

IRM Operational Risk SIG MINUTES

Date:	24th September 2009
Time:	17.30 – 19.00
Meeting location:	RBS offices Waterhouse Square, 138-142 Holborn, London

Attendees	
Mark Russell (RBS) Chair	Jonathan Allen (Transport for London)
Paul Saunders (Sapient) Deputy Chair	Julian Philips (JP Risk)
Jill Dyer (Abbey) Minutes	Asim Balouch (Investec)
Jean-Claude Viver (Cafod)	Ian Davitt
James Macrae (London Underground)	Sally (Queen Victoria Hospital) – on phone
James Cole (Cognitix 360)	David Stark (Davis Langdon LLP)

No.	Notes
1	<p>Welcome and introduction</p> <p>The Chairman welcomed members and was pleased there remains a core of regular attendees. He was looking forward to handing over to Paul Saunders from the next meeting. Meeting protocol was explained and the theme for the evening was confirmed with the speakers.</p>
2	<p>Agree minutes of previous meeting</p> <p>The minutes from the meeting of 27 August 2009 were agreed with no changes.</p>
3	<p>Change of venue</p> <p>The incoming chairman confirmed he would be pleased to host future meetings at his company offices in Bishopsgate (or St Paul's). Further details to follow.</p>
4	<p>Presentations for and against</p> <p><u>'Database Systems are better than spreadsheets for managing risk'</u></p> <p>Two SIG members each gave a fifteen minute presentation, the first in favour of the motion, and the second against it. These talks set out theoretical positions to prompt debate and did not represent either personal or corporate opinions.</p> <p>The main points presented were as follows:</p> <p><u>In favour of – Database Systems are best</u></p> <ul style="list-style-type: none"> • It is a question of having the right tools for the job. For a reasonably complex organisation spreadsheets are not the best. • To show risk management is happening you have to record it and report it. Database Systems help you do this. • Worksheets may have summary sheets and individual risk sheets, possibly controls but probably not tables of controls, some scoring of risks and controls, but these are all manually processed. • At their worst, spreadsheets are data in all sorts of places. Event data is probably held separately and different business areas have individual workbooks. Risk capital calculations are probably a separate exercise. A system can bring all these together. • Databases must be backed up with secure passwords. And of course a programmer is needed. • There are some positives to spreadsheets, e.g. the Risk Manager may feel more control over a spreadsheet based process, however this is not sufficient to outweigh the disadvantages.

- Negatives of Spreadsheets include:
 - Large volumes of data become a pain.
 - Poor data integrity – different version numbers in circulation.
 - Business areas or divisions want to customise them, and will, even if this is not what the Risk Manager wants.
 - Spreadsheets can be tied down, e.g. so there are no customisations, but this moves Risk Managers towards programming.
 - Data ownership problems – Excel spreadsheets “belong” to a business area, not the whole company. Risk Managers may not even be granted completed access.
 - Poor audit trails.
 - Lack of auditability – Sarbanes Oxley guidelines are that spreadsheets are only a temporary solution.
 - Potential additional risks come from not having a robust system.
 - Pivot tables are useful but you probably end up manually assembling board presentations.
 - There are hidden costs relating to spreadsheets. They can be a false economy.
 - Data corruption or loss can occur through passing spreadsheets around for input.
- Positives of database systems include:
 - Dependencies between risks can be analysed.
 - Controls can be shown in a table.
 - Costs can justify themselves e.g. in greater efficiency.
 - There is an ability to ensure controls are in place for each risk component.
 - “Many-to-many relationships” can be handled better by a database.
 - Business metrics are easier to produce.
 - More “real life” analysis is possible.
 - Issues and tasks can be diarised and automatically set in motion.
 - Risk matrices are easier to produce.
 - Reporting from one period to another (to detect improvement or deterioration) is an advantage of databases.
 - Consolidation over numerous business areas is easier.
 - Monthly / Quarterly reporting can be automatic e.g. dashboards can be produced by the system.
 - Incident information can be put into the laps of managers with ease.
 - Reports at the push of a button.
 - There are not enough degrees of freedom in spreadsheets.
 - Programming approach can be changed depending on whether you are a “collaborative risk manager” or a “doing risk manager”.
 - If you stay with spreadsheets it will get worse – volume and complexity.
 - System salespeople can help you with quantifying the return on investment and the business case.
 - CEO and rating agencies can be interested by the output from a database, so the Risk Manager can grab more attention.
 - Tasking could also be used for Compliance tasks – bringing things together.
 - Internal Audit could benefit from information in the database.
 - Control verification and KRIs are likely to become more important in the future. Some people claim they do them – a database will show if they did.
 - Risk Managers can pinpoint what needs to be done, and get on and do it.
 - If you need programming code to analyse spreadsheets, why not buy a database?

Against – Database Systems are best

- A lot of people love spreadsheets.
- Databases can add a layer of complexity that isn’t needed.
- Some Risk Managers hide behind databases rather than coming out and facing business managers.
- Management is the key word in the debate “spreadsheets are better at managing risk”
- There is quite a strong case for databases when it comes to analysing and reporting risk, but management is about doing and getting more than one person involved.
- Some people feel daunted by databases.
- You can buy a “Crown Jewels” database but find out it’s Ratner Jewellery.

- Three key advantages of spreadsheets:
 - Portability and ease of use.
 - Versatility.
 - Cost effectiveness.
- Portability and ease of use:
 - You can't pull apart a database if things go wrong.
 - Your database supplier may not be around to help.
 - Risk Managers want to get accurate information reflecting reality but the database may not be available when they need it – spreadsheets can be taken into meetings and updated there and then.
 - Admitted you probably need someone to ensure the spreadsheet is easy to use for this advantage to apply.
- Versatility:
 - You can rely on spreadsheets.
 - If a database network goes down you can look bad.
 - People want to see progress live and that the spreadsheet is working for them, rather than them working for a database.
 - Sophisticated and unsophisticated users can input to spreadsheets. They can get involved as there's no mystery to the system.
 - Database systems require dedicated training.
 - With high turnover of staff, training can be an ongoing burden for database use.
 - There can be add-ons to spreadsheets e.g. mind mapping tools.
 - There is compatibility with other business tools.
 - Spreadsheets can be as simple or complex as you want.
 - There is no reason why spreadsheets can't be used in conjunction with a database – giving familiarity at the front end.
 - Versatility may be more difficult in databases- you don't want to become a slave to the system.
- Cost Effectiveness:
 - Cost for a database can be huge in comparison to spreadsheets.
 - Does the business need another database? Do they make the company too unwieldy and disjointed?
 - Cost of people's time is important. Which is quickest to complete?
 - Databases can be more frustrating to the user.
 - Spreadsheets could be more responsive to business change – can databases cope with constant change in structures and risks?
 - Spreadsheets are better for managing risk – quick, cheap and easy to use – If they're not broken, why fix?

5 Comments from around the table

There were wide ranging comments from members:

- Databases can be mismatched against business requirements.
- Spreadsheets could be "better the devil you know".
- It all depends what you want from your MI. Do you want to interrogate and use it for reports or not?
- Databases can be complex and not intuitive.
- Do you want "humanist" for the people or "functionalist" for the geeks? Design of the system has to fit the business.
- There is usually a lot of data to handle so it's a case of what is the simplest and best way to handle it.
- Aggregate risk profiles at the touch of a button are appealing.
- There's a need to check accuracy and look at the output.
- Access controls for a database can be a pain if there are many users and high staff turnover.
- Are databases too restrictive? They must help the business.
- It can cost a lot to change a database, so not recommended if you're not sure of your basic requirements at the start.
- Off the shelf is not a good as bespoke designed.
- If you can't afford what you want, don't buy it.

	<ul style="list-style-type: none"> • Time you spend using the system is critical. Do you need a spreadsheet to verify the database output is accurate? • Database systems can be regarded as “black boxes” – some Risk Managers want to see what is actually happening behind the scenes. • People who don’t understand “why” can still input. Which is easier? • Numerical analysis is often better on a spreadsheet. • Spreadsheets can be built up until you know what you want. • Middle ground may be an Access Database. <p>The Chairman thanked everyone for their contributions. In summary, whichever is chosen, the important thing is that it supports the right business decisions.</p>
6	<p>Future Topics & Speakers There was no topic nor speaker for the next meeting arranged. All ideas welcome.</p>
7	<p>Any other business There was none.</p>
8	<p>Next Meeting To be advised by Paul Saunders.</p>