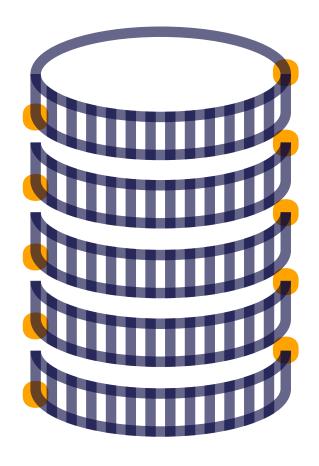# O.R.X

# Operational risk ICAAP governance & coordination

**Practice benchmark summary report: February 2020**

**Managing risk together**

# Op risk Management

This report is the outcome of an ORX practice benchmark. Practice benchmarks help assess the maturity of an institution's operational risk management practices against the industry.  Participating institutions self-assess against each maturity description to receive a customised benchmark report.

# Find out how mature your operational risk ICAAP practice is

Practice benchmarks aren't only available to ORX members. You can get an individual report benchmarking your practice for a small fee, even if you're not currently a member of ORX.

Practice benchmarks help you identify where you excel and where you could improve across different areas of risk management practice.

Take a look at page 4 of this report to see what benchmarks are currently available. Or, contact Roland Kennett to find out more: **roland.kennett@orx.org**

Practice
Benchmarks

# Executive summary

This report summarises key findings of the Internal Capital Adequacy Assessment Process (ICAAP) governance and coordination practice benchmark. Conducted in late 2019, the study examined common industry practice for governing and coordinating the operational risk component of the ICAAP.

Nineteen banks took part and completed a survey which focused on the activities relating to the governance and coordination of ICAAP submissions. Each participant also self-assessed their practices against a 3-level maturity description of the sub areas associated with:

1. Design and process activities

2. Embedding

3. Roles and responsibilities

Overall, participants are moving towards maturity in areas measured. Within each of the three areas, most firms are moving towards maturity, rating themselves between 2 and 3 overall.

However, within these measures we saw there are sub-areas where firms could still strengthen their practice.

## Controls are manual and resource intensive

One of the top areas of challenge relates to resources and the length of time the ICAAP process requires. The key controls that firms have in place around their ICAAP submission are mostly manual – multiple checks with many sets of eyes, involving many layers of review, comparison, and approval.

Participants' operational risk ICAAP processes could benefit from controls best practices and increasing use of systems for processes such as approvals, access and version control. Systems can be used to help manage, review and approve documentation, further improving efficiency.

## Effective challenge shows room for improvement

The typical challenge session requires engaging stakeholders from multiple disciplines to verify various scenarios and actively debate the details of each part of the submission. Sessions may be an hour or many hours, and there may be multiple sessions required, creating scheduling challenges.

Documentation, including justification of rationale, and details of session discussion points, can help provide evidence of the outcomes of challenge sessions. This will help expedite approvals down the line.

## Documentation leads to stronger linkages

The operational risk ICAAP shows linkages to other programmes, although it is mainly through documentation and frameworks. Many firms commented that linkages and engagement into other areas of the business is a challenge for them.

Using stronger documentation to reference other frameworks and risk types, along with embedding practices into BAU would improve the linkage of the operational risk ICAAP back into daily activities.

## Clearer roles for senior leadership and the board

Roles and responsibilities are clearly outlined for those who are required to engage in the activities involved with their ICAAP submission. However, many firms stated they would like to see more engagement from senior leadership and the board. For many firms, engagement is limited to being responsible for the process, while some firms involve leadership in their challenge sessions and validation. Some firms even go as far as involving leadership throughout reporting.

Those looking to deepen engagement may consider documenting and communicating the need for deeper involvement from these areas at the outset of the process and work to engage leadership early on.

## Tying it all together

The ICAAP process is one that is very near maturity for many firms. With stronger documentation, engagement and employment of systems, best practice can be achieved.

# Operational risk practice benchmarks

At ORX, we are working with the industry to develop practice benchmarks to help assess the maturity of an institution's operational risk management practices against the industry.

Over time, this will develop into a holistic set of benchmarks covering all practice areas – it will be the de facto reference point for the maturity of operational risk in the industry.

For each benchmark, ORX develops maturity matrices together with industry practitioners. These address the key components of a specific risk management area. Each maturity description outlines the components at three increasing levels of maturity. The participating institutions self-assess against each maturity description to receive a customised benchmark report.

Although ORX runs the initial development of a new area of practice as a project, the individual benchmark reports can be provided at any time. Please get in touch if you would like to benchmark yourself against another area of practice.

## Recent practice benchmarks

### Operational risk appetite (ORA) – Dec 2017

This study identified the current state of the industry regarding practice, maturity, and the lessons learnt from embedding ORA.

### Outsourcing risk – Jun 2018

This study helped firms understand new risks and operational impacts that have emerged from outsourcing, in addition to enabling a benchmark of practice.

### Control management practices – Aug 2018

This study aimed to identify strengths in control management practices, as well as areas for improvement.

### Risk identification for scenario selection – Dec 2018

This practice benchmark looked at how firms decide which scenarios to run and why.

### Operational risk framework design – Mar 2019

This study enables participants to understand how their operational risk framework compares to others within the industry. Participants can see if their framework is more or less complex than others and whether they are an outlier.

### RCSA practice benchmark – Dec 2019

This practice benchmark enables participants to assess the maturity of their RCSA practice, and see where they could be benefiting more from the process.

### Scenario refresh & triggers practice benchmark – Feb 2020

This practice benchmark covers the scenario refresh and trigger process. Participants are able to benchmark themselves against their peers on a range of practices related to updating scenarios.

## Upcoming practice benchmarks:

- Material risk identification
- Three lines of defence
- Loss data collection

## Compare yourself to the industry with ORX practice benchmarks

All of our practice benchmarks are available for a one-off fee. Participation rates are dependent on the size of your organisation, and start at £2,000.

Contact Roland Kennett to find out more:
**roland.kennett@orx.org**

# Managing risk together

ORX believes many heads are better than one. We're here to bring the best minds of the international operational risk community together.

By pooling our resources, sharing ideas, information and experiences, we can learn how best to manage, understand and measure operational risk and become less vulnerable to losses. We work closely with over 90 member firms to develop a deeper understanding of the discipline and practical tools. We set the agenda, maintain industry standards, and garner fresh insights.

ORX is owned and controlled on an equal basis by its members.

For more information about ORX, visit our website at **www.orx.org**

# Contacts

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