

# 2016 TAXONOMY SURVEY

FINAL REPORT

**MARCH 2016**

**Operational Risk**

**JOIN. ENGAGE. LEAD.**

## ACKNOWLEDGMENTS

The survey was conducted by The Risk Management Association between December 2015 and January 2016. The vast majority of the questions were multiple choice. A total of 22 responses were received covering a wide range of asset sizes and types of financial institutions.

The RMA survey was designed to address RMA members' interest in ascertaining the range of practice regarding member institutions' with respect to taxonomy. This brief survey will help participants see the extent to which RMA member institutions separate or combine various risks in their respective institutions.

The presentation style of the final report shows which institutions participated and how participants responded, but masks the identities of the individual respondents for their protection. RMA staff members contributing to the study were Sylwia M. Czajkowska, associate director, operational risk. The final report was written by RMA.

RMA would like to thank all of the institutions that participated in the survey.

Bank of America
BB&T
BBVA Compass
BNY Mellon
Capital One
CIT Bank N.A.
Deutsche Bank
Discover Financial Services
First Horizon National Corporation
Frost Bank
Hudson City Savings Bank
JPMorgan Chase
OneWest Bank
PNC
SunTrust
TCF Bank
TD Bank
Texas Capital Bank
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Wells Fargo
Whitney Bank
Zions Bancorporation

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## About RMA

Founded in 1914, The Risk Management Association is a not-for-profit, member-driven professional association whose sole purpose is to advance the use of sound risk management principles in the financial services industry. RMA promotes an enterprise-wide approach to risk management that focuses on credit risk, market risk, and operational risk. Headquartered in Philadelphia, Pennsylvania, RMA has 2,500 institutional members that include banks of all sizes as well as nonbank financial institutions. They are represented in the Association by over 18,000 risk management professionals who are chapter members in financial centers throughout North America, Europe, and Asia/Pacific. Visit RMA on the Web at [www.rmahq.org](http://www.rmahq.org).

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## EXECUTIVE SUMMARY

The RMA survey was designed to address RMA members' interest in ascertaining the range of practice regarding member institutions' with respect to taxonomy. This brief survey will help participants see the extent to which RMA member institutions separate or combine various risks in their respective institutions.

The survey was conducted by The Risk Management Association between December 2015 and January 2016. The vast majority of the questions were multiple choice. A total of 22 responses were received covering a wide range of asset sizes and types of financial institutions.

- Asset size between \$10 billion and \$50 billion: 7 responses.
- Asset size between \$50 billion and \$100 billion: 5 responses.
- Asset size over \$100 billion: 10 responses.

We asked multiple questions regarding various risks in order to learn if institutions combine or separate them. Based on the data collected, the majority of institutions separate the following risk:

- Market Risk and Interest Rate Risk (63% of respondents).
- Legal Risk and Compliance Risk (77%).
- Capital Risk and Financial Reporting Risk (73%).

In most cases, these responses were consistent across all ranges of asset size.

With respect to strategic risk and business risk, 54% of institutions combine that risk, and 36% separate it.

We have noted an even split of responses for treatment of operational risk and technology risk. 50% of participants combine operational risk and technology risk, and 50% separate these risks.

When it comes to including Cybersecurity in risk taxonomy, the survey shows that 68.4% of institutions include it as a Level 2 risk under ORM, and 26% include it as a Level 1 risk under ERM.

Please see the following pages for detailed responses and examples of the range of practices these institutions employ for taxonomy.

## DETAILED SURVEY RESULTS

### 1.) What is the asset size of your institution as of 12/31/2014?

Response	Count	Percent
\$10-50 billion	7	31.8%
\$50-100 billion	5	22.7%
More than \$100 billion	10	45.5%

### 2.) Who is your primary regulator?

			\$10-50 bil		\$50-100 bil		>\$100 bil	
Response	Count	Percent	Count	Percent	Count	Percent	Count	Percent
OCC	11	50.0%	4	57.1%	3	60.0%	4	40.0%
Fed	7	31.8%	1	14.3%	2	40.0%	4	40.0%
FDIC	2	9.1%	1	14.3%	0	0%	1	10.0%
State	0	0%	0	0%	0	0%	0	0%
FINRA	0	0%	0	0%	0	0%	0	0%
FHFA	0	0%	0	0%	0	0%	0	0%
OSFI	1	4.5%	1	14.3%	0	0%	0	0%
Other, please explain.	1	4.5%	0	0%	0	0%	1	10.0%
<i>Total Responses</i>	<i>22 out of 22</i>		<i>7 out of 7</i>		<i>5 out of 5</i>		<i>10 out of 10</i>	

"Other" comments:

- OCC for bank; FRB for bank holding company

### 3.) Does your institution combine or separate market risk and interest rate risk?

			\$10-50 bil		\$50-100 bil		>\$100 bil	
Response	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Combine	7	31.8%	2	28.6%	3	60.0%	2	20.0%
Separate	14	63.6%	4	57.1%	2	40.0%	8	80.0%
Don't Know	1	4.5%	1	14.3%	0	0%	0	0%
<i>Total Responses</i>	<i>22 out of 22</i>		<i>7 out of 7</i>		<i>5 out of 5</i>		<i>10 out of 10</i>	

**4.) Does your institution combine or separate strategic risk and business risk?**

			\$10-50 bil		\$50-100 bil		>\$100 bil	
Response	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Combine	12	54.5%	3	42.9%	4	80.0%	5	50.0%
Separate	8	36.4%	3	42.9%	1	20.0%	4	40.0%
Don't Know	2	9.1%	1	14.3%	0	0%	1	10.0%
<i>Total Responses</i>	<i>22 out of 22</i>		<i>7 out of 7</i>		<i>5 out of 5</i>		<i>10 out of 10</i>	

**5.) Does your institution combine or separate legal risk and compliance risk?**

			\$10-50 bil		\$50-100 bil		>\$100 bil	
Response	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Combine	4	18.2%	2	28.6%	2	40.0%	0	0%
Separate	17	77.3%	4	57.1%	3	60.0%	10	100.0%
Don't Know	1	4.5%	1	14.3%	0	0%	0	0%
<i>Total Responses</i>	<i>22 out of 22</i>		<i>7 out of 7</i>		<i>5 out of 5</i>		<i>10 out of 10</i>	

**6.) Does your institution combine or separate capital risk and financial reporting risk?**

			\$10-50 bil		\$50-100 bil		>\$100 bil	
Response	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Combine	3	13.6%	1	14.3%	1	20.0%	1	10.0%
Separate	16	72.7%	4	57.1%	3	60.0%	9	90.0%
Don't Know	3	13.6%	2	28.6%	1	20.0%	0	0%
<i>Total Responses</i>	<i>22 out of 22</i>		<i>7 out of 7</i>		<i>5 out of 5</i>		<i>10 out of 10</i>	

**7.) Does your institution combine or separate operational risk and technology risk?**

			\$10-50 bil		\$50-100 bil		>\$100 bil	
Response	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Combine	11	50.0%	3	42.9%	3	60.0%	5	50.0%
Separate	11	50.0%	4	57.1%	2	40.0%	5	50.0%
Don't Know	0	0%	0	0%	0	0%	0	0%
<i>Total Responses</i>	<i>22 out of 22</i>		<i>7 out of 7</i>		<i>5 out of 5</i>		<i>10 out of 10</i>	

**8.) If your institution combines operational risk and technology risk, how does your institution identify separate and distinct root causes for risk?**

- Technology risk is a separate measure within the operational risk management dashboard, hence the 'combined.' Otherwise, technology risk is separate.
- Our organization considers technology risk as a subset of operational risk. When risk events exist we identify and link specific, more granular, risk and causal taxonomy values that allow accurate categorization for the specific event that occurred.
- Assessments: Separate RCSAs for technology feeds from IT risk assessment tools to OR platform and reporting events—root cause library with separate system root causes
- Technology risk is a component and separate discipline within operational risk.
- We don't since they are combined.
- Question is unclear. Regardless of the risk type (e.g., operational, technology, etc.), the risk event has a root-cause analysis completed.
- Yes. Technology risk is one component of operational risk and is tracked separately.
- Technology risk is a subcategory of operational risk. We strictly use the Basel categories, so most technology risk falls into external fraud / systems or business disruptions and system failures.
- Technology risk is a subset of operational risk. We have 10 Level 2 risks in our taxonomy under operational risk (Level 1). So we stratify operational risk into subcategories. Systems risk is one, as is information security risk.

**9.) Does your institution include cybersecurity in its risk taxonomy as a Level 1 risk under ERM, or a separate Level 2 risk under ORM?**

Response			\$10-50 bil		\$50-100 bil		>\$100 bil	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
As a Level 1 risk under ERM	5	26.3%	2	33.3%	1	25.0%	2	22.2%
As a Level 2 risk under ORM	13	68.4%	4	66.7%	2	50.0%	7	77.8%
Don't Know	1	5.3%	0	0%	1	25.0%	0	0%
<i>Total Responses</i>	<i>19 out of 22</i>		<i>6 out of 7</i>		<i>4 out of 5</i>		<i>9 out of 10</i>	