



Planning for extreme risk scenarios is a top priority for banks worldwide

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- **The industry focuses on scenario analysis to protect themselves from the future, a KPMG / ORX report finds**
- **Over 50 per cent of participating banks are upping their scenario processes**

To better prepare themselves for extreme events, major banks across the globe are taking their operational risk scenario analysis to another level – a KPMG and Operational Riskdata eXchange (‘ORX’) report on leading practice reveals today. **In what is an evolving area, banks have, for the first time, come together from across the globe, to consider this particular area of operational risk and to determine the best way forward.**

Recent years have seen companies, banks and governments rocked by extreme events such as the BP oil spill, volcanic ash cloud and the banking crisis. These events have focused managers on risk management and how best to identify and safeguard against extreme, but plausible, risks. This study by KPMG in conjunction with ORX and its members – who include 40 of the biggest 100 banks – was undertaken at a time when over 50 per cent have made substantial developments to their operational risk scenario processes, or are actively planning to do so.

Jeremy Anderson, Global Chairman of Financial Services at KPMG, said:

“Unsurprisingly, in the wake of the global financial crisis, risk measurement covering critical aspects (such as capital and risk appetite) has been a dominant focus for banks, with scenarios for operational risk management less so. However, as regulatory expectations have continued to shift, the focus is now more on predicting and planning for damaging future events. Top banks across the globe are evolving a proactive process, grounded in scenario planning.”

The report is a culmination of 12 months exploration of operational risk scenarios, bringing together the key findings of ORX member surveys, interviews on practical experience, and in-depth workshops. This work uncovered that whilst there is a diversity of approaches, and banks must use an approach which best fits their size, business model, product portfolio, geography and regulatory environment, a core set of good practice techniques is emerging.

“The process itself – which spurs collective thinking about the what ifs and their implications – stimulates management understanding not only of the risks they face in an uncertain world but how best to respond to them before, or if, they occur,” Jeremy added.

Simon Wills, Executive Director at ORX, commented:

“Scenario analysis is forward looking and capable of comprehending events not yet experienced. The availability of both internal and external operational risk data is critical to the process, but scenario analysis enables management to think beyond the data.”

“This study should be a source of great interest and encouragement to bank leaders and regulators. The fact that operational risk teams are taking a more proactive, holistic and robust approach to how they scenario plan is an extremely positive step.”

Jeremy concluded:

“In a business world where the best prepared invariably come out strongest, scenario analysis is a vital part of the Operational Risk manager toolkit. As techniques evolve and mature with experience, scenario analysis and the value it brings will strengthen, making banks and their executives better prepared than ever before to cope with the unexpected.

“Moreover, these techniques do not work solely for banks or other financial firms. Companies in all industry sectors can employ a full and systematic range of scenario analysis as part of their risk management efforts. Indeed, many are already starting to do so.”

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About the Study

Between September and November 2010, the Operational Riskdata eXchange Association (ORX) and its member banks worked with KPMG to study leading practices in the creation, validation, and use of Operational Risk scenarios. About 40 percent of the top 100 banks around the globe participated in the study, either through surveys, interviews, or attendance at in-depth workshops. The study, itself, was initiated at the request of ORX members following an ORX member survey published in May 2010.

The headline findings document is available at www.kpmg.com. The full report is available to ORX members at www.orx.org.

About KPMG:

KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and operates from 22 offices across the UK with nearly 11,000 partners and staff. The UK firm recorded a turnover of £1.6 billion in the year ended September 2009. KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. We operate in 144 countries and have more than 137,000 professionals working in member firms around the world. The independent member firms of the KPMG network are affiliated with

KPMG. International Cooperative ("KPMG International"), a Swiss entity. KPMG International provides no client services.

About ORX:

The Operational Riskdata eXchange Association (ORX) is the world's leading operational risk loss data consortium for the financial services industry. ORX was founded in 2002 with the primary objective of creating a platform for the secure and anonymised exchange of high-quality operational risk loss data. ORX is a not-for-profit industry association, incorporated in Zurich, Switzerland, owned and managed by its members. ORX has 57 member banks. The Global ORX Loss Database contains approximately 180,000 operational risk losses.