

GUEST EDITORIAL

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Following two regular contributions, this issue of *The Journal of Operational Risk* contains two papers from the CFS Conference on Operational Risk: Management and Measurement, which took place on March 19, 2015 at the House of Finance, Goethe University Frankfurt.

The conference brought together more than eighty academics and practitioners (from the fields of governance and management, among others) from across Europe to discuss the contributions that academia has made to the field, and to highlight where there is a need for additional research.

Bringing together work from academics as well as applied research conducted by practitioners at banks and consulting firms, the conference aimed to advance the literature on operational risk management and measurement and provide direction for where the focus for future research should lie.

To start these discussions, selected authors were invited to present their current research in operational risk measurement and management. Covering topics such as the principal-agent problem in banks' governance, the particularities of outsourcing risk, approaches to modeling operational risk, and the allocation of results to business divisions, the presentations provided a key overview of the current landscape. Delegates then heard from four practitioners on unsolved problems in applied operational risk management and measurement. Presenting their view on topics that the industry is tackling (with more pragmatic solutions for resource reasons), talks covered recent regulatory developments, conduct risk/risk culture, the link between various subcategories of operational risk governed by different departments in banks, and managerial aspects of operational risk capital.

Well-known current developments in the regulatory environment – including the future shape of the advanced measurement approach (AMA), the introduction of a floor for the AMA model, revisions to standardized approaches (with the threat of significantly increased regulatory capital requirements), a stronger focus on Pillar 2 issues through the European Banking Authority's extensive Supervisory Review and Evaluation Process (SREP) approach (including reputational risk), and various papers on topics such as conduct risk and risk culture – will change the way banks have to deal with operational risk, from both a governance and a process point of view, as well as from a modeling point of view. While practitioners will have to come up with new

approaches in rather a short time frame, academics are asked to direct their research interest into those areas to provide more substance to the topics. After a relatively quiet decade for the discipline of operational risk management, the time is now right to develop OpRisk 2.0 frameworks (and not just in the modeling space).

The third paper in this issue (and the first of our two conference papers), “A weighted likelihood estimator for operational risk data: improving the accuracy of capital estimates by robustifying maximum likelihood estimates” by Andrea Colombo, Alessandro Lazzarini and Silvia Mongelluzzo, analyzes the application of a new method for fitting severity distributions of operational risk models. They present results of extensive tests with both simulated and real operational risk data.

In our final paper, “Outsourcing risk: a separate operational risk category”, Jürgen Bott and Udo Milkau discuss the potential changes to banks’ risk profiles through entering into business process outsourcing agreements, and contrast this with the views expressed in various regulatory requirements on outsourcing.

The next CFS Conference on Operational Risk is scheduled for 2017.