

# Operational Risk & Regulation Awards 2015

Risk.net  
November 2015



Best Regulatory Reporting  
Platform/Service

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## Operating profits

The *Operational Risk* awards honour excellence in operational risk management, regulation and risk management service provision. Reports by Alexander Campbell, Joel Clark, Michael Hegarty, Paige Long, Steve Marlin, Mark Nicholls and Mark Pengelly

As hefty operational risk losses and regulatory fines continue to plague global banks, the practice of op risk management has never been more relevant. One of the biggest sources of fines and embarrassment for the financial sector in recent years has been the Libor scandal. The rigging of benchmark interest rates has cost banks and brokers billions of dollars since 2012, including the winner of this year's bank of the year award. In October 2013, Rabobank admitted that 30 of its employees were involved in the misconduct and agreed to pay more than \$1 billion to European and US regulators. But since then it has picked itself up and embarked on a complete overhaul of its risk management framework.

As part of this exercise, the Dutch bank sought to rationalise its system of risk controls, culling 150 redundant controls in the residential mortgage sales area alone. Perhaps more importantly, it actively engaged frontline staff by harnessing their expertise in the construction of the new risk architecture. "It takes a thief to catch a thief," as Diemer Salome, head of non-financial risk management at Rabobank, puts it (*see page 26*).

Regulators have been and remain extremely busy since the financial crisis. When it comes to combating the evils of money laundering and terrorism financing, no regulator – or group of regulators – has done more than the Financial Action Task Force. The Paris-based intergovernmental organisation, which was set up in 1989, is perhaps most famous for its 40 recommendations on anti-money laundering (AML) and counterterrorism financing (CTF) measures. But in the past year, it has also been particularly proactive on the issue of de-risking, the situation in which banks engage in a generalised retreat from certain client segments or businesses. Although de-risking is not strictly part of the task force's remit, critics see it as a result of onerous AML and CTF measures; and for that reason, we applaud its decision to take up the issue (*see page 28*).

Amid the broader regulatory environment, question marks loom over the continued use of op risk models for capital purposes. But where would the discipline of op risk management be without new research and cutting-edge models constantly pushing things forward? This year's prestigious paper of the year award goes to JD Opdyke for his December 2014 paper that seeks to correct flaws in the estimation of op risk capital using the maximum likelihood estimation technique. Opdyke traces the upward bias to a statistical phenomenon known as Jensen's inequality – a particular problem for op risk capital – and suggests a clever fix (*see page 30*).

Other awards acknowledge vendors and service providers for solutions in op risk management, and financial crime, among others. We hope you enjoy reading more about our winners.



# Best Regulatory Reporting Platform/Service

## Oracle Analytical Applications

Part of the reason regulators are clamping down on global systemically important banks (G-Sibs) is to address a crucial weakness exposed in the financial crisis – the fact that many firms were unable to aggregate their risk exposures to Lehman Brothers and other stricken counterparties at group level and across business lines in a timely manner.

Oracle Financial Services, this year's winner of best regulatory reporting platform or service, is addressing this problem by automating the data management process – from data input to aggregation and reporting – at G-Sibs.

"The crux of the problem that we are trying to solve is that regulatory reporting has become excruciatingly expensive for banks," says Ambreesh Khanna, New York-based product manager for Oracle Financial Services Analytical Applications (OFSAA). "It is difficult for banks to identify all the necessary data requirements. Because the data exists in silos, they don't know who owns the data required to actually create the regulatory reports."

Banks must define a strategy for addressing data gaps identified in the self-assessments they had to undertake in 2013 to comply with the Basel Committee on Banking Supervision's *Principles for effective data aggregation and risk reporting* – also known as BCBS 239 – which will go into effect for G-Sibs in January 2016.

BCBS 239 arose from the fact that regulators were seeing variances in the risk statistics reported by individual banks, such as capital adequacy ratios, liquidity, large exposures, and other risk computations.

"They would see the same statistic being reported differently on

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**"BCBS 239 has caused banks to realise they need a single version of the truth, so they can prove to the regulator how they arrive at these numbers"**

Bhargava Srinivasa, Oracle Analytical Applications

different reports and began calling out banks and essentially asking, 'why are these numbers different? Which one is correct?'" says Bhargava Srinivasa, product manager for data management. "BCBS 239 has caused banks to realise they need a single version of the truth, so they can prove to the regulator how they arrive at these numbers."

The desired end-state for banks, says Khanna, is to be able to double-click on any element of a report that a regulator may ask them about and see the raw data and calculations that were used to create the element. This is necessary "because the regulators are asking for reconciliation between reports, which was not the case before", he says.

"Ideally, they'd like to create some sort of centralised repository from



Ambreesh Khanna, Oracle Analytical Applications

which all regulatory reporting can be done," Khanna says. "That's the business problem we are trying to solve."

OFSAA is essentially a set of applications for enterprise risk management – encompassing governance, risk and compliance, performance management and customer analytics. Most recently, Oracle collaborated with London-based risk and compliance vendor Lombard Risk to create OFSAA Regulatory Reporting, which combines OFSAA Data Foundation with Lombard Risk to automate the regulatory reporting

process. "This is the final step to enable customers not only to be able to bring data into the foundation and perform the computations, but also to be able to do the reporting to regulators," says Khanna.

The Oracle-Lombard Risk collaboration began about a year ago when the two companies worked together to develop a regulatory reporting capability for a mutual customer, a large US bank. "We worked jointly to ensure that what we were building would satisfy the needs of [the customer's] regulator," says Khanna. "They are now successfully doing their reporting for the US Federal Reserve off our platform."

Oracle saw an uptick in customers seeking to invest in risk data aggregation technology as soon as the BCBS 239 regime was finalised in 2013. "[Customers wanted] to bring in data that is required for risk and financial reporting purposes into a single repository, and then put individual applications on top to perform the necessary computations," says Khanna.

BCBS 239 contains 14 principles covering four areas: governance and architecture, risk data aggregation, risk reporting, and supervisory review. Taken together, the principles push banks to clean up the fragmented data standards across their business lines and legal entities that prevent them from achieving a comprehensive view of their risk exposures.

A 2013 review of G-Sibs by the Basel Committee found many banks were struggling to establish strong data aggregation capabilities. Instead they were resorting to extensive manual workarounds, and 10 G-Sibs said they did not expect to fully comply with at least one of the BCBS 239 principles by the January 1, 2016 deadline.

"There are varying degrees of readiness," Khanna says. "Some of them are in decent shape, but most of them are still doing Excel-based compliance for BCBS 239, and they realise that they can only do this to get past the January 1, 2016 hump. Immediately after that they will have to automate the process."

Large banks other than the G-Sibs will also eventually come under the purview of BCBS 239.

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