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Dear Basel Committee Members,

**Basel Committee on Banking Supervision consultative document:
Standardised Measurement Approach for operational risk**

ORIC International is an operational risk consortium for the (re)insurance and asset management sector. We are an industry body representing over 40 member firms who collaborate to further advance operational risk management and measurement.

We appreciate the opportunity to respond to the committee's consultation on the revised Standardised Measurement Approach ("SMA") for operational risk and the committee's goals of revising the approaches to create an appropriate balance between simplicity, comparability and risk sensitivity.

Our response focusses on:

- the exclusion of insurance as a recognised risk mitigant from the consultation
- the loss data collection implications of the proposed approach

ORIC International support the use of models to calculate regulatory capital. However, we recognise that the revised SMA is an improvement on the Standardised Approach.

We welcomed the committee's incentives for firms to improve the quality of their risk management processes in the 2010 BCBS paper 'Recognising the risk mitigating impact of insurance in operational risk modelling'.

These incentives drove innovation and collaboration in the insurance, banking and consulting industries, resulting in more risk sensitive methodologies for risk measurement and more sophisticated and responsive insurance solutions. The industry has developed a substantial body of knowledge and expertise in this area and the removal of these incentives under the proposed approach could potentially undermine further development and risk management practices.

The underwriting process of a bank's risk profile drives innovation in risk management and better underwriting decisions. Banks are encouraged to better understand and evidence their risk profiles, informed through increased disclosures and due diligence.

In order for material insurance coverage to be provided that satisfies the underwriting process, firms must evidence sophisticated risk management programmes, including robust loss data collection to insurers. The insurance industry thereby act as additional validation by an independent third party for regulators to review and challenge evolving risk management practices, in line with supervisory guidelines.

The successful transfer of risk from the banking sector to qualifying insurers assists in mitigation of capital volatility caused by extreme operational risk losses to another well regulated industry.

Without insurance recognised as a risk transfer mechanism, there is reduced assurance of loss reporting from the underwriting process.

The incorporation of loss data in internal capital modelling practices has facilitated improved loss data identification and reporting. We welcome the committee's further guidance loss data identification, collection and treatment, however, there are areas of the proposed loss component calculation that may also create a disincentive to report losses accurately.

We note the inconsistent treatment of risk transfer between operational risk and other risks, such as credit risk. There may be a disincentive to document operational risk aspects of boundary events, i.e. reporting of losses will further be influenced by the impact on regulatory capital.

The cliff effects created by the €10m and €100m loss thresholds, may lead to the underreporting of additional but disputable associated loss event amounts.

We welcome the increase in observation period for loss history, but 10 years could be excessive without weighting factors for exited business lines or geographies. A firm's previous 10 years of loss history is not reflective of its current risk profile and may not be sufficiently risk sensitive.

The revised approach focusses on the business indicator and internal loss data component which could be interpreted as a backward looking approach to risk management. In the absence of further guidance on Pillar II, we are concerned about the future role of risk management. External loss data and scenario analysis do not feature in the proposed approach, but should remain a key input to understanding potential future losses and emerging risks. The internal credibility of the risk management function will diminished, if they are not able to influence capital levels.

In conclusion, we propose an adjustment for insurance to be included in the revised approach as risk transfer has a specific role to play in Pillar 1. We would welcome further guidance on the role of forward looking elements of the operational risk framework and the encouragement of robust loss data collection to further enhance risk management and measurement.

Yours Sincerely



Caroline Coombe
CEO, ORIC International