

# Advanced Operational Risk Bootcamp

## 5 days

### **WHY IS IT NECESSARY TO UNDERSTAND YOUR OPERATIONAL RISK POSITION?**

Are your operations robust and running smoothly? Are all processes working properly? Are all systems producing valid outputs, and is the behaviour of people reliable and trustworthy? In the real world, the answer is seldom a clear yes or no. Mitigation of risk requires constant improvement of controls. A careful assessment of your operational risks builds the foundation for any improvement. During times of external shocks that test the limits of an organisation, like the current pandemic, mastering operational excellence can make a significant difference in economic resilience.

There has been enormous growth in the need for operational risk expertise within financial institutions. It is now widely recognised that operational risks lie throughout organisations - within the processes, people, systems and from external events.

This course combines operational risk management theory with practical tools and techniques for successful operational risk management. There is also the opportunity to apply the operational risk learning to realistic case studies where a variety of approaches are explored.

The course is subdivided into two, two-day segments with the first two-day segment exploring the three Basel approaches to Operational Risk, Regulatory Capital Management and the underlying risk management processes and controls-needed to Implement an effective risk framework. The aim is to get delegates 'up to speed' on all the various aspects of the theory behind Operational Risk.

The second two-day segment assumes that delegates are familiar with the aspects of Operational Risk-theory covered above (although there will be a brief summary) and therefore primarily aims to enable delegates to apply Operational Risk Management Theory and best practise to real life practical scenarios. It is also structured so that Risk Professionals can share best practice/new solutions and gain insights into different approaches to-common operational risk challenges.

### **By the end of the program participants will be able to:**

Describe the three Basel Regulatory approaches to Operational Risk - the Basic Approach, the Standardized Approach and the Advanced Measurement Approach.

- Explain the Loss Distribution Approach (LOA) to modelling Operational Risk
- Define Operational Risk using the Basel Committee on Bank Supervision definition
- Explain the elements of an effective Risk Framework within a financial institution Including the benefits of Enterprise-Wide Risk Management
- Describe the three lines of defence within risk management
- identify and describe the 7 steps of an effective risk management process
- Explain the essential components of an effective Operational Risk policy

- Identify Operational Risks using the Basel II definitions of business lines and events matrix
- Describe the role of incident analysis, risk mapping, key risk indicators, historical loss analysis, focus workshops, control self-assessments, audit reports, independent reviews and top down and bottom approaches to identify Operational Risks.
- Explain the nature and measurement of expected, unexpected catastrophic losses within the Operational Risk distribution.
- Define Operational Risk VaR and the assumptions used to estimate and measure Operational-Risk losses
- Describe how stress testing and scenario analysis can be applied to operational risk.
- Design and apply appropriate preventative and detective controls
- Design and apply appropriate Key Risk Indicators (KRI's)
- Apply Operational Risk Theory to scenarios in the workplace
- Describe how to Implement effective operational risk plans, engaging all the key stakeholders -to bring positive changes within an organisation
- Describe the risk lessons learned from three real life Operational Risk Case Studies

### **Who should attend**

Job titles may include but are not limited to:

- Heads of operational risk
- Enterprise risk managers
- Operational risk managers
- Operations managers
- Internal auditors
- Compliance officers
- Consultants
- Regulators

### **Regulatory context for Risk Management**

- ✓ Basel I, II & III Overview (Basel IV updates)
  - Regulated Risks: Market, credit, operational and liquidity risk
  - Other Risks: strategic, business and reputational risk
  - How risks are connected and overlap
- ✓ Basel II Operational Risk Approaches
  - Basic Approach Standardized Approach
  - Advanced Measurement Approach (AMA)
  - Loss Distribution Approach (LDA)
- ✓ Operational risk lessons from the financial crisis
  - Basel III and IV
  - Risk management in normal vs non-normal market conditions

## **Lessons from the past – Learning from Operational Risk Mistakes**

- ✓ **Brief analysis of 3 real life case studies In Operational Risk Management**
  - Barings (1995)
  - Société Générale (2008)
  - UBS (2011)
  - Top 10 Operational Risk lessons from the past

## **Implementing an Effective Risk Management Framework**

- ✓ **Role of the Board, Risk Committee, Business Heads, Risk Function, Compliance**
  - The three lines of defence
  - Impact of leadership on the risk culture of an organisation
  - Rewarding the right behaviours to create a positive risk culture
- ✓ **Enterprise-Wide Risk Management**
  - Benefits
  - Challenges
  - Firm-Wide Risk appetite and Risk policy
- ✓ **7 Step Risk Management Process**
  - Risk Policy and Appetite
  - Identification
  - Measurement and assessment
  - Risk Mitigation and responses
  - Risk Monitoring
  - Risk Reporting
  - Risk Planning and Change

## **Risk Management tools and techniques**

- ✓ **Risk identification Tools**
  - Incident and near miss analysis
  - Historical loss analysis – external and internal
  - Basel II Operational Risk Business line and event matrix
  - AMA lost distribution approach
  - Focus workshops
  - Control self-assessments and checklists
  - Using KRI's
  - Audit KRI's
  - Mapping Risk Factors
- ✓ **Risk measurement Tools**
  - Exploring probability and impact
  - Excepted losses, unexpected losses, catastrophic losses
  - Risk ranking and prioritisations
  - Modeling extreme losses with stress testing and scenario analysis

- VIR (Value at Risk) and (ES) extreme shortfall
- Benchmarking with peers
- ✓ Controls
  - Controls to reduce the probability of losses - preventative controls
  - Controls to reduce the impact of losses – detective controls
  - Straight Through Processing (STP)
  - Control ownership and effectiveness testing
  - Gross Risk, Net risk and residual risk
- ✓ KIR's (Key Risk indicators)
  - Role of KIR's in the Risk management process
  - What should we measure? How do we get the data?
  - KIR's as Risk identification tools
  - Co-ordination of KIR's and decision making
  - The KIR dashboard approach

### **Operational Risk Planning – Brining about positive change**

- ✓ Other Planning Considerations
  - Sponsorship and support from senior managers
  - Resourcing business as usual vs planned changes
  - Identification and engagement of key stakeholders
  - Agreeing common goals and methodologies
  - Identifying available resources, skill sets and resource shortfalls
  - Effective communication
  - Change -winning hearts and minds
  - Co-ordination with other projects and working cross-divisionally
  - The team then has to write an operational risk plan to rectify shortfalls, including designing effective controls and effective KIR's
  - Include in the planning a strategy to bring about the intended positive changes

### **Application of the Operational Risk Learning to realistic case studies**

- ✓ Case-study exercises designed for discussing in small groups
  - Groups to analyse. realistic case-studies that illustrate typical challenges faced within financial Institutions
  - The initial brief is to identify operational risk issues within a case study
  - The team then has to write an operational risk plan to rectify shortfalls, including designing effective controls and effective KIR's
  - Include in the planning a strategy to bring about the intended positive changes
- ✓ Selection of 'real' operation risk issues from the group
  - In groups apply the operation risk theory from the cause to real operational risk issues from the workplace identified by the group

- Each 'real' operational risk issue is discussed within small teams utilising the expertise and experience of others not directly involved in the issue as well as those directly involved.
- Apply the operational risk best practice tools and procedures to develop effective strategies and approaches to mitigate these risks.