

In order to increase the risk sensitivity of the Standardized Measurement Approach and to better capture the risk profile of a financial institution, it might make sense to include a specific indicator, or a risk coefficient based on loss event categories. This will ensure that the operational risk capital model and the associated capital calculation process takes into account not only the amount of total gross loss of a financial institution, but the nature of the losses as well. For example, if an organization is more prone to losses arising from internal fraud as opposed to some of the other loss event categories, this may point to the fact that the financial institution is riskier compared to its peers and lacks adequate internal controls. Large-scale internal fraud can also hamper an organization's ability to recover from the event. Therefore, it does not make sense to lump/aggregate losses from different loss categories and come up with a uniform capital requirement for two financial institutions with the same amount of total gross loss, when the nature of the operational losses differs between the two organizations and may not reflect the actual (true) risk profile of the financial institution. In addition, the Standardized Measurement Approach might also want to take into consideration the overall economic environment in which the financial institution operates. Operational loss statistics point to an increase in operational losses such as internal and external fraud when coupled with macroeconomic indicators such as currency depreciation.

When it comes to making use of the external operational loss database, omitting the external loss database from the capital calculation process completely could prove to be disadvantageous. This is due to the fact that a single organization's loss database within a particular geographic region may not fully (or even adequately) capture the risks that the organization is exposed to. The existence of a reliable and accurate external loss database can greatly enhance the risk modelling capability of a financial institution. This is especially true if an organization has just entered a new market/geographic region and is not aware of the general nature and type of operational losses that exist within a particular region. Furthermore, if the internal operational loss database lacks depth or is insufficiently developed, having an external loss database offers the added advantage of providing greater breadth and depth to an otherwise imperfect internal loss database.