ORM in Asia/Europe/Middle East
A cursory comparison

Summary
What is the state of ORM in different geographies? Examining OpRisk practices across Asia, Europe and the Middle East, three things are noteworthy. First of all, the policies, procedures, and methods are all taken from the same (BIS) playbook. Secondly, there are significant differences in the speed of implementation of the day-to-day OpRisk work, and lastly, there is a remarkable similarity in the approach (but not in the attitudes) of the (senior) management. Time for some gross generalisations and sweeping statements.

Dear reader,

Almost everybody believes that practical ORM[1] defies generalisation since it is assumed to be highly dependent on local circumstances. In that view, the peculiarities of an institution's processes, its particular controls and other typical local circumstances are thought to create a unique set of circumstances that call for a tailor-made ORM approach. This newsletter examines that belief using the experience of implementing ORM in a number of banks across Asia, Europe and the Middle East[2].

Practical ORM in three regions

To examine the state of ORM in these institutions, we shall use the recent publication[3] of the sound principles for ORM as a basis. It covers eight areas which should form the basis of any ORM programme. These areas are examined for each region in the table below. The table lists the peculiarities we have come across in each region. Brushing aside all nuances, we also make some equally sweeping statements[4] about what appears to be common practice within each region. Finally, we shall discuss whether this list supports the idea that practical ORM is particular to regions and institutions or whether it is not.

TABLE 1. Range of approaches to practical ORM in three regions

ORM topic	Asia	Europe	Middle East	Common Ground
Involvement of the Board of Directors	From highly involved and almost micro-managing to aloof and very detached. The bank's size and BoD involvement do not appear correlated.	Initially skeptical but interested, now generally verbal support only. Disappointed about AMA and the lack of capital relief.	Indirect involvement only depending on Sr Mgt. OpRisk is appearing the agenda but is not discussed in detail mostly through lack of data.	Focus on business growth and strategy. OpRisk is rarely, if ever, a topic for discussion.

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1 That is to say, the day-to-day ORM work of identifying and assessing risks, setting up and monitoring risk indicators, collecting information about OpRisk events, conducting new product approvals and controlling Business Continuity Management.

2 The sample size is small but diversified. It consists of three large internationally active European banks, four large and two medium sized Asian banks (all domestic) plus one small and one medium sized Middle Eastern bank.

3 See the 2011 updated version of the 2003 Sound Practices paper, now called: Principles for the Sound Management of Operational Risk, Basel Committee on Banking Supervision, June 2011. It can be retrieved at www.bis.org

4 Note that these statements are deliberately blunt. Dissenting opinions are hereby invited.
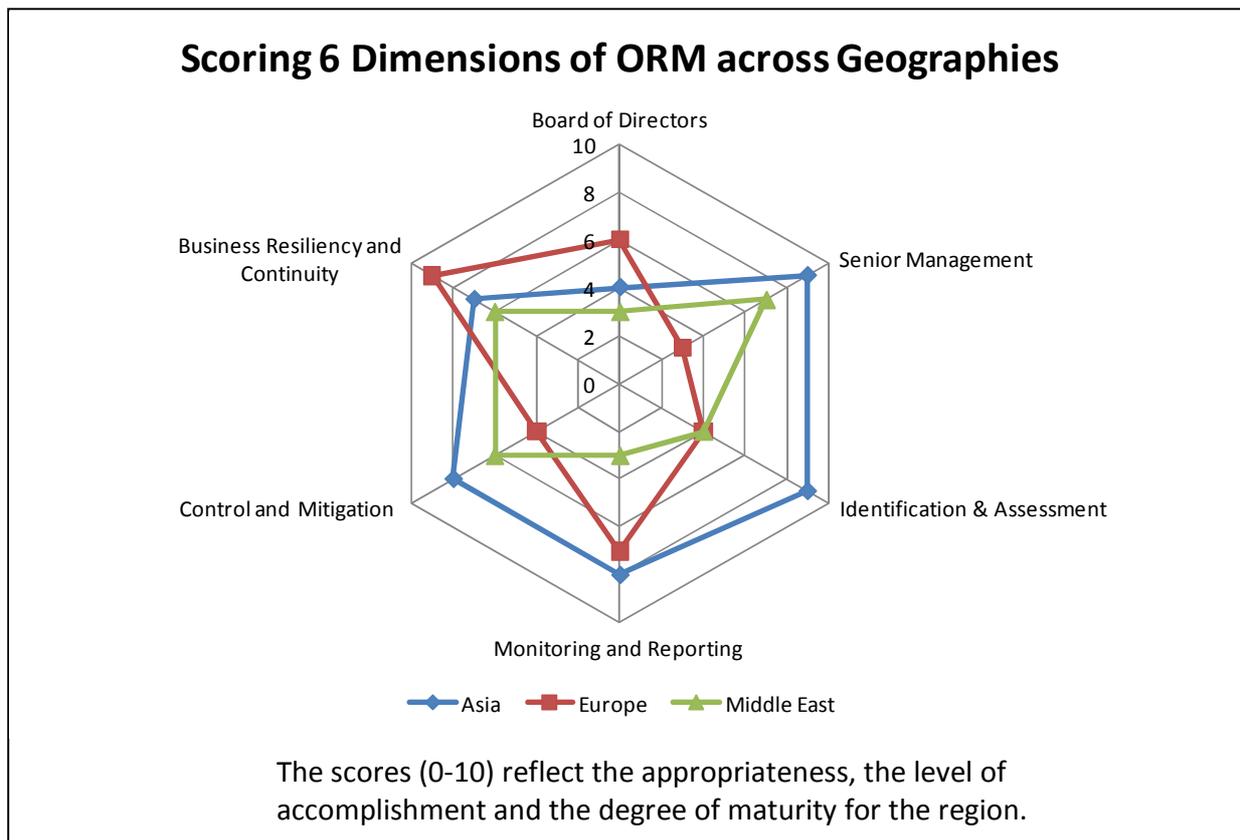

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ORM topic	Asia	Europe	Middle East	Common Ground
Involvement of Senior Mgt	Deep involvement in specific service areas. Much focus on Expansion, Sales and Cost control. Low tolerance for OpRisk events coupled with very limited insight into risks that have not materialized yet.	OpRisk is increasingly treated as a compliance issue. Sr Mgt is reluctant to get involved stating other control functions and duplication of effort. Low expectations of OpRisk.	Sr Management expects to be closely involved in dealing with operational issues. Risk management can capitalise on that if it is made practical. High expectations of OpRisk, especially regarding cost control.	Attention for OpRisk is often events-driven.
Identification and Assessment	Very detailed and comprehensive, irrespective of the likelihood/impact of the risk in question. The "Everything is important" syndrome. Assessments are cumbersome group processes.	A wide range of practices, from individual monthly quantitative assessments to bi-annual qualitative workshops involving various levels of staff. Assessments are also used in performance reviews.	The lists of risks closely follow the Basel II event classification with minimal additions. Assessments reflect the individual manager's opinion. Generally not extensive and short on causal analysis.	Although list of risks forms the basis of all assessments, it is nowhere part of a strict methodology. It is either assumed to be given (Basel II events), or it is created haphazardly or from some other arbitrary list.
Monitoring and Reporting	Well structured reports that include most information and are discussed in detail. Attention for KRIs is growing. Reporting goes up various levels without much consolidation.	Summary reports are standard, focusing on losses and large events. Little attention to KRIs. Higher level reports can be very brief indeed. Some ORM committees meet only once a year.	Reporting focuses on incidents and projects. KRIs are purely local and do not form a major part of the report (if at all). Reports, however, are discussed and are taken very serious.	KRIs hardly appear in reports which are dominated by high profile Events. Actions are not an independent part of the ORM report but rather an afterthought to assessments and events.
Control and Mitigation	ORM is involved in some insurance activities and in some outsourcing decisions.	ORM gets involved in outsourcing issues but not in insurance decisions.	ORM is hardly involved in outsourcing or insurance issues through lack of expertise and low staffing levels.	Between business, audit, compliance, internal control, legal and ORM, ORM has the back seat
Business Resiliency and Continuity	ORM is fully responsible for and involved in BCM activities.	BCM is handled by separate unit and reports separately. Some BIA Exchange	ORM is not directly involved in BCM which is handled largely by IT.	DR is the responsibility of IT with a limited role for ORM

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A subjective ranking

We can rank the regions on each dimension with a score of 0 to 10. A score of 10 implies that the region's treatment of this topic is at the level where it should be according to the Principles for Sound ORM. It does not suggest that no further work needs to be done. Rather, it is a reflection of the effort the business makes, the efforts direction and its maturity level. A score of 10 represents making all the right moves, using the tools appropriately and generally going in the right direction. A score of 0 implies no useful effort at all. In between, the scores reflect that additional attention is required to the ORM effort. This extra attention is not so much in the execution of day-to-day ORM, but rather in the direction the ORM effort.

Scoring 6 Dimensions of ORM across Geographies

The scores (0-10) reflect the appropriateness, the level of accomplishment and the degree of maturity for the region.

Common elements among all banks

Perhaps the most remarkable finding in this overview is that, despite the wide geographic dispersion and the significant differences in size and maturity of the banks involved, there are some common elements. All institutions are dutifully performing their interpretation of risk assessments, control evaluations and loss data gathering garnished with a sprinkling of KRIs, Scenario Analysis and some special courses like BCM and dedicated new product approvals. That

was to be expected. What is more noteworthy is that the Board and Senior management's attitude to ORM are pretty consistent although the level of their involvement differs. The boards are not nearly as involved in operational risk as the latest regulations would have them. This is therefore an area where supervisory review is likely to focus on. Senior management, again across the range of institutions, gets particularly interested once an event has occurred. Attention to risk-prevention is much less common.

Geographical Grouping
Turning to the regional analysis, the similarities within geographical units are much greater than what was expected. In an earlier list, we used a different way to classify banks. We first tried classification by asset size which did not result in meaningful differences at all. Then we tried to set predominantly retail banks opposite predominantly commercial banks. That gave more distinct groups, but with still a lot of heterogeneity within the group and overlaps between groups. Once the grouping was done by geography, however, both the similarities and the differences became far more pronounced. From this limited sample, a rough characterisation suggests itself regarding OpRisk approach and attitude:

Conclusion
Taking a helicopter view, we can discern certain typical European, Asian and Middle Eastern approaches to OpRisk and some common elements. Exaggerating only slightly, the following table sums up our findings:

Region	OpRisk Approach and attitude
Europe	ORM appears to be in retreat, become more abstract and capital focused while steadily losing ground to other control functions.
Asia	Highly structured and detailed approach, sometimes losing the wood for the trees but generally comprehensive.
Middle East	ORM is still struggling to get established and plays minor role so far.
ALL	Reaching the BoD level with ORM issues remains hard. Senior management interest is dominated by recent events.

Although rampant innovation is certainly not a characteristic of ORM, the good news is that many of the initiatives that banks and regulators are developing to manage their risks are pointing in the right direction. Since a lot of effort is still reactive, this may sometimes come across as closing the barn door after the horse has bolted. There is another way to look at it. A Dutch saying has it that *A ship on the beach is a lighthouse to the sea*. As another European bank is tackling with the aftermath of rogue trading, many boards will be asking questions about the bank's operations and it is likely to be the *Principles for the Sound Management of Operational Risk* they will be turning to.