Risk publications

Operational Risk Awards 2016

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Best Risk Analytics Tool
Best Stress Testing Product
Best Overall Product of the Year

THE ANALYTICS BOUTIQUE
Analytics made friendly

Operational Risk Awards 2016

The *Operational Risk* Awards honour excellence in op risk management, regulation and risk management service provision. Firms were invited to submit entries between February and April, with the final winners chosen using a twin-track methodology during May (see box, p2).

As always, this year's awards reflect the ebb and flow of industry trends in op risk. One of those is the Basel Committee on Banking Supervision's decision to propose scrapping the advanced measurement approach – the own-models approach to op risk capital, which effectively allows banks that can model their op risk to hold smaller capital buffers.

Op risk practitioners worry about the adverse impact this could have on banks' future investment in op risk modelling. Going forward, they fear it will lead firms to place less emphasis on modelling and techniques such as scenario analysis.

But this year's Regulator of the Year, the Australian Prudential Regulation Authority (Apra), has always valued op risk modelling and scenario analysis in their own right (see page 10). It is keen to stress their use as tools for improving firms' understanding of op risk, and bringing the views of frontline businesspeople and op risk professionals together. This emphasis on the value of modelling has not gone unheeded by Australia's banks, some of which say they plan to continue investing to better comprehend their op risk exposures.

Other award winners also see the value of op risk modelling, despite the Basel Committee's controversial proposal. This year's Paper of the Year award goes to Riaan de Jongh, Tertius de Wet, Kevin Panman and Helgard Raubenheimer – researchers at South Africa's North-West University and Stellenbosch University – who appear to have found an effective shortcut for approximating op risk capital (see page 12). The technique promises eye-catching benefits, both in terms of time and computing power.

After an explosion of manipulation, mis-selling and rogue trading scandals earlier this decade, many banks have sought to renew their operational risk programmes and move towards a bigger focus on culture and conduct. This year's Bank of the Year, UBS, is a prime example (see page 3).

There, a $2.3 billion rogue trading loss, caused by London-based synthetic equities trader Kweku Adoboli in 2011, presaged a major overhaul of risk and compliance, says James Oates, global head of compliance and operational risk control at UBS in New York. Since then, the bank has reorganised its risk and compliance functions, devised a new firm-wide risk taxonomy, revamped its risk and control assessments, and stepped up its monitoring of employee behaviour and conduct.

While banks have always been relatively adroit when it comes to operational risk management, buy-side institutions have also grown increasingly sophisticated.

For the first time, this year's *Operational Risk* Awards feature the categories of Asset manager of the Year and Insurer of the Year. Both of our winners, New York-based asset manager AllianceBernstein and US-based insurer MassMutual, provide strong examples of op risk management in action across the broader financial services industry. ■

Methodology

The awards were divided into practitioner and vendor categories. Practitioner categories, comprising Bank of the Year, Asset manager of the Year, Insurer of the Year and Regulator of the Year, were judged by a panel of *Risk.net* journalists who undertook extensive due diligence, including follow-up interviews with the companies involved.

Vendor categories, including awards for law firms, consultancies and technology providers, were judged by a carefully selected panel of op risk practitioners and other industry experts.

In all cases, judges considered the extent to which each entrant had demonstrated excellence and met the criteria laid out for the category or categories entered. Judges were allowed to make their final decisions based on all of the information at their disposal and not solely on the details contained in the entry.

The only exception to this twin-track process was the award for Paper of the Year. This award is judged by the editorial board of the *Journal of Operational Risk* and has traditionally been used to recognise an outstanding contribution to the publication each year.

Cover image: Shutterstock/ToskanaINC. Awards ceremony photos: Lucy Stewart

Best Risk Analytics Tool, Best Stress Testing Product, Best Overall Product of the Year

OpCapital Analytics

On March 4, the Basel Committee on Banking Supervision unveiled substantial revisions to the operational risk capital framework, centred around a new Standardised Measurement Approach (SMA), designed to generate risk-sensitive capital levels that are more consistent across banks and jurisdictions.

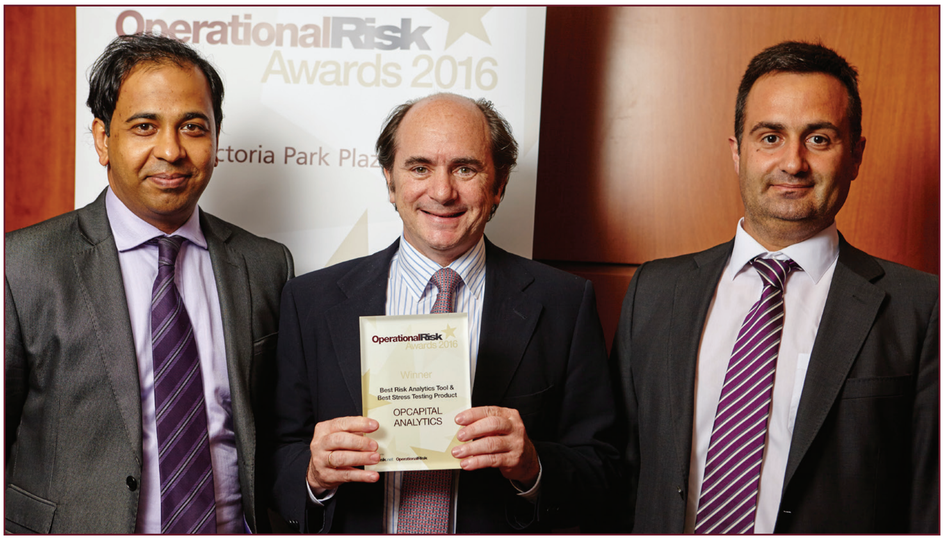
The proposals would remove the internal model-based approach altogether, but banks will still need sophisticated modelling capabilities to calculate their exposures. That's good news for The Analytics Boutique, a niche technology vendor focused on advanced operational risk metrics.

"The SMA itself is a very simple calculation, but it is likely that many supervisors will require banks, under Pillar 2 of the framework, to use advanced risk-sensitive models to clearly identify their largest and most dangerous exposures, so risk mitigation can be directed to those points," says Rafael Cavestany, founder and director of The Analytics Boutique.

A fully owned subsidiary of London-based consulting firm True North Partners, The Analytics Boutique has been operational since early 2012, and its product, OpCapital Analytics, has been implemented at 10 institutions, including banks and insurance companies.

Led by Cavestany and innovation director Daniel Rodriguez, The Analytics Boutique benefits from its links with True North Partners, as many firms will access the consultancy first before tapping the technology.

In one instance, a large global bank needed to build a hybrid operational risk model very quickly using internal and external data and scenario analysis to meet the requirements of its regulator. Using OpCapital Analytics as its modelling tool, the bank was able to complete the project in only eight weeks in mid-2015.



The Analytics Boutique founder Rafael Cavestany (centre) with Vijay Krishnaswany (left) and Daniel Rodriguez (right)

Cavestany estimates that building a model of such a scale and complexity could typically take up to 12 months, but by installing the system in the bank's own IT environment and training its staff to use it, The Analytics Boutique was able to facilitate a much quicker process.

"Many vendors provide a simple analytics tool with limited functionality and it is left up to the client to do all of the coding necessary to build an appropriate model, which can be very time-consuming and prone to errors. Our product is tailored to be more user-friendly, so the institution can really own the analytics process," Cavestany explains.

The removal of internal models from the operational risk capital framework will certainly have an impact on the way OpCapital Analytics is used in the future. But practitioners argue banks will still find value in modelling their op risk exposures – in which case, OpCapital Analytics may continue to be a popular tool. The product is designed to be accessible to non-specialists, and has also been built to meet the requirements of a range of modelling and stress-testing regimes.

"In many banks we find it is only a small group of people with mathematical coding skills that can run the models, which introduces a human dependency that can be a risk if those people leave. Many supervisors require banks to avoid black boxes and make sure models are well understood, so there is clearly a need for more accessible, understandable and transparent solutions in this area," says Cavestany. ■

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