

## Benchmarking Service



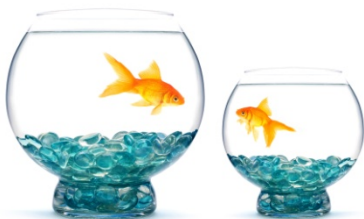
It's one thing for senior managers to review reports of internal exposures, performance metrics, risk metrics, loss information and a wide range of assessments – it is a very different matter to interpret that same data in a meaningful manner which tells management something about what is actually happening. For example, the firm could have an annualised staff turnover for the past five years of around 5% - occasionally higher and occasionally lower. Is this good, bad or indifferent? The only meaningful way of knowing is for the firm to be able to compare its data against its peers in the market – if the peer group have an average annualised staff turnover of 3.5%, then the firm is actually worse off comparatively. And the same applies to all forms of risk-related data – having the possibility to compare oneself to a peer group or even just to the market at large gives management the ability to apply context to the firm's current exposures.

Most firms implicitly engage in some form or other of benchmarking without even being aware of doing so – a new staff member is quizzed as to how their previous employer did things or how things were back there, managers scan trade press and the news for mentions of what peers or competitors are doing, conferences are used to try to determine whether the firm is in line or not with the market, etc. From an operational risk perspective, an additional form of benchmarking occurs whenever the firm finds an interesting case study and asks itself "could that happen here?". Firms are also increasingly participating in loss data pooling through a consortium, which is another form of benchmarking.

Given that operational risk management is at best an art form seeking to measure largely unquantifiable exposures, the ability to compare data in a controlled, standardised and equal manner is a crucial management tool, but in order to maximise the benefit from benchmarking, participants need to agree a common specification of what it is they will benchmark, how they will each measure the exposure internally and how the comparisons will be performed. Questions will often be raised when using benchmark data as to how the firm can be sure that the "peer group" to which it is being compared is actually its peers, implying that a degree of management over participation is also required.

Not everyone within the firm will always be too happy to see the firm benchmarked – with the obvious exceptions of managers who are not performing very well, compliance and oversight management often raise questions as to data confidentiality and the supposed risks of the firm's data being exposed in the market. However, a properly constituted and well-managed data comparison process with a neutral facilitator reduces any risk of disclosure significantly, giving the firm the opportunity to share data in a meaningful manner and to use the benchmarks as a comparative yardstick for its own internal performance, exposure and success, while providing management with that all-important comparative context without which management really cannot function.

In order to assist peer groups benchmark various forms of operational risk related data, RiskBusiness has developed its Benchmarking Service, a *risk information service* which allows a facilitator to create and maintain specific peer groups of firms which will undertake data benchmarking in a controlled manner. With a range of tools to support the facilitator, ranging from data submission scheduling to data quality management, issue and exception management and benchmark publication, supported by tools to allow for data submission and maintenance by participants and for comparative reporting on benchmark values, the Benchmarking Service is a proven solution to any peer group's needs. The facilitator acts as the central controlling authority and manages the specification and rules as to what is being compared by the peer group.



The RiskBusiness Benchmarking Service was first deployed for the controlled benchmarking of *key risk indicators*, where it has been used over time to benchmark e-crime information, business continuity information and general risk exposure information. In addition to having the capability to benchmark risk, performance and/or control effectiveness metrics, the Benchmarking Service is also in use for the controlled comparison of *scenario assessment* data, such as frequency, severity and likelihood and can be used for the comparison of regulatory and/or economic *capital* and capital reserves information.

Subject to agreement amongst the peer group and with the facilitator, the Benchmarking Service supports a number of methods for data to be collected, including application-to-application file transfer, uploading predefined and pre-completed spreadsheets or direct, online data entry. A variety of audit trail and authorisation tools are provided to allow internal compliance management over data submission.

Once the facilitator deems all submissions to have successfully been received, the benchmarks are automatically calculated and the facilitator provided with an option to review before publishing the benchmarks back to the participants. All benchmarks are available to authorised users within the participating firms online, both in "raw" tabular format, as well as through a variety of analytical reports, including graphical depictions of the results. Printing and download facilities are supported.

The Benchmarking Service can also be employed internally within a firm to undertake anonymous comparative benchmarking of different business entities, different products, different cost centres, different locations, different management teams, etc. In this manner, the corporate centre typically acts as the facilitator, controlling the definition and specification of whatever is being benchmarked.

For more information on the Benchmarking Service, please contact RiskBusiness Services Limited through our website [www.RiskBusiness.com](http://www.RiskBusiness.com) or email us at [info@RiskBusiness.com](mailto:info@RiskBusiness.com).



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