and insurances, 13 representatives of banking and insurance supervisors (from BaFin, Bundesbank and European Central Bank) discussed current OpRisk topics and analyses as well as the latest regulatory developments.

The very relevant and interesting agenda covered a wide range of topics and presentations:

- IT-risks and their effects illustrated by current security events
- Potential effects of the SMA on German banks
- Risk event database OffschOR. Data pool and bank-internal usage.
- Quantitative aspects of the ongoing supervision of OpRisk models in insurance companies
- ECB pilot project: Reporting validation results of AMA-models

The workshop finished with a discussion on potential topics for future events.

The 14th OpRisk Quant workshop will take place on 6 March 2018 at DZ Bank in Frankfurt.



Thoughts from a retiring member

There is an operational risk truism that the past isn't a predictor for the future, however the experience we gain over the years offers great reference points. Despite evidence to the contrary the hope is that we can turn to that experience to avoid some of the basic mistakes often seen in organisations. For the benefit of our "younger" readers a retiring member, Alan N Peachey, was asked to offer some wise words. Over to you Alan with thanks for your service to our Institute:

As some of the readers who know me will know, I have always tended to take a somewhat jaundiced view of the expression "Operational Risk", as I have always believed that true operational risk is that which jumps up and bites one in the backside when least expected, and against which there is no real defence.

Such events occur at the end of the bell-shaped curve, representing perhaps two percent of all operational risk (op-risk) events. Quite often, such an event is an explosion of seemingly innocuous incidents which, whilst unimportant in their own right, when mixed together can result in a major disaster. Having said that, I must confess that my own experience of such incidents is limited to the world of banking

I suppose the first op-risk event of this nature I experienced was in 1963 whilst I was working for Barclays Bank DCO in Freetown, the capital of Sierra Leone. We were having a party in the bachelors' mess one evening when the telephone rang. It was the night watchman from the bank asking us to "come quickly as it was raining in the Bank". Given that it was a beautiful starlit night with not a cloud to be seen, we assumed the watchman had consumed too much of the local palm wine. Upon arrival at the bank the next morning there was nothing apparently amiss. It was only when the messengers took the lift (the only one in Freetown at that time) down to the strongroom that we discovered three feet of water in the basement.

It took several hours for the fire brigade to pump out the water, but we all knew that the strongroom was watertight. However, when the door was finally opened the two key-holders were almost swept away by the tidal wave of water which came out. So, what has caused this operational risk event?

Firstly, for some reason, the air-conditioning system required vast amounts of water and for this purpose a large water-tank had been installed on the roof when the building was built, just a few years earlier. The architects, well-aware of the West African climate, had recommended that the tank be constructed of fibre-glass panels, bolted together. For added security, diagonal struts were to be installed across the top of the tank. For some reason, they had been supplied, but simply laid next to the tank and not installed as intended. When the tank failed, the water simply found its way down the lift shaft. Mistake no.1.

When the strongroom door was installed, the suppliers had forgotten to send the rubber sealing strip to be fitted round the inside of the door. This was delivered subsequently, but the treasury custodians had simply placed it on a shelf next to the door and forgotten all about it. Mistake no. 2.

The Bank did not hold many securities on behalf of customers, and those it did hold were kept in two large metal trunks some 75cms deep, which were kept on the strongroom floor. Mistake no.3, as it transpired that although the lids were well above water level, the corner seams were not waterproof, and water leaked in, soaking all the documents.

One of the Bank's important customers at the time was in the habit of withdrawing up to £100,000 in cash on a regular basis to pay their diamond workers up-country. The customer would come in the evening before; the cash would be counted out in bundles, placed in canvas sacks, sealed with the customer's own seal and left on the strongroom floor overnight. The customer would then come in at around 07.30 the following morning, collect the sacks and disappear up-country. As luck would have it, that customer had come in the previous day to arrange a cash withdrawal. The normal procedure had been followed, with the result that £100,000 had spent the best part of the night underwater and was ruined. The Bank's own supply of banknotes was unaffected, as these were kept in a cupboard affixed to the wall, some five feet off the ground. However, in view of the amount involved, the Bank had to make an emergency application to the local currency board for extra cash to meet the customer's demand.

Thus, three seemingly innocuous errors and a badly-timed cash withdrawal resulted in a major operational loss event. There have been similar events over the years in other institutions, but space does not permit them to be related here.

Nearly all other op-risk losses are, in my view, the result of normal operating procedures, or simply good housekeeping rules, either being at best overlooked or, at worse, being ignored. Lack of common sense in applying the rules can also result in disaster as can ignoring the old adage that "if it sound too good to be true, then it probably is".

The directors of Barings Bank were so concerned about their bonuses that nobody bothered to enquire by what alchemy Nick Leeson was generating all those profits. It was only when a temporary leave replacement was sent to Singapore from London that Mr. Leeson's misdemeanours came to light.

Readers will be well aware of the recent fraud case involving the former HBOS Reading branch, the outcome of which saw former staff members sentenced to terms of imprisonment. However, the problems had been flagged as far back as August 2007 when the Sunday Telegraph reported that an out-of-control lending manager in that branch had advanced up to £300 million to some 200 customers, resulting in write-offs of some £250 million of the total amount lent. One is left wondering why this problem had not been picked up at an earlier stage, either by the bank's internal audit team or, one assumes, by monitoring in the risk management department.

This, and many similar op-risk events, is recorded in my book *Great Financial Disasters of our Time (Editor – we will let that plug go Alan in the spirit of Christmas. Too late for the stocking purchase anyway)*. The depressing reality is that, apart from new scandals such as the attempted rigging of LIBOR, the types of op-risk event described in my book occur over and over again, as people fail to learn (or forget) the lessons of history.

Everyday op-risk events can only be mitigated by close attention to detail and by ensuring that the rules laid down in the procedures manual are followed. Check, check and check again must be the mantra and practitioners must not be afraid of asking what sounds a stupid question. It rarely is, and one can be surprised at what it might reveal.

Finally, familiarity need not breed contempt, and I can think of several instances where clerks and cashiers processing hundreds of humdrum items on a daily basis have picked up attempted frauds where the vouchers concerned "did not seem quite right".

I wish the Institute every success in the future and hope that the message it seeks to convey will fall on fertile ground.

Growing membership value through our partners

The Institute continues to look for ways to improve membership benefits and to partner with organisations that can support our overall objectives. Here are just a few worth highlighting.

Centre for Financial Professionals

The Institute has partnered with the Centre as part of the Next Gen Op Risk Conference scheduled for 13/14 March 2018 in London. At that conference the Institute and the Centre will launch the results of their international survey on the future of Operational Risk. The England and Wales Chapter will host and organise a masterclass at the event. An early bird pre end of year discount is available here:

<https://www.linkedin.com/feed/update/urn:li:activity:6348832513225478144>

UK Finance

The Institute has partnered with UK Finance to create a new Heads of Operational Risk Club. The first meeting was attended by around 25 senior operational risk practitioners and covered a wide range of discussion topics, including what those attending thought were the top 10 risks looking into 2018. Participants found the session worthwhile and have asked that the event continues every quarter. We will announce dates etc early in 2018 and thank UK Finance for hosting this important forum.

Risk Spotlight

Members will have recently received a separate email confirming a year's free membership to the Risk Spotlight portal. This portal covers a wide range of newsfeeds on risk events allowing access to news and events to support comparative analysis on external events that could impact organisations.

Risk.net

The Institute is delighted to announce a partnership with Risk.net which provides the following benefits to members of the IOR:

- 25% discount priced at £2250 which includes:
 - Risk.net Business subscription with Risk magazine Print and online access to the Journal of Operational Risk
 - Access to the Risk.net apps including Operational Risk
- Enterprise partners discount – an increased discount offer will be applicable for those who have several colleagues from the same organisation who would like to access Risk.net;
- 25% off any of Risk.net Operational Risk events (Asia/EU/US) to all IOR members.

Please watch the website for full details on how these benefits can be accessed and look out for launch emails in 2018.

If anyone has suggestions to make on other benefits that we should seek to offer to members please contact us on info@ior-institute.org.

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