

INTRODUCTION

Organisations continue to change at a rapid pace to benefit from increased efficiency, better response to ever evolving environment, and faster developments.

As more workloads are shifting to the cloud, risk professionals remain concerned about security of data, systems, and quality of provided services.

To cope with new challenges, Operational Risk teams are forced to reassess their workforce and strategies as traditional tools to address risk are often not suited for the challenges of dynamic, virtual and regulatory environments.

In addition to that, the technology challenge is exacerbated by the dramatic shortage of skilled risk professionals.

This report has been produced in partnership with UK Finance, the Institute of Operational Risk and Risk*Business*, to collect information about the composition of operational risk functions within organisations and the identification of key drivers behind recruitment, training, skills and remuneration of operational risk professionals.

We hope you will enjoy the report.

Thank you,

UK Finance, the Institute of Operational Risk and Risk*Business*



KEY SURVEY FINDINGS

1

Operational Risk workforce composition concerns - There is a gap between current skills in the 2nd Line Operational Risk function, and those needed to meet the organisation's business objectives.

2

Recruitment trends - Skills and relevant experience are the biggest factors taken into account when recruiting OR professionals, with a quarter of respondents suggesting that there are currently unfilled (approved) vacancies in their 2nd Line Operational Risk function.

3

Most desirable skill - Respondents highlighted the ability to influence people as the most desirable skill in the OR function, with Research skills, Quantitative skills and Enterprise risk stress testing skills ranked as the least required.

4

Paths to stronger risk management - "Automation, innovation and digitalisation" highlighted as a top aspect in defining the future of Operational Risk function over the next 3 to 5 years.

5

Training and development headaches - While it is clear that organisations cite the lack of skilled Operational Risk professionals as an impediment to facilitating appropriate risk management disciplines, there are gaps in the training that is being provided, both in terms of frequency and suitability.

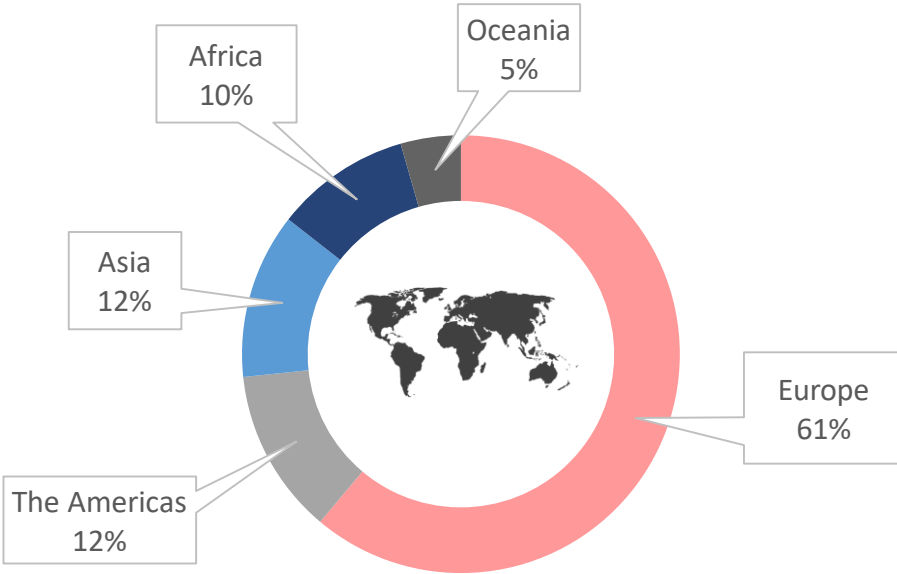


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METHODOLOGY & DEMOGRAPHICS

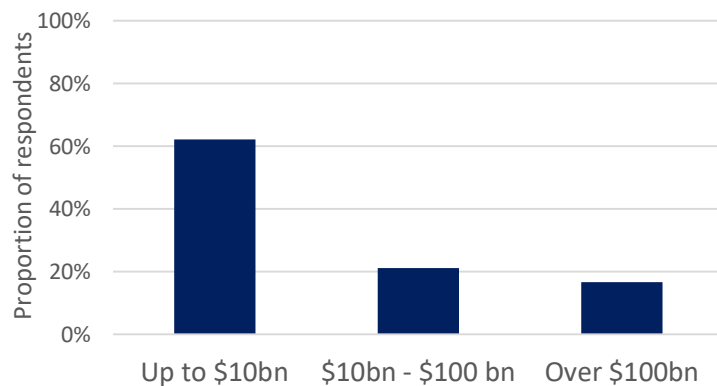
Location of respondents



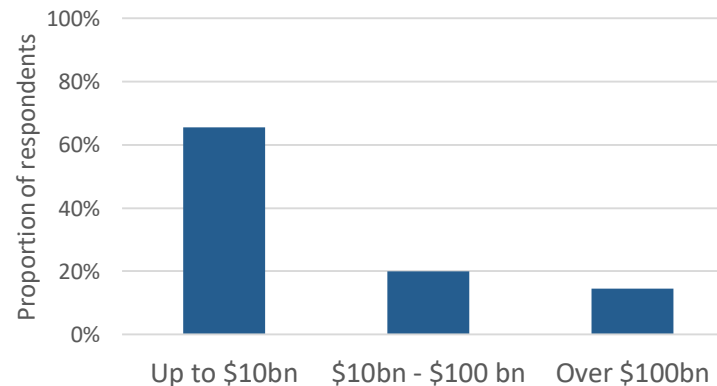
The Operational Risk Function Survey is based on the results of a comprehensive online survey that incorporated the views of 90 respondents, 61% of which were based in Europe, 12% in the Americas, with just 5% from Oceania.

Respondents were questioned during November and December 2018 and were asked to give an indication of the size of their organisation by either Balance Sheets assets, Assets under Management or Annual Gross Premium. The majority of respondents fall into the under \$10bn category, representing small and medium organisations.

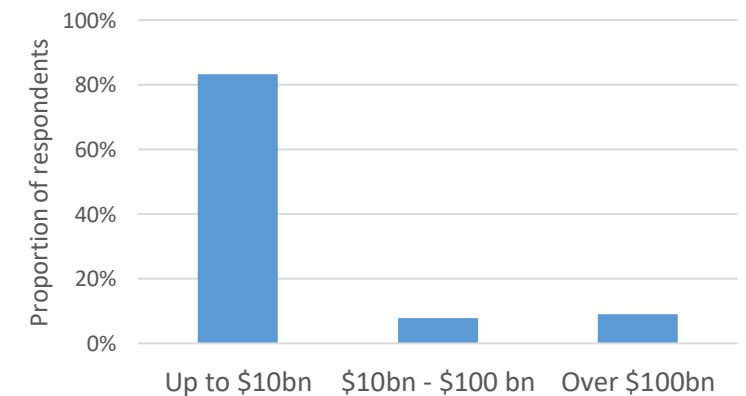
Balance Sheet assets



Assets under Management

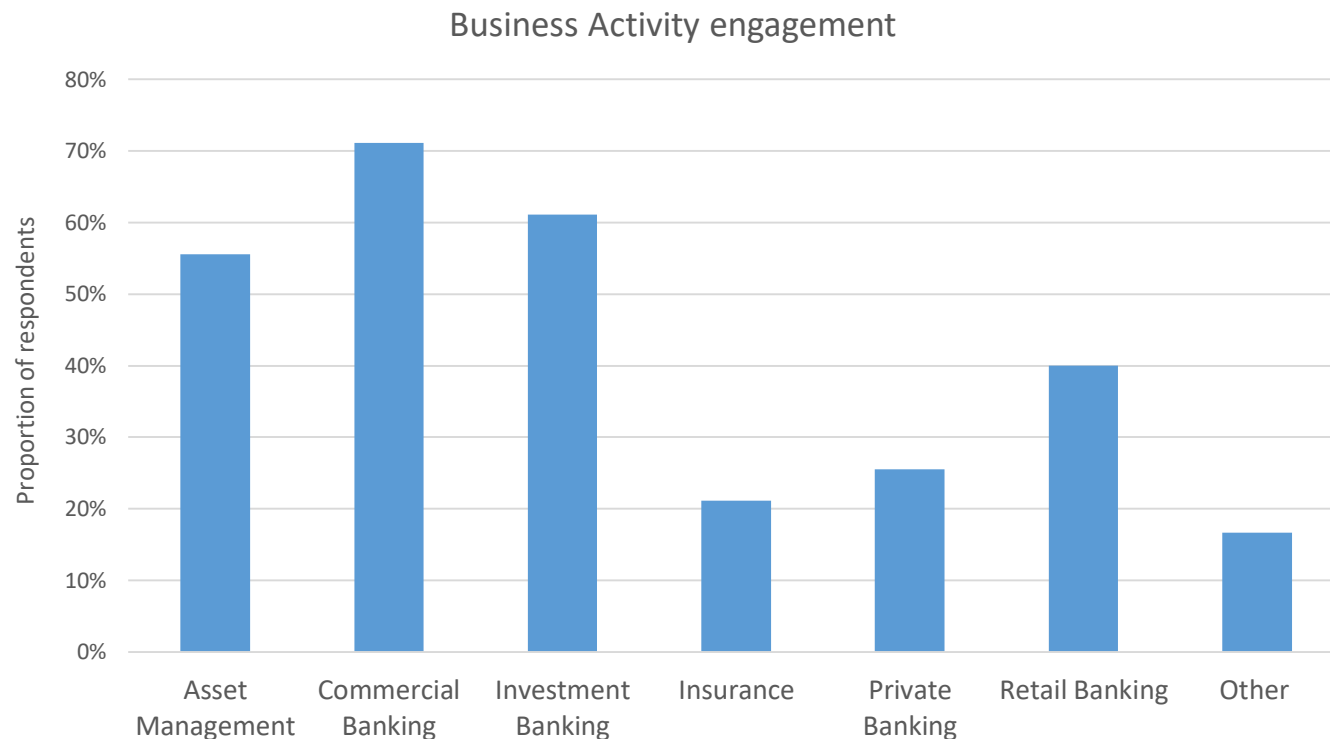


Annual Gross Premium

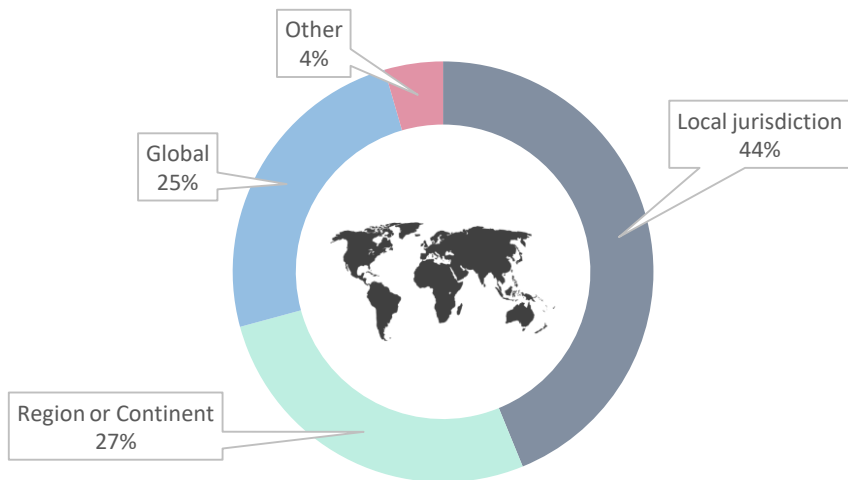


In terms of business activities, the respondents represented a good spread across the various financial services business lines.

The Other category included financial utilities, international financial institutions/multi-national development banks, institutional banking and FinTech.



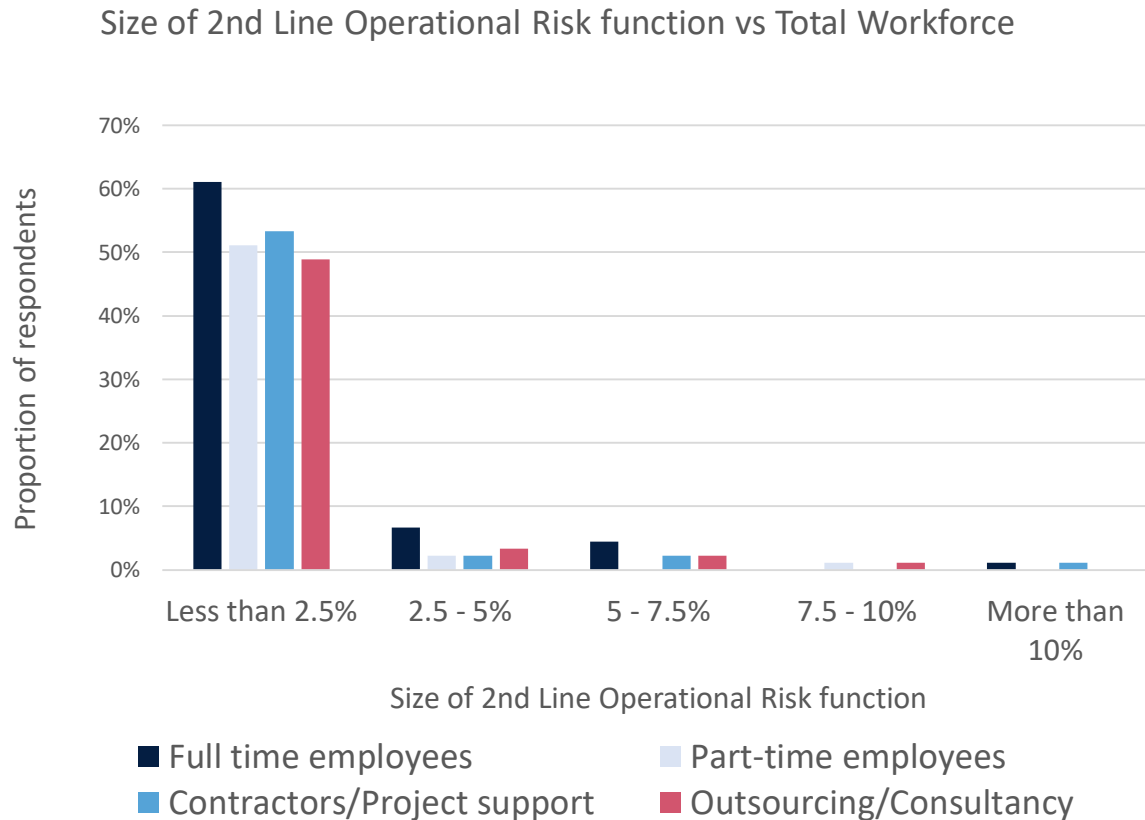
Geographical coverage of Operational Risk function



Of all the responses received, 44% said the Operational Risk function covers the organisation's Local Jurisdiction. This suggests that the respondents are subject to oversight from a higher authority or from a foreign Head Office but have responsibility for operational risk in their own region where they may apply their local knowledge and expertise.

OPERATIONAL RISK WORKFORCE COMPOSITION

61% of respondents suggest that less than 2.5% of total full-time employees are within the 2nd Line Operational Risk function. 51% of respondents suggest that less than 2.5% of total part-time employees are within the 2nd Line Operational Risk function. 53% of respondents suggest that less than 2.5% of every contractor or project support are within the 2nd Line Operational Risk function. 49% of respondents suggest that less than 2.5% of every contractor or project support are within the 2nd Line Operational Risk function. 49% of respondents suggest that less than 2.5% of outsourcing/consultancy staff are within their 2nd Line Operational Risk function.

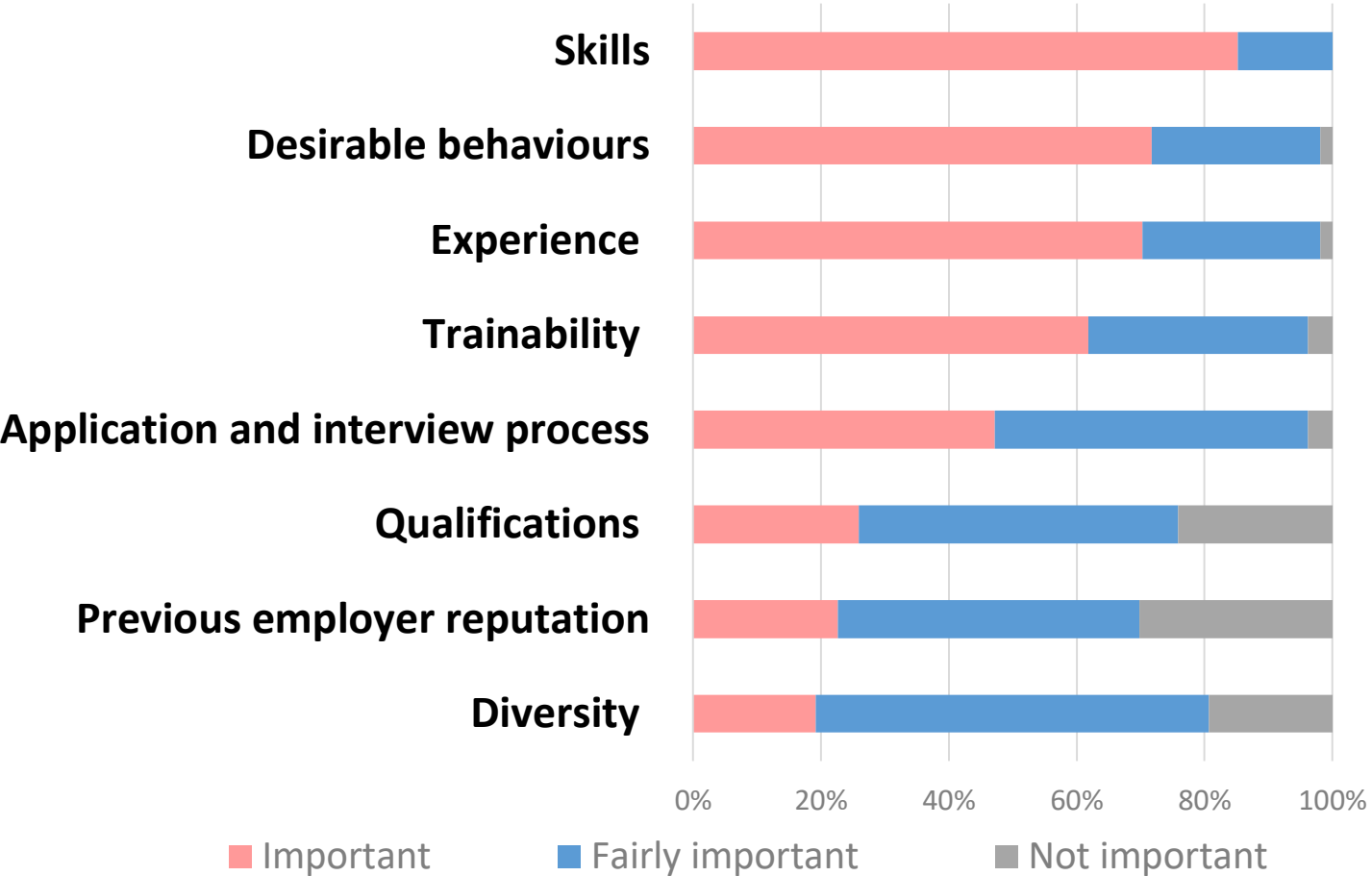


- For every 2nd Line Operational Risk professional, respondents suggest that there are, on average, 6 dedicated FTEs and 1 non-dedicated FTE across all other Risk functions.
- For every 2nd Line Operational risk professional, respondents suggest there are, on average, 3 or 4 dedicated FTEs and 1 non- dedicated FTE in the Compliance function.

The effectiveness of an Operational Risk Management team is, in part, dependent on its ability to partner with other functions within the organisation which encourages a culture focused on business success.

BUILDING OPERATIONAL RISK FUNCTION OF THE FUTURE

Main aspects taken into account when recruiting risk professionals for the 2nd Line Operational Risk function:



As firm's productivity and profitability depend on the quality of its workers, we asked our respondents to rank the factors they consider when hiring candidates.

The specific skills set and personality of potential employees have been highlighted as most critical factors taken into account during the recruitment process within the Operational Risk function.

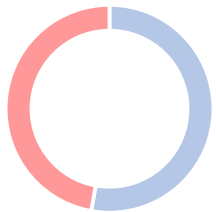
Relevant work experience has also been rated as one of the most important considerations when recruiting for Operational Risk roles. Respondents have also highlighted that they would benefit from hiring individuals who they are confident can learn and perform as needed.

Even though possession of a diploma demonstrates the ability and work invested by the individual to complete an educational program, the qualification itself has not been ranked as the most important feature when hiring Operational Risk professionals.

Respondents, when asked what is the most desirable skill within their Operational Risk function, have highlighted the ability to influence people as one of the most required capabilities, followed by the technical acumen and product knowledge.

Skills associated with the traditional risk measurement technics, such as quantitative skills and risk stress testing were classified as currently least useful within the 2nd Line Operational Risk function.

★ Are you planning to re-skill your 2nd Line Operational Risk function?



■ No ■ Yes

As automation, digitalisation and advances in artificial intelligence disrupt the world of work, growing awareness of the scale of the task ahead has yet to translate into action. Even though technical acumen was rated by the respondents as the second most desirable skill, over 52% of the respondents have confirmed that they are not planning to re-skill their 2nd Line Operational Risk function to work with intelligent machines, machine learning or artificial intelligence in the next 3 years.

Ranking of most desirable skills in 2nd Line Operational Risk function:

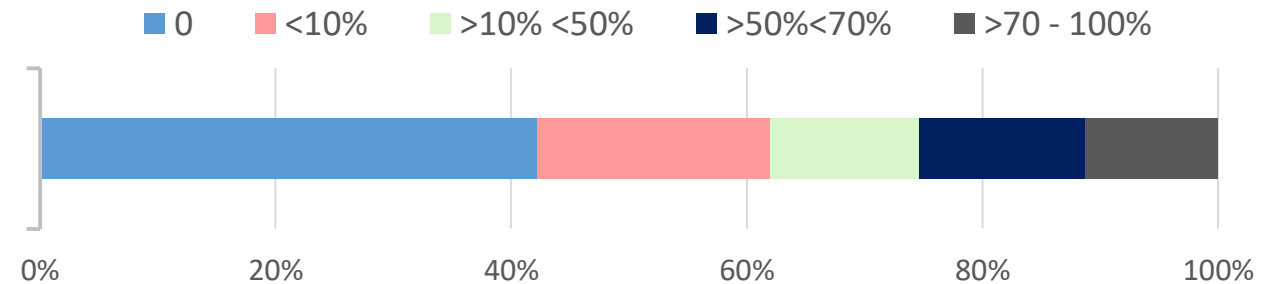


Respondents to the survey were asked about the level of educational qualification that they prefer staff in their 2nd Line Operational Risk function to hold.



The responses provided reveal the complexity of this issue. They suggest that there are a variety of roles within the 2nd Line Operational Risk function, some of which can be adequately filled by staff with education below degree level, and others (possibly more senior roles) for which a degree or other educational qualification is required by employers.

% of operational risk employees in 2nd Line, with professional Risk qualifications:



When asked about what percentage of Operational Risk employees hold professional risk qualifications in their organisation, only 45% of all respondents were able to provide details on the professional risk qualifications within their 2nd Line Operational Risk function. A majority of respondents stated that professional risk qualifications are held by less than 50% of their team. In relation to the 1st Line, only 23% confirmed that the professional risk qualifications are held by their employees.

Causes of hard-to-fill vacancies in the 2nd

Line Operational Risk function:



62%

Lack of relevant experience



46%

Lack of skills



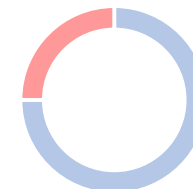
21%

Lack of qualifications

With the continuous evolution of the workplace, Operational Risk professionals need to be able to adapt and transform their organisations with ever-increasing speed. To do this, on top of their usual risk related skills, employees are expected to demonstrate emotional intelligence, the ability to learn from experiences and to apply that learning to new and different situations. We asked respondents to specify what they think are the main causes of hard-to-fill vacancies in the 2nd Line Operational Risk function and the majority have confirmed that the lack of appropriate experience and skills are the main showstoppers when filling positions. The lack of qualifications was highlighted as a less important aspect taken into account when recruiting, suggesting that the new world of work is all about having essential skills for the job, and not necessarily about holding degrees.

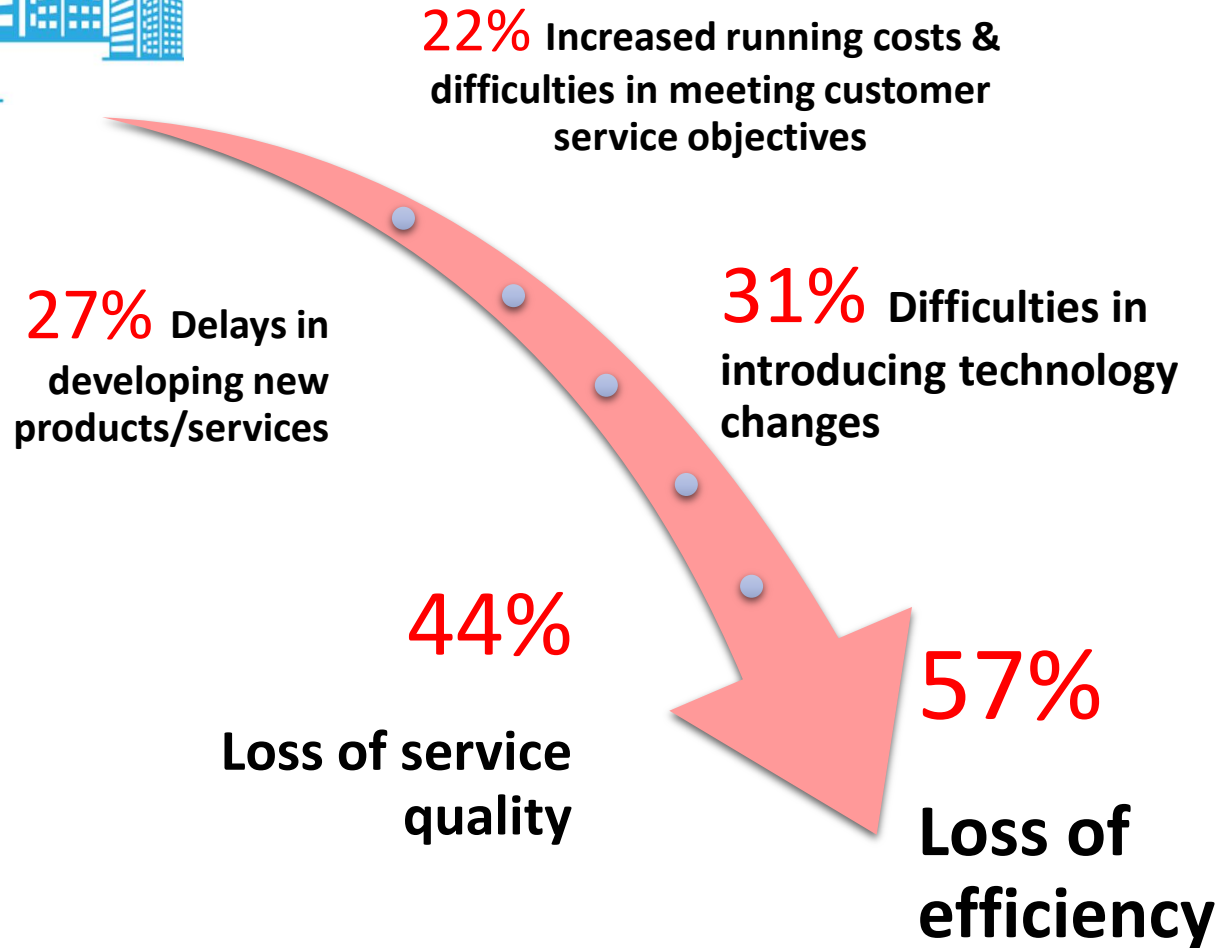
Furthermore, a quarter of the respondents confirmed that there are currently unfilled (approved) vacancies in their 2nd Line Operational Risk function, averaging between 2 to 5 positions per organisation.

★ Are there unfilled (approved) vacancies in your 2nd Line Operational Risk function?



■ No ■ Yes

Adverse business impacts seen as a result of skills gaps in the 2nd Line Operational Risk function.



A skill gap occurs where an employee is deemed by their employer to be not fully proficient.

Over 55% of respondents confirmed that they feel there is a gap between current skills in their 2nd Line Operational Risk function and those needed to meet the organisation's business objectives. Furthermore, 53% of all respondents indicated that their organisation has experienced an adverse impact as a result of skills gaps in their 2nd Line Operational Risk function.

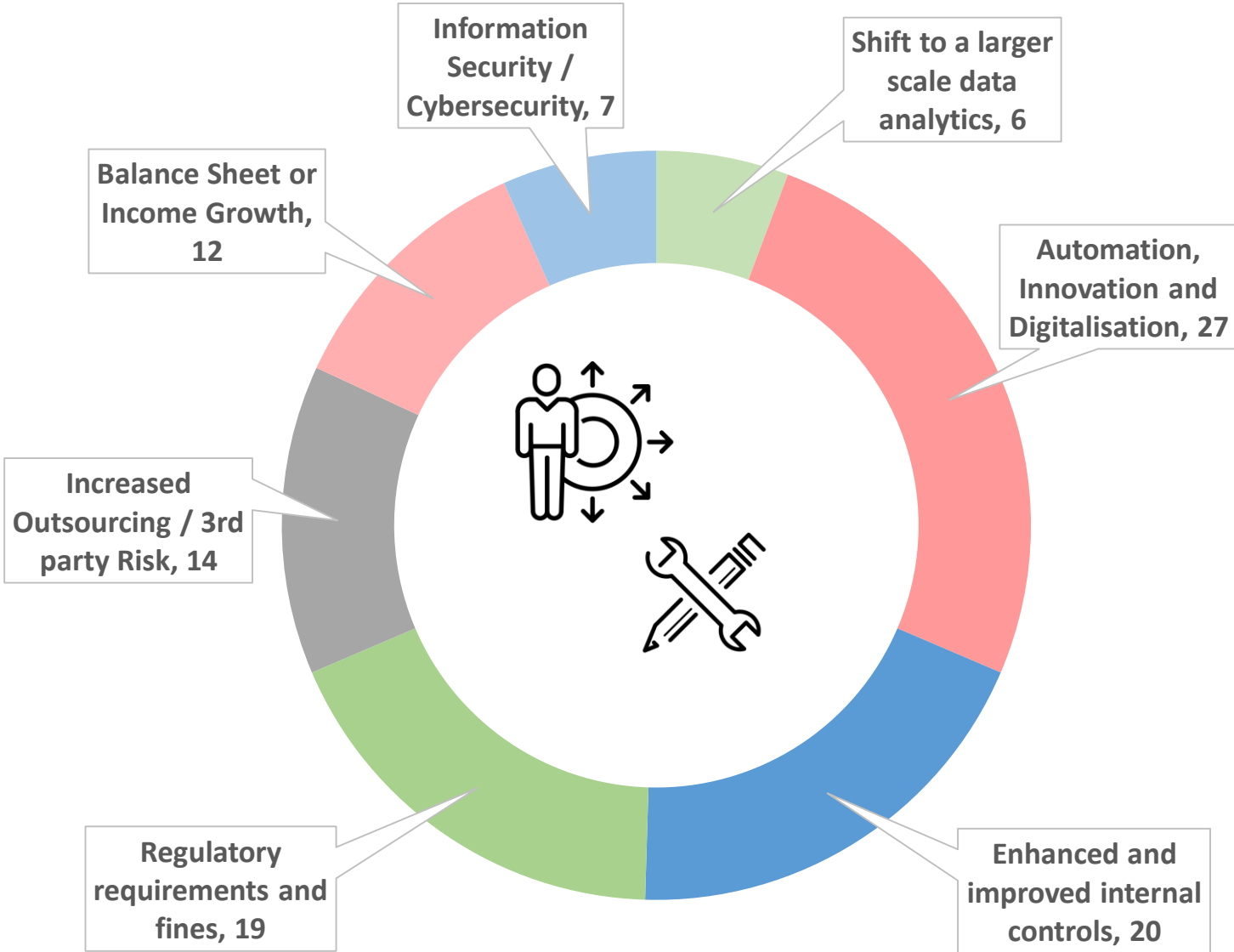
A loss of efficiency has been ranked by the respondents as one of the main adverse impacts their business have experienced as a result of skills gaps in the 2nd Line Operational Risk function, followed by the loss of service quality and difficulties in introducing technology changes.

When asked what measures are being undertaken to tackle any skills gaps in the 2nd Line Operational Risk function, a majority confirmed that increasing existing training programs and providing further training are the main methods in combating skill gaps and building a future-ready Operational Risk workforce.

New technologies present fantastic opportunities for business, including new ways to manage and mitigate risks. However, new technologies also bring changes and new challenges. When we asked our respondents to specify what they see as the 3 key factors which over the next 3 to 5 years will determine the composition and skill-set of their 2nd Line Operational Risk function, 30% of all respondents highlighted the “Automation, Innovation and Digitalisation” as a top aspect in defining the future of the Operational Risk function.

The “Enhanced and Improved Internal Controls” that are usually a result of new technologies and innovations, has been ranked by 20 organisations in #2 place, followed by the changes imposed by regulatory requirements and fines. Changes in organisational structure, including an increase in the outsourcing and 3rd party risk, together with the business growth, information security and requirements for larger scale data analytics, were highlighted as other top factors that will determine the future of the 2nd Line Operational Risk function.

TOP 7 FACTORS, IDENTIFIED BY RESPONDENTS, THAT WILL DETERMINE THE COMPOSITION AND SKILL-SET OF THE 2ND LINE OPERATIONAL RISK FUNCTION OVER THE NEXT 3 TO 5 YEARS



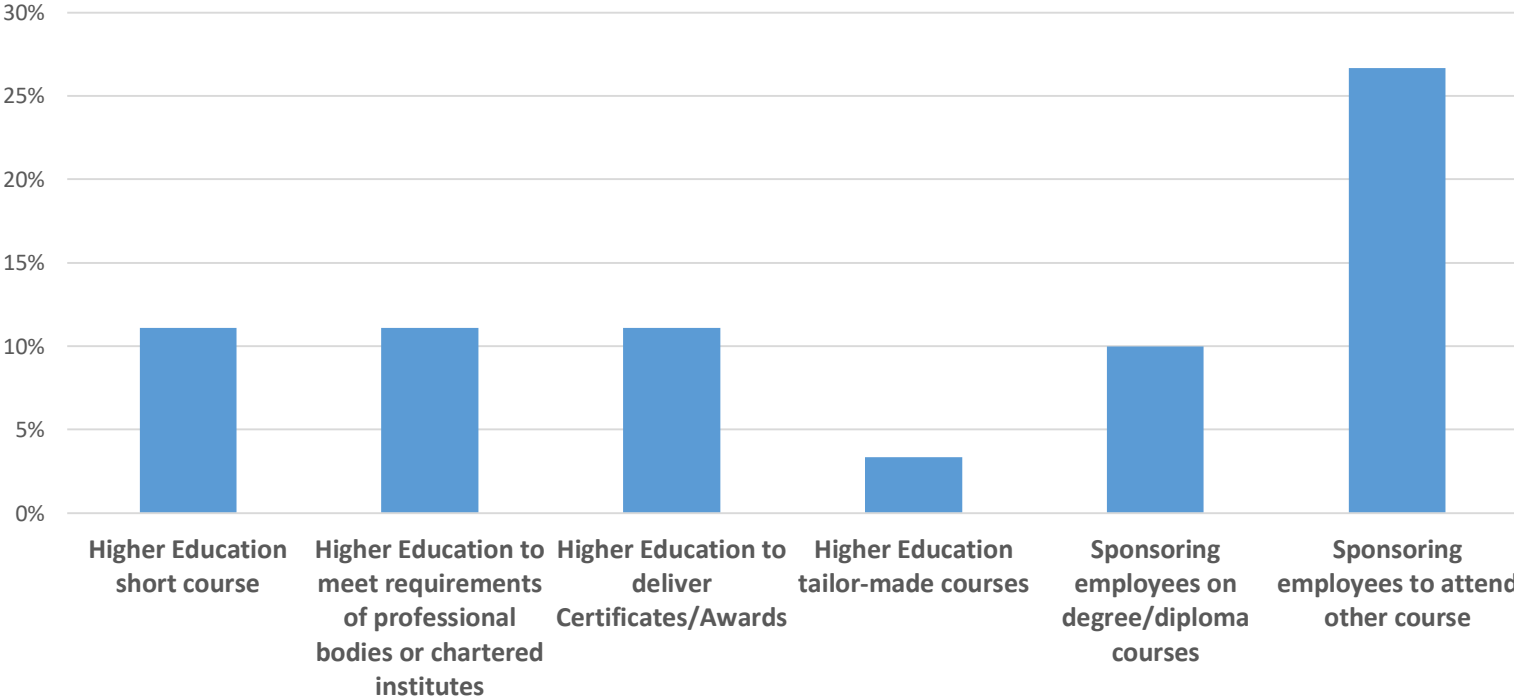
TRAINING AND DEVELOPMENT TRENDS

Although organisations clearly see that skills gaps in the 2nd Line Operational Risk function are a barrier to achieving business objectives, only 66% of all organisations provide off-the-job training on at least an annual basis.



66% Offers professional development and training on at least annual basis

Continual Professional Development



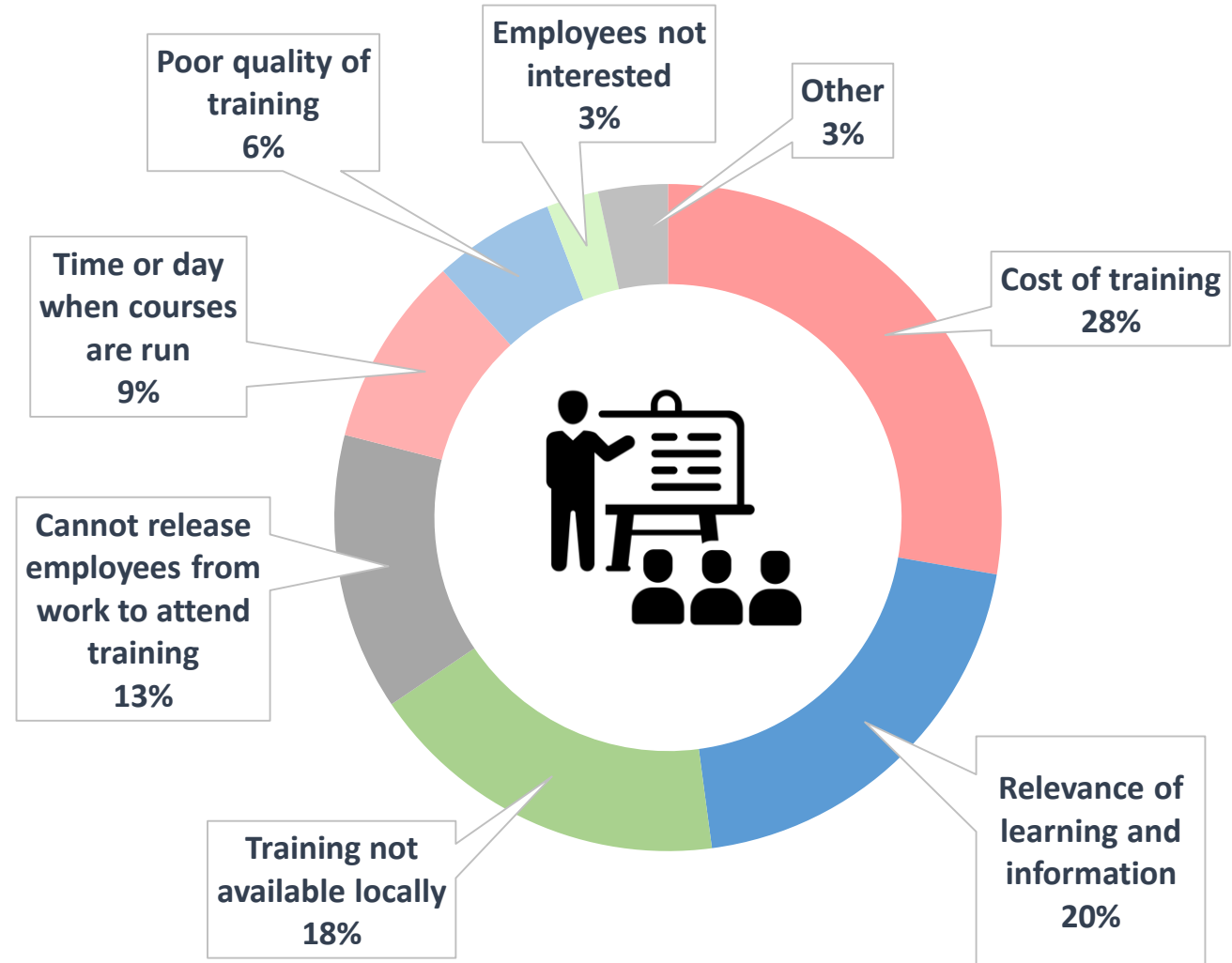
21% of organisations are sponsoring Operational Risk employees to undertake qualifications to meet requirements of professional bodies or chartered institutes.

Factors that impede the amount of training for the 2nd Line Operational Risk function:

Almost two thirds of organisations believe that the cost of training is the biggest barrier to providing focused training for operational risk management.

This suggests that organisations still see risk management as a cost to the business rather than an investment which will provide a positive return for the business.

It further suggests that risk management is regarded as an assurance function rather than a leadership function although “influencing” is the #1 desirable skill.



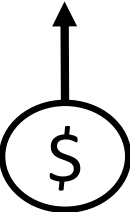
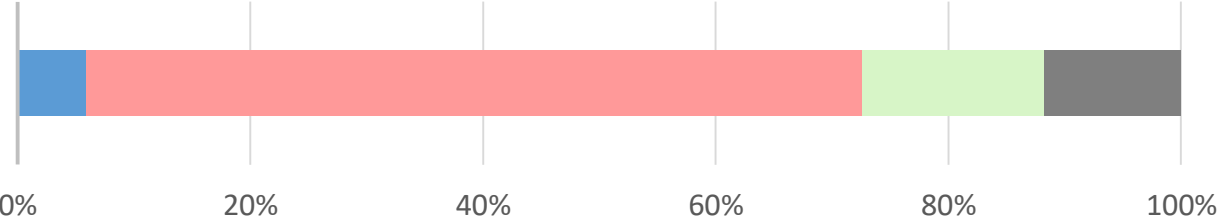
5 of the top 7 “most desirable skills” for the 2nd Line Operational Risk function are all improved by training.

REMUNERATION ALIGNMENT

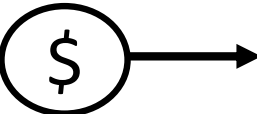
Two thirds of respondents indicated that the salaries of those employees in 2nd Line Operational Risk roles are in line with equivalent job grades across their organisations.

- Above other equivalent job grades
- In line with other equivalent job grades
- Below other equivalent job grades
- Cannot make a comparison

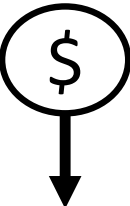
★ How do you feel salaries within your 2nd line Operational Risk function compare with salaries for other equivalent job grades in your institution?



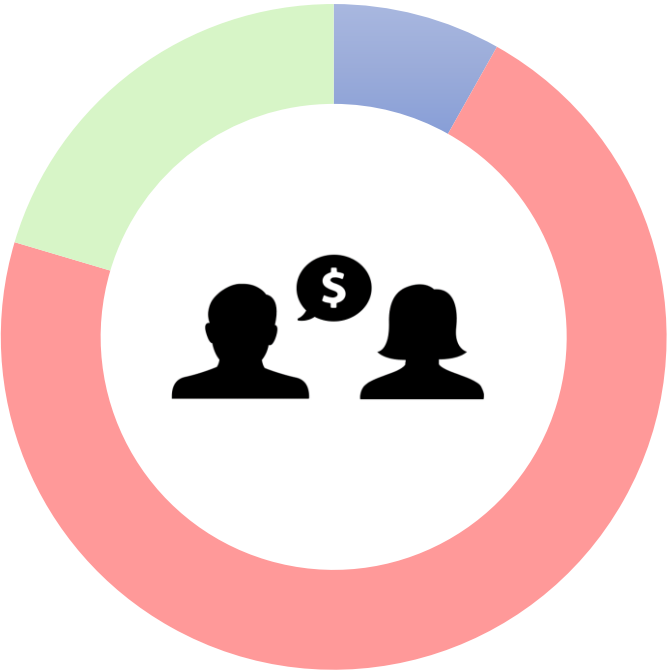
■ Above the institution



■ In line with the institution



■ Below the institution



71% of respondents stated that average remuneration for the 2nd Line Operational Risk function is in line with the rest of their organisation.

CONCLUSIONS



It is clear from the survey results that the 2nd Line Operational Risk function still faces many challenges in a rapidly changing environment.



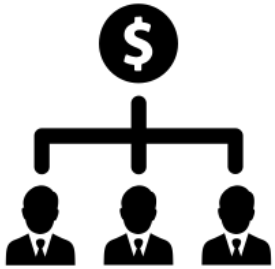
It would seem that Operational Risk has fewer resources allocated to it than other risk types. A logical conclusion to this is that Operational Risk is managed within the 1st Line of Defence i.e. the business. Whether this is true in practice will vary across different companies.



2nd Line Operational Risk requires experienced and knowledgeable individuals in order to be able to provide the right leadership and challenge to the business.



Although respondents highlighted the challenges provided by the increasing use of automation, machine learning and artificial intelligence, there is an apparent reluctance to engage in the training necessary to ensure that employees obtain an appropriate level of skill.



While remuneration levels for specific Operational Risk job grades appear consistent when compared with similar job grades across organisations, it is not clear if the grades themselves are appropriate.



2nd Line Operational Risk functions need to do more work to demonstrate leadership to the business and drive the value that the good management of Operational Risk can bring to a company.

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