Operations Risk Management & Mitigation - from assessment to implementation

By: Richard Barr, Operational Risk & Back Office Specialist

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Richard Barr, holds a B.S. in International Business Administration from San Jose State University in California. His professional experience spans over 23 years, 5 of which were spent with Wells Fargo Bank. Another 5 were spent honing his global banking skills, when Richard was intimately involved with International Trade Finance, Real Time Gross Settlement and Cross Border Banking. The past 14 years have been in the private and high-tech sectors providing high-level consulting services, business analysis, project management and training to a wide range of banking clientele across the globe.

Richard has also filled the role of advisor to central banks on payment systems and technical payments issues. Furthermore, key staff members from the Bank of England, South African Reserve Bank, Central Bank of Ireland, Bank Indonesia, European Central Bank and Bank of Portugal have attended training sessions presented by Richard.

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The aim of the course is to provide:

- Illustrate risk in all its facets
- What the Basel Accords say about operational risk and its mitigation
- A link between ORM theory and practice
- Listing operational risk techniques for assessing, managing and mitigating operational risk
- A clear road-map on how to implement an ORM structure in practice in a banking organization

**KEY OBJECTIVES AND LEARNING OUTCOMES**

**COURSE DESCRIPTION**

**Aims**

Recently, a series of headline-grabbing operational risk incidents at banks, other financial institutions and even regulators have again brought the issue of operational risk management to the forefront of the agendas of CEOs, CROs, risk managers and internal and external auditors alike. These incidents are wide ranging and flow from bank ATM collapses, bank operating system failures, regulatory settlements in the ongoing US sub-prime mortgage saga, rogue traders and the connected risk managers who either missed or were willfully blind to all the warning signs.

As the size and complexity of financial institutions have increased, so too have the challenges of understanding and reducing operational risks down to truly manageable levels. Increased regulatory concern and scrutiny have also increased the cost of operational risk events in the shape of outright financial loss, regulatory fines and declining customer confidence.

Operational Risk Management (ORM) is an effective tool for not only maintaining but increasing, bank profits, shareholder value, public perceptions and goodwill. Executed properly, improvements in ORM can lead to substantial financial, reputational and regulatory benefits – all this adds to increased profitability, greater financial stability and improved customer satisfaction.

But to achieve these gains, financial institutions must apply a consistent and comprehensive approach to managing their operational risks. They must also understand that this approach is fundamentally different from the approaches that they use in managing market, credit and liquidity risks.

Bad Operational Risk Management has a severely negative effect on financial institutions in four very clear ways:

- Actual operational risk losses are a direct hit to the income statement.
- The market punishes companies via the stock price, for operational risk failures and this loss could well exceed the actual financial loss experienced.
- Lowered Credit Ratings, which raises the institutions cost of borrowing money in the marketplace.
- Operational risk failures can vastly increase the cost of compliance by raising the level of regulatory scrutiny and complexity not to mention substantial penalties.

**WHO WILL BENEFIT**

**Which organizations that should attend?**

- Commercial Banks
- Central Banks
- Investment Banks
- Asset management firms’ representatives
- Pension funds
- Hedge funds
- Leasing companies
- Insurance companies
- Fund managers
- Other financial institutions

**Who should attend the Course?**

- Financial Officers
- Risk Officers
- Internal Auditors
- Operational Risk Managers
- Staff with roles and responsibilities in operational risk in risk management departments, businesses and central departments
- All front-, middle- and back-office staff in operational roles
- This course is not restricted to management staff alone but to all staff who are required to be “Operational Risk” aware

All too often banks have seen the need to effectively manage their operational risks as simply an issue of complying with what the bank regulator requires, rather than a disciplined process that serves to not only ensure a banks survival but which can, in the long run, contribute to that bank’s financial fortune.

Implementing an effective Operational Risk Management routine is a complex process. At its core is an understanding of what Operations Risk is and how it can be managed. This course is an intensive introduction to Operations Risk management and mitigation. It is designed to provide a practical “hands-on” approach to participants which will furnish them with all the tools and techniques they need to begin implementing what they have learned as soon as they return to the office.

The underlying course philosophy is to move the participants beyond the largely theoretical international compliance requirements for operations risk (such as contained in the Basel Accords), and into an understanding of the practice of operations risk management and an ability to actually implement these procedures.

**Objectives**

The objectives of this training course is to provide all staff, irrespective of whether they work in the front-, middle- or back-office, with a sound foundation in the theory and practice of Operational Risk Management. This training is provided in a practical “hands-on” manner that allows them to implement what they have learned easily and effectively.

**What this course covers**

This course provides a complete structured package for learning in all main aspects of the subject of Operational Risk. It will enable participants to prepare and manage the planning and implementation of operational risk management processes in their bank/ financial institution or firm.
## AGENDA

### DAY ONE (8.30AM – 5.30PM)

**Registration Process:** 8:30 AM – 9:00 AM  
**Session Start Time:** 9:00 AM

### THE WHY, HOW & WHAT OF OPERATIONAL RISK

#### What is risk?
- Operational Risk – The big picture
- A short history of risk
- Dimension & drivers of risk management
- Business drivers
- Regulatory drivers
- Rating Agencies & risk
- Cross-border implications
- What is the value of Operational Risk Management?

### Risk Types
- How we categorize risks
- What is covered under Basel II?
- Risk categories
- Basel’s risk coverage
- Operational risk categorization
- The financial risk management environment
- The operational risk management environment
- The technical Implications of operations risk management

### Risk & Capital - An Introduction to Basel I, II and III
- What is capital?
- Capital in financial institutions
- The BIS capital standards
- Basel’s three pillars
- Basel’s operational risk options
- Implementation considerations
- Implementation of Basel
- The Pillar II maze
- Implementation issues

### Managing Operations Risk
- The governance process
- Setting risk management objectives
- Building a risk culture
- Examples of a staff risk culture
- Examples of management risk culture
- Why are risk cultures important?
- Compliance requirements
- Operational risk – definition and examples
- Enterprise Risk Management
- Key elements in managing operations risk
- A selection of case studies to illustrate the material covered
- The banking activity framework - the “Top-Down” approach of the BIS
- Main areas affected by operational risk
- Key Risk Factors

### Operational Risk – Practical Examples
- Participants are led through a series of operational risk failures in recent years aimed at illustrating the wide variety of operational risks that can be encountered.
- **Case Study:** We take detailed look at the 2007, US$ 7.2 billion loss at Société Générale, its causes, the key warning signals that were overlooked, and the consequences for the financial industry.

### Key Elements in Managing Operational Risk
- The core issues in managing operational risk
- Risk Analysis
- Determining the “Risk Appetite”
- Risk impact/Event frequency
- Impact vs. Probability
- A generic case study

### Operational Risk Financing
- Risk financing
- Optimizing risk & reward
- The cost of risk
- The operational risk financing program
- Operational risk financing mechanisms
- How financing methods are applied

### Methods & Models
- Measurement methods
- The Loss Modeling Method
- Monte Carlo simulations
- Operational risk & bank strategy
- Quantitative & Qualitative approaches
- Key Risk Indicators (KRIs)
- Operational risk & the business cycle
- Problems in identifying operational risks

### COSO ERM Framework
- COSO - an integrated risk management framework
- The COSO framework
- Codification of the 17 COSO Principles

### The Black Swan
- The challenges of outlier events for contingency planners
- Understanding a “Black Swan” event and its principal characteristics.
- We examine the nature of a Black Swan event
- Challenges for Planners, Strategists and CEOs.
- How can you mitigate a Black Swan event?
- Case Study: Can recent outlier events, like the eruption of Iceland’s Eyjafjallajökull volcano, the Deepwater Horizon catastrophe and the Japanese Tsunami be seen as black swan events? Gain a deeper insight into some of the subtleties of operational risk in the real world.

### Operations Risk & Basel (II and III)
- The BIS definition of operational risk
- BIS standards for managing operational risk
- Basic Indicator Approach (BIA)
- Business Lines Approach
- Advanced Measurement Approaches (AMA)
- Loss event types
- Criteria for the Advanced Measurement Approach

All Basel material is current and up-to-date in terms of current BIS developments.

### Managing Operations Risk under Basel - A “Hands-on” approach
- Basel Standards
- Basel’s three approaches

### "Sound Practices for the Management and Supervision of Operational Risk"
- Principles for the management of operational risk
- Sound operational risk governance
- Each of the 11 Principles are examined in terms of their content, meaning and implementation factors
- Responsibilities
Methods for Assessing Operational Risks

- Four basic assessment methods
- Loss data collection (internal & external)
- Using loss data
- Internal data
- External data
- Scenario analysis
- Using scenarios
- Desktop Exercise: Scenarios form the basis for a desktop exercise in which participants use and develop their newfound operational risk management skills to work through the simulation of a real risk event.

A Risk Assessment Model

- The process
- Environmental survey
- Technology inventory
- Identifying & assessing the operational risks (including an illustrative operations risk management plan)
- Minimum control requirements
- Risk identification tools

Current Operations Risk Management Themes in Banking

New technologies and practices are changing the nature of bank operational risk in many dramatic ways. In this section we explore a selection of current “risk themes” and get to grips with how the operations risk profile is changing in the constant struggle between profit and prudence.

This is a fast changing area and this section of the course is being constantly updated.

Closing CASE STUDY

- Kweku Adoboli – from rising star to rogue trader

  This case study on a recent event provides an in-depth examination of operational risk management failures resulted in substantial losses to UBS. We look at what went wrong and why and what lessons can be learned from this series of events.

  Why and how were the lessons of the 2007 SocGen event ignored?

  Included in this case study we have a special section on rogue traders generally in which we deal with issues such as;

  - The psychology of the rogue trader
  - Types of traders
  - The FSA investigation and their findings
  - Ranking Adoboli in the rogue traders league
This was a well-organized event. The speaker was very informative and the seminar was covering great real-life examples that kept everyone engaged. ComplianceOnline is very helpful and it has a professional approach in conducting regulatory trainings.

- Third Party Vendor Management Lead, JPMorgan Chase

The seminar was very informational and the material is very useful in implementing risk assessment program in organizations.

- Cash Management Operations Assistant Manager, Flushing Bank

Richard was very knowledgeable on the topic.

- Assistant Vice President/Branch Operations Team Leader, Flushing Bank

Real world examples discussed during the seminar was beneficial.

- VP of Operations, Southwest Securities

This seminar was very informative and the speaker was very knowledgeable. Case studies discussed were highly useful.

- Assistant Security Officer, Flushing Bank

Instructor was highly knowledgeable and the subjects were well chosen.

- Audit Supervisor, Flushing Bank

Richard did a great job and topics related to operations risk structures and frameworks were highly useful.

- Manager, Discover Home Loans, Inc.

This was a very informative seminar. The presenter had thorough knowledge on the subject. He was providing good examples on each topic as he went through the program.

- Deposit Operations Manager, AVP, Flushing Bank

It was a good introduction into risk assessment.

- AVP, Risk Management, MB Financial Bank
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