ORIC INTERNATIONAL

Powering risk intelligence

FEBRUARY 2022

NEWSLETTER

AT A GLANCE...

CONNECTING GEOPOLITICAL RISKS TO 'BUSINESS AS USUAL'

The banner of geopolitical risk covers situations where there is a disruption in the normal state of affairs between countries on political, economic, military and ideological levels. But, far from being the sole purview of governments, these risks also matter for the private sector.

While such risks can seem far removed from the day-to-day running of a business, their impact on markets, productivity and economic output should not be underestimated – especially in terms of their influence on strategic decision-making, operations and investments

Political instability

Alongside escalating border tensions in several regions, the looming threats of increased religious and political extremism also contribute to the risk of business disruption – particularly in the surrounding territories.

In the specific case of the Russia-Ukraine conflict, diplomatic escalations have the potential for far-reaching effects on the supply of energy and commodities across the EU, inflation across global financial markets, and on the displacement of workers. These factors add further pressures to financial markets already recovering from the global pandemic.

As we explored in our 'Emerging risk themes for 2022' article (ORIC newsletter, January 2022), technology can play a significant role in upending traditional politics. The rise of populist leaders who tap into voter dissatisfaction – fuelled by social media platforms – has led to protectionist economic policies that promote international tensions. The same platforms have also helped mobilise various sociopolitical movements, resulting in a spotlight on corporate social responsibility policies and inadvertent risks to brand reputation.

Since data, technology and automation continue to develop as essential resources for economic and political competitiveness across the globe, organisations should prepare for intensified regulatory scrutiny and stay vigilant against increased risks around cyber security, especially in cross-border data transfers.

Sanctions and PEPs

Financial sanction regimes play an important role in delivering government foreign policy objectives, and failure to comply with these obligations can carry serious consequences. As geopolitical events unfold, financial service firms need effective sanctions systems, processes or controls in place, otherwise they run the risk of transacting business with individuals, organisations or countries appearing on the 'EU/other global sanctions, embargoes or bans' lists. However, it is not just sanctions compliance that firms must consider, as politically exposed persons (PEPs), bribery and corruption, and anti-money laundering requirements are all impacted as geopolitical risks evolve and the controls in place become increasingly complex.

Our changing climate

Finally, while the specific outcomes of COP26 in November 2021 are yet to be realised, the risk remains that some of the proposed climate measures discussed at the summit could add to existing geopolitical friction. Changing climate patterns could drive water and resource shortages, fuelling conflict and the potential displacement of millions of people. Furthermore, without a coordinated approach to diversifying economic models in support of clean energy infrastructure, countries with economies centred on fossil fuels could descend into economic and political instability.

In summary, geopolitical emerging risks can feel disconnected from an organisation's day-to-day activities; but, in view of the emerging risk universe as a whole, business leaders must explore these risks and how they may affect their own business strategies, operational practices and resilience.

ICARA IMPLEMENTATION

On 23 February 2022, over 20 member firms and interested parties attended the ORIC investment firm forum to discuss the implementation of the new ICARA regime. With guest speakers from Deloitte and Aviva Investors, the session covered the challenges which firms face in applying the new rules, which came into effect in January 2022.

Industry experts emphasised that the new regime is not designed to increase or decrease regulatory fund requirements. There is a clear focus on harm mitigation, where firms should demonstrate that they are not causing undue harm whilst carrying out their business activities.

The level of compliance with certain rules that will apply to a firm within the scope of the Investment Firms Prudential Regime (IFPR) will be determined by whether the firm is either a small and non-interconnected investment firm (SNI) or a non-SNI firm. Below is a synopsis of the concerns discussed:

- Firms are having to revisit and carry out a detailed analysis of their risk registers, risk taxonomy and risk assessment methodologies. The next step is to understand and document how these risks translate into potential harms to the firm, client and market. It has been noted that this exercise is taking longer than anticipated.
- Harms should be linked to the K-factors activities relevant to the firm's business models and regulated activities. The difficulty is in capturing and bringing together all the potential sources of harm, including the impacts that could arise, and aligning them under the appropriate K-factors. There are concerns that the K-factors categories weren't designed to capture every risk. Such risk exposures should be captured in the other category classifications.
- How to allocate the output from a firm's existing operational risk capital model without losing diversification benefits was a concern raised by participants. Most capital models would use a combination of scenarios and data; however, firms are now required to break down risk exposures into the k-factor categories and consider whether they are appropriate.
- Under IFPR, the Financial Conduct Authority (FCA) has introduced mandatory indicators, which is expected to be integrated into the firm's own risk appetite framework. Firms that do not have quantified risk appetite statements must create a basic structure to enable this integration. Many firms' risk appetite frameworks are not as advanced as previously thought.
- Where the capital adequacy exercise was previously carried out at group level, firms are finding that they are now required to effect the ICARA at solo level. Consideration should be given to relevant adjustments to MI and governance.

The points raised illustrate some of the challenges currently being managed at firm level. The investment firm forum meets quarterly and holds clinics to discuss the new ICARA regime best practice through the implementation stages. To get involved, please contact: **enquiries@oricinternational.com**

REGULATORY HORIZON SCAN REPORT

Regulatory change was identified as a key concern for most firms in our recent emerging risk study.

Over the past few years, there has been a wealth of regulatory change that has impacted on non-financial risk within ORIC member firms. The report highlights that there was a bumper crop of proposed changes to regulations in late 2021/early 2022 that could impact our members – 26 key changes alone. Key regulatory trends that can be observed are detailed within the report.

To support our members, we have introduced this new quarterly report which provides an overview of key regulatory changes that impact non-financial risks. If you haven't received the report, or wish to add colleagues to the distribution list, please contact us at: **enquiries@oricinternational.com.**

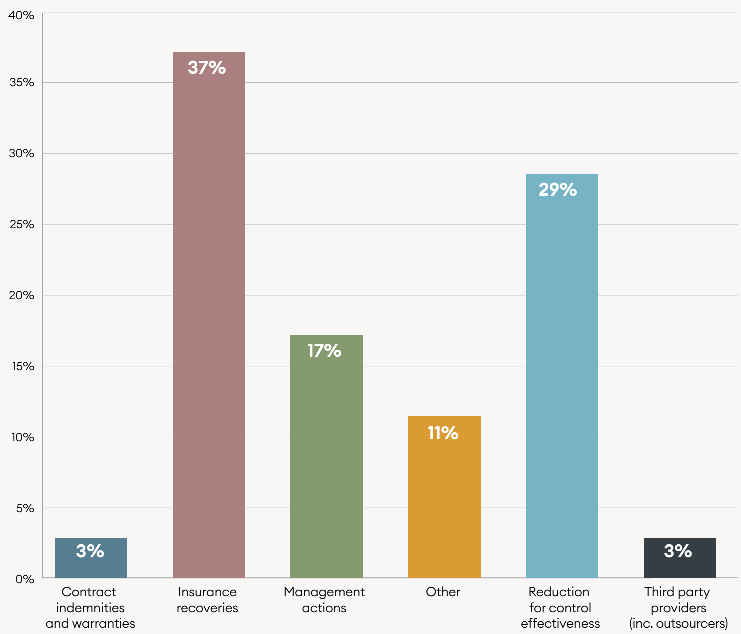
CAPITAL BENCHMARK 2022

ORIC International endeavour to inform and provide insights that would otherwise prove difficult to obtain without the collaborative approach of the membership.

Over the past few weeks, the team at ORIC have been reviewing and collating the data to provide meaningful, worthwhile insights for the responses provided for the capital benchmark survey. Whilst work continues to further interrogate and fully understand the data provided, we thought it would be insightful to replay a couple of snippets of data that have already led us ask some further questions.

As part of the survey, it was identified that in excess of one third of the respondents use insurance recoveries as a risk-mitigating factor when calculating their residual (net) risk in their methodology. Since last year's survey, cyber insurance has shifted from being the most common response to equally sharing first place with business interruption. This can be assumed to result from COVID-19 and the various measures that firms have had to undertake and implement during this period. That said, there is a difference between insurance and investment firms which still consider cyber crime as the most mitigating policy when calculating their residual risk.

When calculating residual (net) risk, which of the following risk mitigation factors are used in your methodology?



TOP FIVE PUBLIC NEWSFLASHES

JAN 2022

ORIC's newsflash service captures information on risk events in the public domain. In January,138 (re)insurance and investment firm risk events were added to the newsflash service, with a combined value of £6.1bn.

No.	Firms impacted	Risk event summary	Amount (GBP)	Business line	L1 risk category
1	Woodbridge Group of Companies LLC; iAlt Enhanced Income Portfolio LLC; U.S. Securities and Exchange Commission (SEC)	**SEC bars ex-Woodbridge Associate Acevedo from securities industry** The Securities and Exchange Commission barred Ivan Acevedo, a former sales manager at Woodbridge Group of Companies, from the securities industry. Acevedo, along with co-defendant and fellow Los Angeles resident Dane Roseman, pleaded guilty to participation in what prosecutors in Miami said was a $1.3 billion Ponzi scheme that caused more than 7,000 people to suffer financial losses, many of them elderly clients. Acevedo, Roseman and Woodbridge's owner, Robert H. Shapiro, were arrested in April 2019.	**994m**	Asset management	Internal fraud
2	Milliman Inc	**Milliman accused of failing to prune bad investments from 401(k)** A lawsuit alleges that the poor performance of a suite of target-risk funds resulted in a nearly $250 million loss to participant accounts. The proposed class action lawsuit accuses the defendants of failing to prudently monitor the plan's investments and failing to remove three of the plan's "poorly performing investment options". According to the complaint, when the investment committee decided to add a suite of target-risk funds to the plan's investment menu in 2013, the funds had only been launched two months prior, had no track record and were untested. The lawsuit claims that the defendants' failure to act has resulted in a nearly one-quarter-billion-dollar loss to participant accounts. The plaintiff is asking that the defendants be ordered to make good to the plan all losses resulting from the breaches of fiduciary duties alleged in the lawsuit.	**182m**	Life assurance	Clients, products and business practices
3	The Abraaj Group; Dubai Financial Services Authority (DFSA)	**Abraaj's Naqvi fined $136 million over firm's collapse** Arif Naqvi, the founder of defunct Abraaj Group, has been fined $135.6 million and banned from Dubai's financial centre for his role in the private equity firm's 2019 collapse. Mr. Naqvi "personally proposed, orchestrated, authorised and executed actions that directly or indirectly misled and deceived the investors", the regulator said. Mr. Naqvi faces criminal charges in the US and is currently in the UK, awaiting extradition. DFSA fined Abraaj a record $315 million for deceiving investors and misappropriating their funds in July 2019 and followed that with slapping a fine on KPMG LLP last year for at least $600 million over its role in the group's insolvency.	**102m**	General insurance	Damage to physical assets
4	Credit Suisse	**Credit Suisse beats investment banker in London court as £66m espionage case is thrown out** A former Credit Suisse banker's £66m lawsuit was rejected as a London court found that the banking giant was under no obligation to protect its former employee from the risk of criminal charges while he was working in Romania. Vadim Benyatov had demanded $89m, or nearly £66m, in lost earnings after a court in Romania convicted him for espionage. He argued that the bank should have protected him and other Credit Suisse employees from being probed by intelligence services in Romania while he was working on a deal aimed at the privatisation of a large energy company in the eastern European EU member state. However, London judges ruled the Swiss banking giant had not breached its duty of care towards Benyatov.	**66m**	Corporate services	Employment practices and workplace safety
5	Morgan Stanley	**Morgan Stanley files $60 million proposed settlement of data breach claims** Morgan Stanley has filed for court approval of a $60 million settlement of a class action stemming from two data breaches in July 2020 that the complaint alleges compromised the information of 15 million of the investment bank's customers. The plaintiffs have alleged that the data breach happened because, in 2016 and 2019, Morgan Stanley failed to properly dispose of retired information technology equipment containing the personal information of current and former clients. This unencrypted equipment was then resold without being properly wiped of data to unauthorised third parties. The case is Tillman et al v. Morgan Stanley Smith Barney LLC, 20-cv-5914, U.S. District Court, Southern District of New York (Manhattan).	**44m**	Corporate services	Clients, products and business practices

WELCOMING MELODY ABENI TO THE MEMBERSHIP

We're pleased to announce that Melody Abeni has joined ORIC International as an executive assistant. To formally introduce Melody to our membership, we asked her a few questions.

1. What has your previous experience been?
I have been supporting senior executives and board members in various roles for the last eight years.

2. Why did you join ORIC International?
I am studying to become a chartered governance professional; and while risk management is one component of this, I'm finding the overall learning experience to be greatly valuable, especially where I can contribute with my acquired skills.

3. What will you be working on at ORIC?
I will mainly be supporting the board with governance activities and working alongside the senior team on business development activities, as well as keeping things ticking along in Lauren's absence.

4. What are your hobbies away from ORIC?
I'm developing my artistic skills (in drawing and papercutting) and am very much into art exhibitions and the theatre.

CONGRATULATIONS!

Massive congratulations to Lauren Kissik on the birth of her baby boy!
We wish her well during her maternity leave!

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EVENTS CALENDAR

10 MARCH
Q1 Member forum

18 MARCH
Industry panel on Ukraine crisis

23 MARCH
Q1 Operational resilience industry call

7 APRIL
Capital benchmark launch

20 APRIL
Internal model working group

26 APRIL
Loss focus working group

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