

# OperationalRisk

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## DATABASES AND MODELLING

### Databases scramble to completion

**ZÜRICH, SWITZERLAND** -- Various loss database projects, under pressure from Basel II implementation deadlines, are working hard to get off the ground.

The inter-bank operational risk loss database run by the Zürich-based Operational Risk eXchange association (ORX) has slipped again. Data was loaded by the data administrator in the second half of June, and reports are now scheduled to be distributed to contributing banks at the end of June. Originally, ORX officials told *Operational Risk* that the reports would be out during the second quarter, 2002, but they have been repeatedly delayed. The next data delivery is scheduled for the week beginning July 28.

ORX officials said the slippage was due to "rigorous and very comprehensive testing as to functionality and data security. As a result of testing the software, a number of enhancements were necessary and needed to be fully implemented before data analysis could begin". ORX officials say that there will be a user group meeting in between the release of the reports and the next data delivery, which will include the service providers. Officials say that "As a result of these discussions, there will be alterations to the process and/or refinements to the data sets."

"What ORX has promised is possibly a bit ambitious," says David Syer, director of operational risk at Canadian risk management firm Algorithmics in London. "There's definitely a big question mark over the whole thing. It's almost as if it has been driven by a perceived need from the regulators that there has to be external data but nobody really knows why."

On the other hand, the GOLD interbank database operated by the British Bankers' Association (BBA), which has been running for more than two years, has added three new members in the past six months. David Dooks, BBA director of statistics and manager of GOLD, told *Operational Risk* that he didn't view ORX as competition. "We took the stance two-and-a-half years ago that we would start collating data and if something else came along that was better or more appropriate, then it would take over and we would start to use that. But, so far we haven't seen our members choosing to go to the ORX database rather than our own."

"GOLD works and it's been working for two and a-half years now," Dooks

continues. "We're up and running and we've been recognised as the only real long-term up-and-running database that pools information across a consortium of banks."

GOLD now has 35 members and more than 1,500 events stored. New members include a Middle-Eastern bank and a bank in Australia. Algorithmics' Syers says: "The only international databases of significance are ORX and possibly the BBA GOLD database, I wouldn't say there were any other players at the moment."

But he added that national inter-bank pooling ventures also had a role to play. National consortiums have been proposed in countries including Italy, Luxembourg, the US and Japan. "I think in the long run you can see a case for both [international and national consortiums]," says Syer. "In the short term, there's definitely a niche to be filled because with the international ones, there's too much lowest common denominator and they don't suit everybody's requirements."

The Database Italiano Perdite Operative (DIPO), which is run by the Italian Banks Association (ABI), now has 32 members and is expected to deliver its first reports in September. A senior figure at the ABI, told *Operational Risk* that DIPO could run alongside international pooling ventures. "Now we have some of our members that take part in either GOLD or ORX. We think that DIPO gives an opportunity to better analyse what is happening in the domestic market, but for major groups, these other kinds of information are very interesting too."

The American Bankers' Association (ABA) database is on track. Member banks were due to deliver their data by the end of the third week of May, and the ABA is expected to hold the first quarterly teleconference call during the third week of June, according to Bob Jones, director of operating risk at Fleet Boston in Massachusetts, and chair of the ABA's op risk committee. He says that between eight and 12 banks are expected to submit data for this first attempt. "I'm sure that there will be data issues," he says. "We'll be working through them. My hope is that by the end of this year we have in place a reliable database for Basel II and also for benchmarking and identifying best practices." *OpRisk*

*Joseph Radford*