



Helping financial institutions reach new heights in their operational risk management

# Developing pandemic scenarios

ORX, May 2020



# Who is ORX?

- ✓ The largest operational risk association in the financial services sector
- ✓ Committed to improving the management and measurement of operational risk
- ✓ We do this through research, data and the sharing of ideas, information and experience
- ✓ An ever-expanding global community of operational risk professionals that shares knowledge, expertise and experience
- ✓ Owned and managed by over 100 financial firms from all over the world



## Values:

We are trusted



We explore new ideas



We make progress together



We get things done

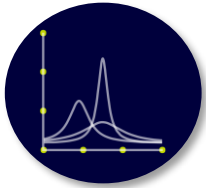




**Industry-leading scenario library**, containing over 1,000 quality scenarios from the leading financial services firms globally



**Scenario development handbooks** – a roadmap for creating and quantifying scenarios for specific risks, such as cyber and pandemics



**Scenario practice benchmark studies**, helping you to enhance your internal practices



**Risk intelligence packs** – ready-made packs of external information to support scenario development



**Global scenario practitioner network**, including free invitation-only events and working groups

## Find out more about ORX Scenarios

Visit [www.orx.org](http://www.orx.org) for more information on ORX Scenarios and how the service can support practice at your financial institution.

# Meet the experts from ORX



## **Steve Bishop, Head of Risk Information & Insurance, (facilitator)**

Steve leads all risk information activity at ORX. He oversees the loss data standards and services, ORX Scenarios, the cyber programme, as well as leading projects such as ORX's work on risk taxonomies. Steve also leads the ORX Insurance Service.

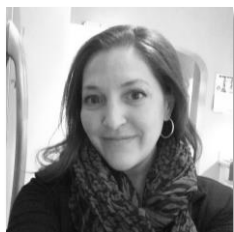
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## **Giuseppe Aloï, ORX Scenarios Manager (panellist)**

Giuseppe manages ORX Scenarios, overseeing the service and chairing discussions on scenarios and key non-financial risks. He is also involved in many other ORX initiatives.

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## **Sarah Reed, Research Manager (panellist)**

Sarah manages the ORX stress testing programme, including CCAR, EU-wide and ICAAP. She has extensive experience in the financial sector, and previously developed and managed a scenario programme.

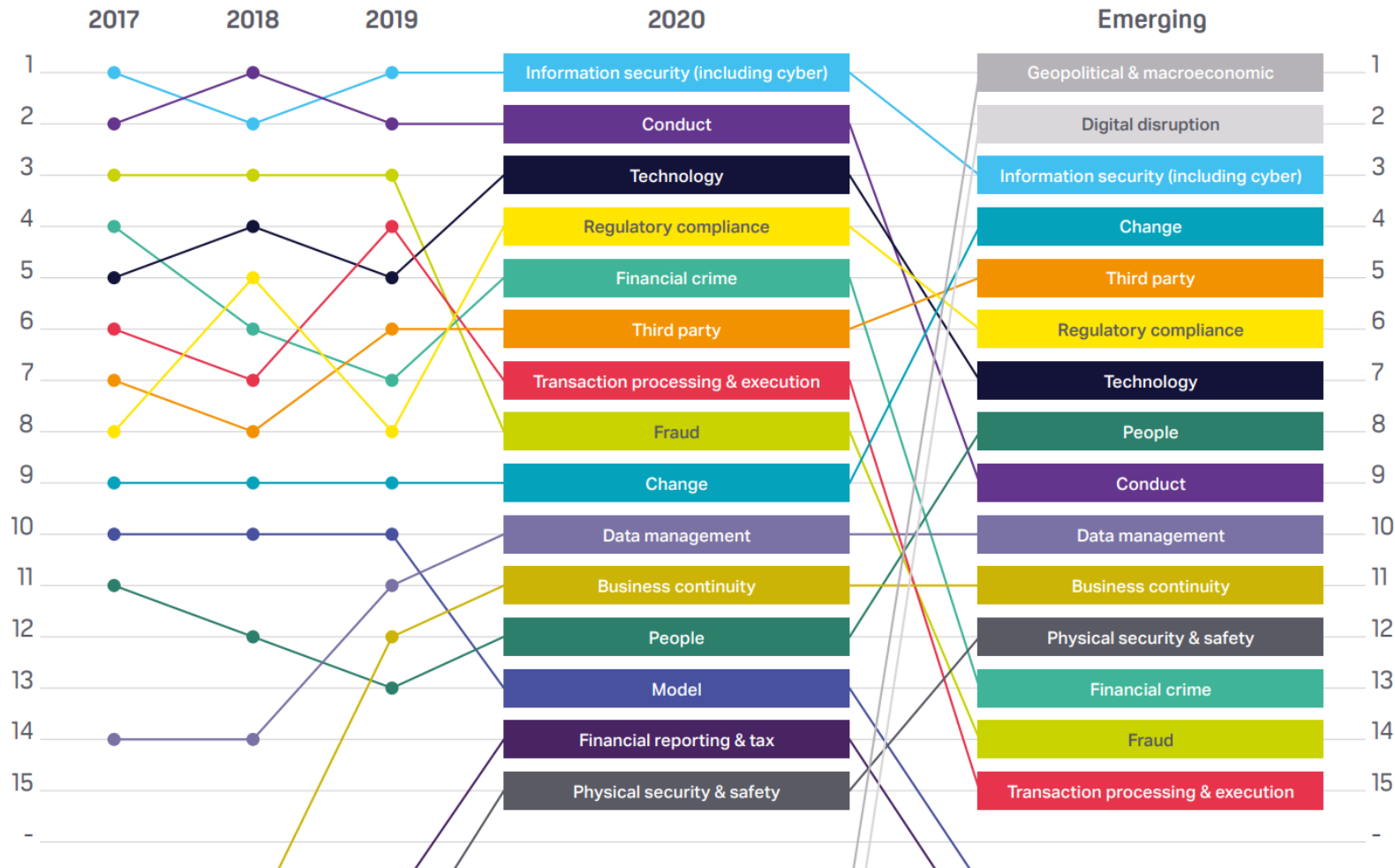
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## **Lily Loneragan, Assistant Research Manager (panellist)**

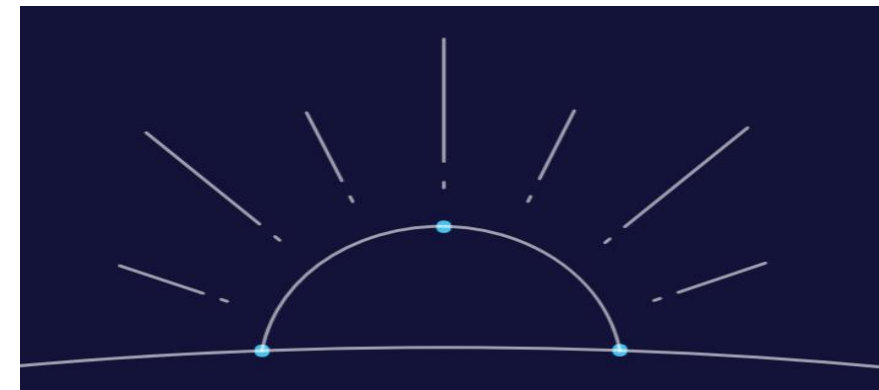
Lily leads the creation of risk intelligence packs to support scenario assessments. She also supports the analysis done on the ORX Scenarios library and helps chair discussions with the ORX Scenarios community.

# Pandemic risk not on the radar for financial firms in 2020



The Operational Risk Horizon report shows the outcome of an ORX research study focusing on which material risks our members feel will be the top and emerging risks for 2020.

source: ORX Operational Risk Horizon (2020)



# Only a few pandemic scenarios appear in the ORX Scenarios library

2017

2018

2019

1.	Processing errors (70)	Improper business practice (110)	Improper business practice (119)
2.	Improper business practices (63)	Processing errors (102)	Processing errors (113)
3.	3 <sup>rd</sup> party fraud (31)	Cyber-related fraud (58)	Cyber-related fraud (76)
4.	Corporate mis-selling (29)	Retail mis-selling (51)	1 <sup>st</sup> party fraud (56)
5.	Rogue trading (25)	3 <sup>rd</sup> party fraud (47)	Vendor failures (55)
6.	Cyber-related fraud (24)	1 <sup>st</sup> party fraud (46)	Retail mis-selling (53)
7.	1 <sup>st</sup> party fraud (24)	Vendor failures (40)	3 <sup>rd</sup> party fraud (48)
8.	Retail mis-selling (24)	Cyber-related business disruption (39)	Cyber-related business disruption (46)
9.	Cyber-related business disruption (22)	Payment systems failures (33)	Unfair treatment of staff (40)
10.	Critical infrastructure failures (21)	Corporate mis-selling (31)	AML Failures (34)
...			
28.	External reporting failures (7) and pandemic (7)	Bribery and corruption (9) and pandemic (9)	Bribery and corruption (10)
29.			Pandemic (9)
30.	Bribery and corruption (5)	External reporting failures (7)	External reporting failures (8)

The ORX Scenarios library covers top current concerns for financial institutions. This table shows the frequency of each scenario type in the library.

*“Contemporary loss events drive scenario creation”.*

source Insight into material risks (2019)



# Key elements of a pandemic scenario description



Control failures



Firm specific actions



Government measures



Third party/supply chain implications

*“The scenario description presents a simple baseline from which to commence the scenario discussion, providing clear-cut context that helps participants understand that drives the scenario. In the scenario workshops, the participants will then refine the narrative as they consider causal factors, controls, available mitigants, and the frequency and severity of potential outcomes”*

source: ORX Leading Practice for Operational Risk scenarios (2011)



# Impacts and risk drivers linked to pandemics

## Direct impacts



- Unplanned IT investment
- HR costs
- Sanitisation costs
- Legal costs

## Other impacts



- Business disruption
- Processing errors
- Conduct risk
- External fraud and cyber fraud

## Risk drivers



Staff availability



IT infrastructure capacity



Third party availability



Severity of government measures

*"Impacts deriving from pandemic risk appear to be wide ranging and often link to the length of the event. They range from the initial business disruption, risks from operating in a different way, to longer-term impacts, such as people, as well as secondary risks such as increases in fraud, cyber and conduct."*

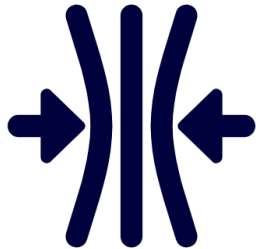
source: ORX Scenarios Pandemic Discussion - key takeaways (2020)



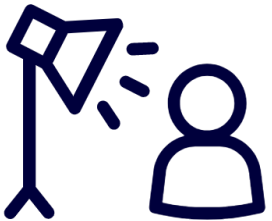
# Changes coronavirus is bringing to scenario practice



Re-writing the assumptions of pandemic scenarios



Re-visiting stressed scenarios



Shining a spotlight on scenario analysis



## Next steps for ORX

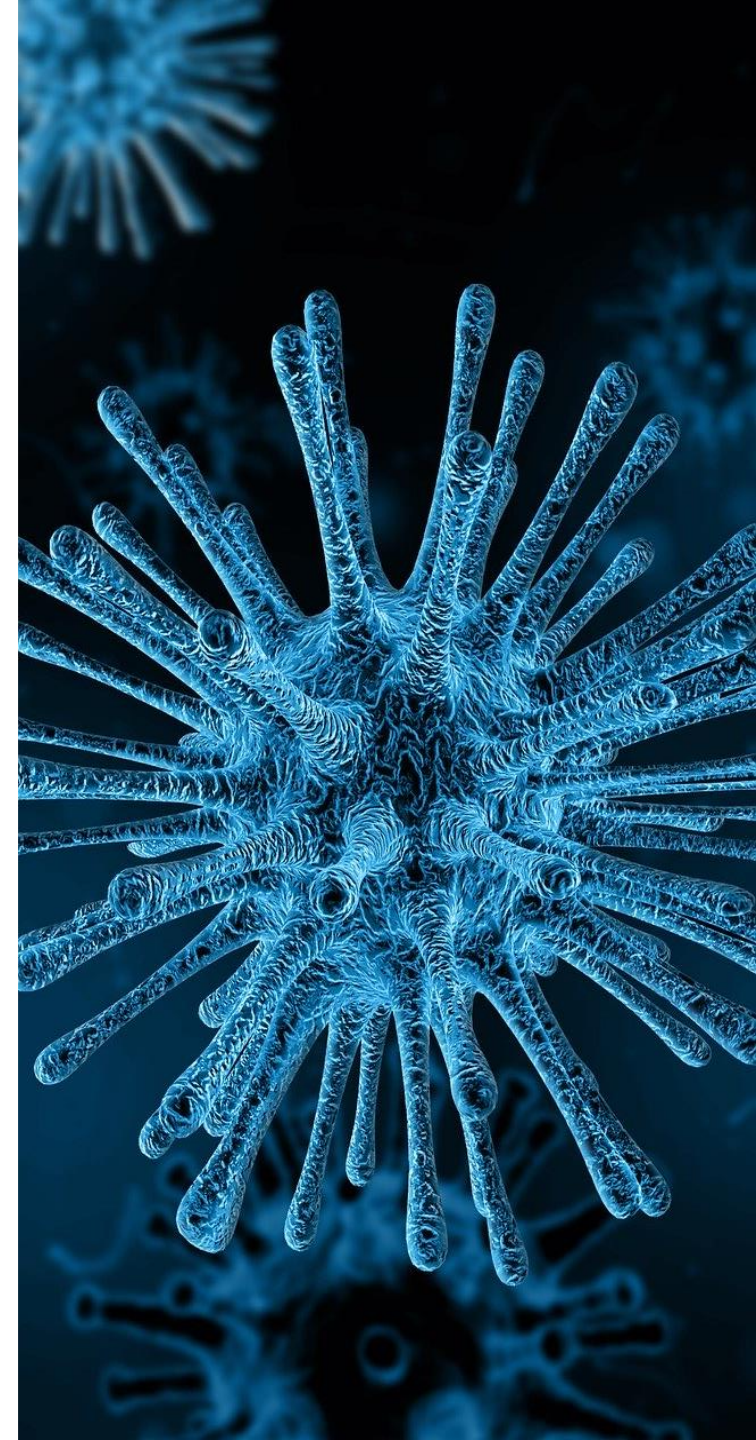
- ✓ Based on conversations with scenario subscribers, ORX will produce a Scenario Development Handbook on pandemics by the end of May
- ✓ In addition, a stereotypical scenario on pandemics will be distributed to all ORX Scenarios subscribers and to all ORX members

# More coronavirus resources from ORX

You can find lots of resources on our website, including:

- [Summaries of discussions with our member firms](#)
- [Regular coronavirus & operational risk news round-up](#)
- [Guidance on capturing losses due to coronavirus](#)

Visit our website for more:  
[www.orx.org](http://www.orx.org)



# O.R.X

## Thank you

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