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Basel shines more light on operational risk

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By Justin Pugsley

The Basel Committee for Banking Supervision has published two papers designed to add more clarity to the increasingly important area of operational risk, and which could go on to influence Basel II.

The first paper published by the Committee is the first ever international data-gathering exercise to support its Advanced Measurement Approaches (AMA) methodology, and is designed to harmonise operational risk approaches and loss reporting across borders.

While the paper was similar to two previous ones covering international loss data, it is the first time the Committee has collected information globally on internal and external loss data, scenario analysis and business environment and internal control factors (BEICFs). These are the four datasets that make up AMA.

The exercise involved 121 banks from 17 countries and the work is designed to make it easier to compare losses among banks across the world.

"The management and measurement of the evolving field of operational risk has made significant progress as firms continue their implementation and learn from experience in developing and modelling techniques," said **Nout Wellink**, chairman of the Basel Committee and president of the Netherlands Bank.

He explained that the papers would help supervisors and banks to benchmark losses more effectively at national and regional level as well as internationally. The research would also assist with assessing capital levels using internal data and enhance scenario analysis.

The second paper, which looked at Range of Practice, was an update of a 2006 report on the same subject. It describes governance, data and modelling challenges observed by BCBS members.

The paper reflects the latest approaches by banks towards addressing internal governance issues, data collection, modelling challenges and risk management and measurement practices.

"Clearly the current study will help to drive the discussion for the next formulation of Basel II or Basel III, and it is very notable that operational risk has advanced so quickly since its measurement became a regulatory requirement," said **Chris Marrison**, chief executive of credit risk management specialist **Risk Integrated**.

"However, given the market's current stresses, the limited capacity of risk staff in banks, and the political wavering over Basel II versus Basel I, we should not expect these new findings to drive new formal policies in the near future," he cautioned.