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# Welcome!

...to the latest edition of Mutual Interests



Whether you are about to go or have just returned from holiday, now is the time to think further about how to maximise performance for the rest of this year and put in place the foundations to get the next one off to a flying start. Although the marketplace continues to be challenging, there remain a number of opportunities to work collectively in a way which benefits all participants.

Grappling with new regulation continues to dominate the financial services sector. Therefore, on page 2 we have a short summary of the FSA Policy Statement, PS09/20, 'Stress and Scenario Testing' applicable to banks, building societies and insurers, along with a few questions for you to answer!

Understanding your firm's risk appetite and the risks identified, highlights the importance of having an appropriate risk management framework in place. Consequently on page 3, we highlight the key features of an effective risk management framework— how does yours match up?

On page 4, we provide an update on two of our more recent Collective Procurement initiatives. Firstly, the proposed collective on Mortgage Indemnity Guarantee which will help Building Societies address PS10/05, and enable them to continue to offer high 'loan to value' ratio lending. Secondly, the new Private Medical Insurance Collective which is open to firms who offer, or want to offer, PMI to their employees on a cost effective basis through using an innovative trust arrangement similar to that put in place by a number of large organisations.

The calendar of events on page 5 summarises the forthcoming seminars and workshops. These seminars allow you to hear more about topical matters from respected professionals and get answers to questions you may not have been able to ask before! Attendance also provides the opportunity to network with counterparts from both your own and other sectors, with the old adage of 'a trouble shared is a trouble halved' being a key benefit.

The staff training and development workshops are delivered by experienced, qualified trainers. The workshops are typically attended by staff from a number of organisations, once again affording a great opportunity for sharing ideas and experiences and also helping to contain costs.

If you have not been to one of our events before, please give one a try as you may find, like many people, you'll soon want to come back for another one!

I hope you and your colleagues find this edition of Mutual Interests helpful and informative - as ever, if there is anything you want to talk to me about personally, please do not hesitate to get in touch - my contact details are shown below.

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# Stress Buster!

*Understanding and implementing new regulation can prove a real strain on organisations, especially when there is already a lot to do, and too little time to do it. One aspect of regulation that appears to be causing stressed situations in firms is the FSA Policy Statement, PS09/20 'Stress and Scenario Testing'.*

*PS09/20 is applicable to banks, building societies and insurers. Issued in December 2009, it requires firms to incorporate a new reverse stress testing requirement into their current suite of stress tests within 12 months.*

## Testing Stress?

Stress testing is clearly becoming an increasingly important aspect of firms' activity and an essential tool in planning to help identify, analyse and manage the risks inherent in the business under 'stressed' conditions. Specifically, stress testing enables firms to determine whether they could still meet all regulatory requirements, such as capital adequacy, or whether they would pose a risk to the FSA's statutory objectives (in particular, to market confidence, or consumer detriment) in stressed conditions.

To date, the FSA's integrated approach to stress testing consists of three main elements:

### Firms' own stress testing

firms develop, implement and action a robust, bespoke stress testing programme to assess their ability to meet capital and liquidity requirements in stressed conditions;

### FSA stress testing

stress tests are run by the FSA on a periodic basis for a number of firms to assess their ability to meet minimum specified capital levels throughout a stress period;

### System-wide stress testing

a group of firms undertake a stress test using a common scenario for financial stability purposes.

## Testing Stress - in Reverse?

But what happens should a firm's business model become unviable when crystallising risks cause the market to lose confidence in it?

A reverse stress test is simply used to identify and assess the scenarios most likely to render a business model unviable and therefore enable firms to devise strategies to cope. In effect, it starts with the end result and then works backwards evaluating whether the scenarios identified are plausible and determining what are the trigger points that would cause an organisation to fail. The firm's risk appetite and strategy should be reviewed in conjunction with the outcome of the reverse stress test. This is very much an iterative process with regular reviews and updates in response to events.

## So why do it?

Improved stress and scenario testing should help reduce the probability and impact of firms failing and the consequent impact and wider costs of any financial failure. By greater understanding of the scenarios under which the business becomes unviable, appropriate actions can be taken in line with clearly allocated responsibilities and trigger points.

## So what has to be done?

To encourage adoption of all PS09/20 requirements at an early stage, by 14 July 2010 firms had to reply to a FSA implementation template detailing how they plan to incorporate reverse stress-testing into their current suite of risk management tools. This work should be completed in readiness for implementing no later than 14 December 2010.

## So should I be stressed by that?

The answer of course is - it depends on how effective the stress and scenario training programme is within your firm. To that end, ask yourself the following questions:

- Has the firm clearly allocated responsibility for stress and scenario testing?
- Was the implementation template completed and submitted to the FSA?
- When did you last see the outcome of the stress and scenario testing? What actions were undertaken as a consequence?
- Would the firm's current approach to stress and scenario testing benefit from independent assessment and recommendations as to how they could be enhanced?
- Where can ongoing training and development support be obtained, whether that be for individuals in firms' directly responsible for stress and scenario testing or Board's given their governance related responsibilities?
- How do firm's best independently assess and benchmark the relevance of the stress and scenario testing they undertake?

**Can Mutual One help?** The answer of course is - yes - Mutual One can support firms on the development of their stress and scenario testing. If you would like further details on the types of support available, please contact Andrew Gold, by email [andrew.gold@mutual-one.co.uk](mailto:andrew.gold@mutual-one.co.uk) or by calling him on 07730 718205.

# Operational Risk Management

Best practice in operational risk management continues to evolve, be that through recent Governance publications, such as the Walker Review and Financial Reporting Council's UK Corporate Governance Code. For FSA regulated firms, the associated Policy Statement due imminently from Consultation Paper (CP) 10/3: Effective corporate governance (Significant influence controlled functions and the Walker review) will provide further clarity. Given all these developments we have summarised below the key ingredients that underpin an effective operational risk management framework.

The Board and Senior Management of Firms remain responsible for identifying and managing the risks inherent within the business. There is a need within an organisation to understand the inherent risks faced in order to achieve short term targets and the longer term corporate plan.

It is how well these risks are identified, managed, monitored and reported within the Firm that will determine how effective risk management has been embedded. When establishing a risk management framework it should be proportionate to the scale and complexity of the business. However, in all cases, there is a need to define a risk appetite, create a Board approved policy statement on operational risk management and support that with detailed, documented procedures.

As well as being proportionate, the Operational Risk Policy should also be individual to each Firm but consideration may be made to the following:

- The definition of risk; this may be a broad overview of what the Firm considers an operational risk, or it may be an industry-wide risk definition, e.g. Basel or The Institute of Risk Management.
- The main process or approach to operational risk management the Firm will take.
- The scope and boundaries of this to the other principal risks faced, e.g. Reputational or Strategic Risk.
- How operational risk loss events will be mapped, risks evaluated and controls monitored to prevent future losses.
- The support systems the firm may use for the monitoring of risks.
- How compliance to the Risk Policy will be monitored and who has responsibility for this.
- Links to different policies within the business, e.g. cross referenced to the Business Continuity plan, capital planning and other relevant Board approved Policy Statements.

It is evident from recent publications that the FSA is also putting further emphasis on the quality of good governance, especially relating to evidence of continued risk based decision making, with minutes showing understanding of risks faced, effective discussion and challenge as well as the outcome and agreed actions of the Board's debate.

Achieving a more risk aware culture is considered good governance and with more focus on the behaviour of the Board and Senior Management it is even more important that Risk Management is seen to be embedded into the culture of the business. There are various thoughts on how this is best achieved, but in all cases communication should be clear and concise, informing what level of risk is acceptable, the limits and thresholds and the reporting lines when emerging risks are identified or the impact of an existing risk changes.

## How Mutual One can help your firm

- Master Classes to be held on 20 September (Operational Risk Loss Events) and 18 October 2010 (Implementing and Embedding an Operational Risk Framework).
- Future workshops to be held to define and document a generic Risk Appetite for your sector – dates to be finalised and advised in due course.
- Risk officers forums held on a periodic basis.
- Mutual One can assist in the Firm's development of a risk assessment framework in-line with 'best practice'.

For more information on how Mutual One can help your Firm with risk management or any other compliance or governance related issue please contact Mutual One's Compliance, Risk and Governance Manager, Lesley Thacker, on 0116 289 4090.

# Collective Procurement

In previous issues of our e-zine we have highlighted some of the opportunities for collective activity and the benefits of working together to obtain both cost savings and improved efficiency.

What follows below is an update on the development of two recent Collective Procurement solutions to complement the successful "Own Insurance Collective". That Collective has delivered tangible financial and administrative benefits over the years, such that 16 building societies now enjoy many additional benefits by acting together under the Mutual One umbrella; we are confident that the two collective solutions below will emulate that success.

## Mortgage Indemnity Guarantee (MIG) Collective

Policy Statement (PS) 10/05 'A Specialist Sourcebook for Building Societies: Enhanced supervisory guidance on financial and credit risk management' has led Societies to re-assess their credit risk management practices and consider their MIG requirements.

The main benefits to Societies participating in this collective approach to MIG include:

- The potential to deliver a more cost effective solution;
- Levels of cover underwritten on a portfolio basis to reflect individual lenders' profiles and risk appetites. This will provide greater price stability and offer a less volatile approach to risk mitigation;
- Access to expertise, facilitating greater portfolio analysis and trending at a more granular level.

Joining the MIG Collective will enable Societies to meet the FSA's view that MIG cover is a mitigant to reduce expected losses and should lead to a primary capital benefit as well as enabling Societies to offer higher loan to value ratio lending albeit within defined criteria.

Over 20 Building Societies have already shown interest in joining Mutual One's MIG Collective. After a competitive tender situation I am pleased to announce Genworth Financial as the chosen capacity provider for the MIG Collective. An official launch will take place as soon as contractual arrangements have been finalised.

Offering an innovative flexible product and competitive pricing and profit share arrangements, Genworth Financial, a specialist in this field, has a financial standing which gives a high degree of confidence about their longevity and ability to pay future claims.

Genworth Financial are very enthusiastic about working with a number of Societies through the Mutual One MIG collective. Although we are still fine tuning details of the MIG collective proposition, further details should be available shortly and issued directly to all Societies.

## Private Medical Insurance (PMI) Collective

Firms that offer, or want to offer, PMI to their employees clearly want to do that on a cost effective basis. As you may already know, the concept of a healthcare trust fund is not a new one, and larger firms have been operating them very successfully for many years. More recently there has been significant growth in the number of firms establishing such trusts in order to contain costs and provide a flexible schedule of benefits.

Compared with traditional PMI schemes, there is potential for substantial cost savings due to purchasing arrangements, operational efficiencies and a more sensitive and personal approach to claims. Collective branding of a scheme also promotes greater member ownership.

The types of benefits to participating organisations of this collective procurement approach to PMI include:

- Significant potential for cost savings resulting from national agreements with hospitals and providers.
- Tax efficient. No Insurance Premium Tax (currently a 5% saving but will increase to a 6% from 4 January 2011 after changes made in the recent budget) and the administration charge is VAT recoverable.
- Flexibility in the design of the schedule of benefits provides the Trustees with the opportunity to exercise their discretion to pay benefits outside of the scheme benefits and rules. This is something which cannot normally be considered with traditional PMI schemes.
- Greater opportunities to smooth the annual charge compared to traditional PMI schemes.

It is important to understand that although the Scheme is uninsured, (and therefore the trust is liable for the full cost of eligible claims), the inclusion of stop loss insurance protects the fund against claims exceeding the budgeted level.

Earlier this year, and in response to a request for interest in a PMI Collective, firms responding had over 1,700 eligible employees. Consequently, last month Mutual One appointed the Private Health Partnership, an award-winning intermediary, to meet with interested firms to clarify aspects of the information they supplied and any additional information requirements. This is due to be completed in the coming weeks and will enable the terms of the PMI collective to be collated.

We anticipate having details of the terms for the PMI Collective and how to participate available next month, for rollout in the fourth quarter of 2010.

**So, to sum up, Mutual One is now able to support firms on a range of collective procurement initiatives and if you would like further details on what's available**

please contact Andrew Gold, by email [andrew.gold@mutual-one.co.uk](mailto:andrew.gold@mutual-one.co.uk) or by calling him on 07730 718205.

# Diary of Events 2010

Due to an increasing demand, we are formulating our programme of future events to focus on a cross section of the issues of the day facing firms. All our seminars provide an excellent opportunity to hear presentations from respected figures within the industry as well as to network with counterparts in similar organisations.

If an event is of interest to you but the timing unsuitable, please do contact us, as we may be able to run a similar event at a later date. Also, if you have sufficient numbers (minimum of 6) and would prefer the trainer to provide the staff training at your office, please do let us know.

**Risk Master Class** - providing detailed insight in Operational Risk Loss Events.

**Facilitators:** Brian Rowlands, Operational Risk Management Ltd; Lesley Thacker, Mutual One Compliance, Risk & Governance Manager.

**Date:** Monday 20 September      **Venue:** Leicester      **Cost:** £169 +VAT      **Complete Booking Form Further Information**

**Team/Supervisory Management Workshop** - providing an insight into motivational theories and practical application to motivate teams to achieve targets.

**Facilitator:** Paul Turner HR

**Date:** Tuesday 28 September      **Venue:** Leicester      **Cost:** £149 + VAT      **Complete Booking Form Further Information**

**Information Governance & Data Security Workshop** – This event will provide an overview of Information Governance and Data Security good practice reinforcing the current requirements of the Data Protection Act.

**Facilitator:** Michael Fryer, Datashield Consulting Ltd

**Date:** Wednesday 29 September      **Venue:** Leicester      **Cost:** £125 + VAT      **Complete Booking Form Further Information**

**Presentation Skills Workshop** - designed for all those make presentations, and/or need to develop the confidence to deliver effective presentations.

**Facilitator:** Paul Turner HR

**Date:** Tuesday 5 October      **Venue:** Leicester      **Cost:** £149 + VAT      **Complete Booking Form Further Information**

**Appraisal Skills Workshop** - designed for all those who wish to review effective methods of performance appraisal of colleagues.

**Facilitator:** Paul Turner HR

**Date:** Tuesday 12 October      **Venue:** Leicester      **Cost:** £149 + VAT      **Complete Booking Form Further Information**

**Risk Master Class** - providing detailed insight in Implementing and embedding an operational risk framework.

**Facilitators:** Brian Rowlands, Operational Risk Management Ltd; Lesley Thacker, Mutual One Compliance, Risk & Governance Manager

**Date:** Monday 18 October      **Venue:** Leicester      **Cost:** £169 +VAT      **Complete Booking Form Further Information**

**2 Day Building Society Treasury Management Workshop** – This workshop is about building society treasury management. It explains the key terms, the role of treasury, the products used, the regulatory climate (including PS09/16, Strengthening Liquidity Standards, and PS10/5, the new sourcebook for Building Societies where relevant), the risks, risk management and governance. You do not need prior knowledge; the explanations are straight forward and include practical exercises. The course is suitable for anyone who needs to know more about treasury. This includes NEDs, Senior Managers, those in operations, finance and audit and those who are new to dealing and risk.

**Facilitator:** William Webster, Barbican Consulting

**Date:** Thurs 4 & Fri 5 November      **Venue:** Leicester      **Cost:** £795 +VAT      **Complete Booking Form Further Information**

**PS09/20 'Stress & Scenario Testing' Seminar** – Following the issuance of Policy Statement (PS) 09/20 'Stress and Scenario Testing, the FSA will highlight the practical implications of PS09/20 for all Building Societies and small banks. This event will also provide a valuable opportunity to ask questions and take part in an open discussion about the content of PS09/20 and the practical steps taken in its successful implementation.

**Presenters:** FSA Guest Speaker;

**Date:** TBC November      **Venue:** Leicester      **Cost:** £149 +VAT      **Register your interest in attending this seminar**

**Leadership Coaching Workshop** - performance based coaching skills to support team management and motivation.

**Facilitator:** Paul Turner HR

**Date:** Tuesday 16 November      **Venue:** Leicester      **Cost:** £149 + VAT      **Complete Booking Form Further Information**

**Flexibility & Innovation Workshop** - considers how best to create a team culture of innovation.

**Facilitator:** Paul Turner HR

**Date:** Tuesday 30 November      **Venue:** Leicester      **Cost:** £149 + VAT      **Complete Booking Form Further Information**

If you would like to attend an Event, please complete the booking form on our website [www.mutual-one.co.uk/seminars](http://www.mutual-one.co.uk/seminars) or, if you would like further information please contact Karen Alexander, Events & Business Support Manager on 0116 289 4090