

Case study:
Lloyds TSB

Improving operational risk at Lloyds TSB

expertise

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Martin Turner, Group
Compliance &
Operational Risk Director,
Lloyds TSB

A Campion Willcocks Associate supported a group-wide programme at Lloyds TSB focused on improving operational risk management to reduce costs, achieve regulatory compliance and deliver competitive advantage.

“This programme was driven by various factors,” says Martin Turner, Group Compliance & Operational Risk Director, Lloyds TSB. “We wanted to improve management of operational risk across the group, taking in businesses such as Scottish Widows and the Cheltenham & Gloucester, and embed a greater understanding of operational risk within senior management. There’s also a trend within the group to manage from a value perspective. That means focusing on economic profit rather than profit before tax, taking into account the cost of capital and calculating the amount of capital we need for each risk type. In the last 20 years, lots of work has been done in credit risk, market risk and insurance risk. Operational risk was the ‘Cinderella’ and, previously, had been dealt with in a reactive way, with little quantification of the capital required to support operational risk.”

He adds, “In addition to calculating capital for internal purposes there is, of course, a need for external purposes – regulatory capital. With the transition from Basel 1 to Basel 2, work has progressed across all risk types, with banks seeking to agree internal methodologies for the calculation of regulatory capital with the Financial Services Authority (FSA). While the regulatory aspect was a useful catalyst and defined time frames, this was something we wanted to do anyway, to provide management

benefits for the group. A leading bank like Lloyds TSB wants to go for the advanced rather than standard approaches – not only to gain a competitive advantage and capital benefit but also to gain recognition from external commentators for our risk management expertise.”

Why Campion Willcocks?

A short time scale and the need for specialist expertise led Martin to seek external resource to develop internal risk processes and enable Lloyds TSB to put together a strong application covering its Advanced Measurement Approach (AMA) for operational risk. “This is an opportunity to bring in an external perspective, to learn from what’s been done at other organisations,” he says. “It’s that experience you’re buying in. I wanted the right resource on the programme. It was difficult to resource from within the group given short timescales, and I reasoned that we would have far more flexibility using external resources.

“I’ve worked with Campion Willcocks for over a decade, so they’re automatically on my list when a requirement like this comes up. And they’re an approved supplier to Lloyds TSB. My approach was to say, ‘we’re running this programme, we need resource, who’s available and, crucially, do they combine programme skills with operational risk expertise?’ Adrian Thompson brought both.”

The right match

“Adrian brought a number of skills,” continues Martin. “In particular, he had extensive content knowledge in this area. He could quickly interpret information put before him, rather than only having change management and

tangible

“We have already identified tangible benefits from our improved approaches to risk management.”

programme skills. This meant he could add more value. He was very disciplined in how he approached his work, and I trusted him to get on with it. He was a key part of the team.”

Adrian says, “My assignment was to support the change programme focused on the AMA waiver application by improving governance and control. A big driver was that acquiring AMA status had the potential to reduce the amount of regulatory capital Lloyds TSB has to hold, and so the costs associated with that capital.” His role covered three phases. First, planning, improving and documenting governance processes, in particular controlling risks and issues. Second, devising a process to govern key actions required to achieve compliance against the regulatory requirements - a ‘Central Actions Tracker’ - and driving this process with workstream leaders. And third, being responsible for self-assessment against regulatory requirements and supporting the remedial actions required for compliance.

The earlier the AMA application was submitted, the sooner AMA status could be achieved - and the deadline was set for Q2 2007, so the group could use AMA status from January 2008. “It was very important the programme stayed on track: a delay of just one month could have a knock-on effect of at least six months in delaying AMA status,” says Adrian.

Benefits gained

A key benefit that Adrian brought was that the majority of remedial actions required were completed before the waiver application was submitted to the FSA, meaning the level of compliance was the best it could have been, and raised Lloyds TSB’s credibility in the eyes of the FSA. This also saved further costs that would have been associated with such re-work.

“Adrian made a big contribution to our application being submitted on time, which means Lloyds TSB Group has the potential to achieve cost savings from January 2008,” says Martin Turner. “He helped us move faster than would otherwise have been possible. Without

having that flexible resource, we would not have met the deadline. We’re already seeing benefits. Senior managers have a greater understanding of operational risk management, and can be more confident in identifying potential risks and dealing with them. This forward-looking aspect is now a key part of the framework. People can think about what could go wrong, to understand key risk events that might happen. They can then decide if they are happy to accept that risk, or if they need to deal with it. This is a change in mindset.

“With the capital calculations, we have a far more rigorous and objective approach to risk management, and can focus on economic profit. If a risk is so small, why do we need to invest in controls and processes to manage that risk? So we can look to reduce the costs involved in certain controls. And in new business development, we can look more objectively at business we might have turned away previously, making more informed decisions as to whether or not we can accept that business. We’re not only reducing costs but also have opportunities for new business. We can perform transactions with our eyes open.”

He adds, “We have already identified tangible benefits from our improved approaches to risk management, benefits that will more than cover the cost of the investment we have made in this area over the last two years.”

About Campion Willcocks

Providing dedicated resources since 1968, Campion Willcocks & Associates Ltd helps major organisations meet the challenges of change by providing project, programme and change management professionals on an interim and contract basis.

Campion Willcocks & Associates Ltd
Oakfield House, 59 Hill Avenue, Amersham, Bucks HP6 5ED
T 01494 725885 F 01494 728039 E info@campionwillcocks.co.uk
www.campionwillcocks.co.uk