IRM Operational Risk SIG MINUTES

Date:	26th February, 2009
Time:	17.30 – 19.00
Meeting location:	RBS offices Waterhouse Square, 138-142 Holborn, London

Attendees	
Mark Russell (RBS) Chair	Tony Forbes (RBS Insurance)
Amrita Reddy (AAA Risk Management)	Susan Young (Antares)
Mike Robinson (Risk Solutions)	James Cole (Cognitics 360)
Darren Mullen (Risk Solutions)	Sarah Job (BDO Stoy Hayward)
Peter Philpot (National Counties B/Soc)	Julian Philips (JP Risk)
Scott Kerr (Lovells)	Jonathan Allen (Transport for London
Daniel Sheard (Risktec0	Paul Saunders (DCG) Minutes
Fagan Shah (Prudential)	Lorraine Love (HBOS – by phone)
Andrew Lilley (RBS)	David Brown (by phone)

No.	Notes
1	**Welcome and introduction** In welcoming members, the Chairman noted that we had one of the larger gatherings for some times and it was good to see so many attendees. The theme for the evening was '*Operational Risk Management should turn into Enterprise Risk Management in order to survive',* arguments for and against being put by members.
2	**Agree minutes of previous meeting** The minutes from the meeting of 29 January 2009 were agreed with no change.
3	**Presentations for and against '*Operational Risk Management should turn into Enterprise Risk in order to survive*"** Two SIG members each gave a five minute presentation, the first in favour of the motion, the second against it. These talks set out theoretical positions to prompt debate and did not represent either personal or corporate opinions. In practice both speakers broadly supported the argument and the chairman added to the argument against the motion to stimulate debate. The main points presented were as follows: <u>For – 'Operational Risk Management (ORM) should turn into Enterprise Risk Management (ERM) in order to survive'</u> • In life in general it's not always the strongest that survive but the most adaptable. All functions ultimately have to change / mature and adapt to the circumstances around them • In early 1900's, Insurance became prominent, in the 1960's Risk Management took more of a place at the table, in 2000 ORM evolved a wider remit – this path shows how things have changed over the years • Given where we are today, the next step is to embed a culture that puts risk on the agenda for all decisions. In this context, ORM is overly self-focussed while ERM has the breadth of vision necessary to command a wider remit, including even external risks and opportunities. To date, ORM has failed by taking too narrow a view, were it to evolve into ERM it would gain a wider mandate and add more value. • The main drivers behind the development of ORM have been (a) economic conditions, (b) society and its beliefs (c) shareholders expectations, and (d) regulatory expectations. To be seen as delivering, ORM needed to be smarter.

	• Risk Management in general (ORM in particular) needs to support and create opportunities in an organisation; to do this, ORM needs to change its position. It needed to move from being process driven to forming the effective business partnerships it must leverage to drive its agenda forward. • The evolution into ERM will give ORM senior management line of sight over, and hence the right to act as custodian of the whole risk profile – a bit like the Financial Director is custodian of the balance sheet. In this way ORM will move from 2D to a 3D view of the organisation. • In short OR needs to become 'super sized' to survive.
	<u>Against – 'Operational Risk Management (ORM) should turn into Enterprise Risk Management (ERM) in order to survive'</u> • The argument explored the various definitions of ERM, which were shown to have little in common with each other. • The need for full 'top down and bottom up' processes however was a repeating theme, as was the need for the ERM (or ORM) discipline to have broad scope and coverage. • This emphasised the need for ORM to provide assurance of the broad framework for managing risk within an organisation. Upping the ante, like this, might frighten some Heads of ORM. Providing assurance on a wide remit to senior management can be career-limiting in the case that any view given turns out to be incorrect, but it is essential for ORM to maintain a portfolio view of risk – helping the business to seize opportunities where possible to make more effective use of capital • The argument accepted that ORM is a new discipline, but although it is still immature, ORM has come a long way in a short space of time. • This said, it is sometimes difficult for executives to look across all risk disciplines, and exercise an 'end to end' view. So although ORM has an essential role now it may ultimately have to evolve into ERM – but not yet. • ERM is also new, even newer than ORM. The remit of ERM functions is often a 'fudge' and really only a knee-jerk reaction to senior management's need for more unified reporting. Currently all risk disciplines report in different formats, under different frameworks; trying to view this as a whole is next to impossible. • This is not about ORM changing but more a question of separate disciplines coming together more, becoming more co-ordinated, for example for management reporting or for integrated stress testing. • ORM is young, but its key aim must be to develop consensus around its toolset in order to sell a consistent message of what it is all about – it is, and should continue to be, a specialist discipline, whereas ERM is a generalist discipline. • Across the Financial Services industry ORM practices are starting to converge, and accepted standards of 'good practice' are starting to emerge. • Ultimately if ORM is able to deliver consistent value it will obtain the seat at the 'top table' which it deserves. There was then a wide ranging discussion, the main points made were as follows: • Revisiting the Basel II definition of ORM, looking at how this works for other industries • Understanding the drivers for a specialist ORM function (like Credit, Market and Liquidity risk functions) in Financial Services – accepting that it was the 'size' of these risks that really drove their importance to management. • Acceptance that drivers may be different in other industries, where other risks (Health and Safety etc) may be more prominent again due to the potential size of events (with financial and/or reputational impact). • Acceptance that risk needs to be looked at holistically, hence there is a need for a view across all risks, but this should not be confused with the need for more detailed views below this (by risk category) – a risk pyramid approach. • Risk appetite, although not our subject today was visited under the guise that it is appetite that drives organisational behaviour and this in turn drives the need for information. • ERM originated as consultancy sales gimmick. It was touted as a 'holy grail', and this

	lead to misconceptions about how an 'enterprise view of risk' should unite the various risk disciplines both in specialist functions and within the business. • Risk Systems were mentioned (recognising the danger of the 'cart leading the horse') but there was acceptance that no single risk system could maintain data and report on risk across all categories to the various levels of detail required by the various stakeholders in an organisation. There was also a general acceptance that some risks needed to be managed (and appetite assessed) quantitatively, others were managed better by a more qualitative approach. In summing up, the Chairman noted that a key is that the Senior Management team actually uses the risk information it gets to drive decisions and take action. Risk managers, whether ORM or ERM, are there to enable this level of traction. To be effective, ORM must leverage effective dialogue with the 'top table', securing respect for the discipline, making it clear how it fits into the whole (holistic) view of risk. In gaining the 'licence to operate' ORM gains the right to ask uncomfortable questions of the senior management team, when this is appropriate.
4	**Topics and Speakers** The Chairman again asked for any fresh topics and speakers for 2009, and suggested, to general agreement, that the subject of the next few meetings could be 'risk assessment', divided into manageable chunks. March's topic will be '<u>Inherent risk assessment is more important than Residual risk assessment'</u>. Two members have volunteered to put arguments for and against.
5	**AOB** The Chairman again asked attendees to consider whether the current meeting booking (last Thursday of each month) was still the best going forward. Alternatives will now be considered, although the current time of 17.30 – 19.00 was likely to be preserved.
7	**Next meeting** 26 March 2009, 17.30 – 19.00, RBS offices Waterhouse Square, 138-142 Holborn, London.