

AIG Operational Risk - 2008 LDCE

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The Operational Risk Subgroup of the Accord Implementation Group (AIGOR) has initiated a comprehensive Loss Data Collection Exercise (LDCE). The exercise follows other similar exercises sponsored by the Basel Committee and individual member countries over the last 5 years. The 2008 LDCE will be a significant step in the Basel Committee's efforts to address Basel II implementation and post-implementation issues more consistently across member jurisdictions. While similar to two previous international LDCEs, which focused on internal loss data, this LDCE is the first international effort to collect information on all four operational risk data elements – internal data, external data, scenario analysis, and business environment and internal control factors (BEICFs) – used in an Advanced Measurement Approach (AMA).

Participation in the LDCE is voluntary and open to both bank organisations that are adopting an Advanced Measurement Approach (AMA) to measure and manage operational risk, as well as those that are considering moving to an AMA, but are currently using the Basic Indicator or Standardized Approaches. There are approximately 120 institutions participating in the exercise. A public report summarizing the results of the exercise will be distributed early in 2009. Shortly thereafter, national supervisors will provide customized reports to their participating organisations that will allow them to benchmark their own progress and practices against international and regional benchmarks.

The objective of the exercise is to further the understanding of both supervisors and participating banking institutions regarding outstanding operational risk implementation issues, as well as to promote consistency in addressing these issues across jurisdictions. The exercise will facilitate comparative analysis across jurisdictions by benchmarking losses at the national/regional and international levels, and will provide data to assess capital levels relative to internal data and scenario analysis. Collecting data on the four elements of the AMA framework will provide benefits to participating banking institutions and national supervisors including:

1. A greater perspective on the banking industry's loss exposure;
2. Insight into how banking institutions are using internal and external loss data, scenarios and BEICFs for risk measurement and risk management;
3. Information on the four data elements and their influence on operational risk capital levels; and
4. Updated range of practice and new cross-bank comparisons.

Participating institutions will receive customised analysis comparing their data with industry data at both the international, and when possible, regional/national levels. Participating banks and supervisors can use this data to benchmark an institution's loss experience relative to its peers and to gain a better understanding of the completeness of the institutions operational risk data. In addition, participating institutions will receive updated range of practice (ROP) information on scenario analysis, external data and BEICFs. This ROP information can be used by participating institutions to assess and benchmark their practices against industry practices.