Operational Risks – A Deeper Dive

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A deeper dive and insights into today's top operational fiduciary risk management issues. Rosanne will share Line of Defense perspectives in an interactive discussion on oversight strategies and tools in the evolving regulatory environment.
Our operational focus will also include: Roles and Responsibilities, Current and Emerging Top Risks, Oversight and Committee Structures, and Risk and Control Assessments, including KRI's

Agenda

Top operational fiduciary risk management issues

Identifying the top risks in your business across multiple dimensions: regulatory, financial, operational

How to maintain a stable line of defense

Tools: Metrics reporting, Self Assurance activities and other tools

Establishing a Risk Framework

- Determining scope and purpose of your risk framework
- Risk Culture
- Risk Appetite
- Roles and responsibilities
- Tools

Risk Lifecycle

The risk management lifecycle is an ongoing cycle of activity. Risks are not static, they change!

MONITOR THE RISK
What has changed? Did our control work?

CARRY OUT THE ACTIONS
How do we implement our actions? Who owns them?

MITIGATE THE RISK
What can we do about the risk? How do we control it or mitigate it?

UNDERSTAND OUR OBJECTIVES
What are we trying to achieve that we need to think about?

IDENTIFY THE RISK
What could affect what we are trying to achieve and how we achieve it?

ASSESS THE RISK
What are the most important risks we have? How often could they happen?

Remember.....Identify, Assess, Mitigate, Monitor

Determining your areas of risk

- Identifying the top risks in your business across multiple dimensions: regulatory, financial, operational
- *Operational risk is the broadest component of OCC's supervisory framework, covering the risk of loss from information system failures and business disruptions, human error and fraud, business process and product design defects, and legal challenges.*

Topics for Discussion:

- Determining scope and purpose of the framework – where to begin
- Define and prioritize your risk types
- Maintain a complete and current inventory of processes, products, services, and functions
- Implement a business process for identifying, monitoring, and reporting new and existing risks are supported by a risk governance structure that includes board oversight, risk committees, policies, and risk thresholds
- Continuous self assurance and audit system by first, second and third line risk resources to ensure compliance based on the nature and risk of that activity
- Evidence the activity, and changes along the way – history matters!

Risk Culture: Leading with a risk mindset

A risk management culture is explicit, supported by senior management and reinforced consistently in communications, training and through example. Risk management is everyone's obligation and employees should always consider what is in the Company's interests in all their actions all the time.

It only takes one misjudgment, one faulty process to put the bank at financial, operational or reputational risk. It's our job as leaders to mitigate those risks by reinforcing our risk culture clearly and consistently

Topics for Discussion:

- Techniques on managing your risk culture in times of change or uncertainty
- Create an accountable environment
- Effective escalation
- Performance Management and Incentive Compensation

Risk Appetite

The Company’s risk appetite is the amount of risk, within its risk capacity, the Company is comfortable taking given its current level of resources. It establishes acceptable risks and at what level and includes risk appetite principles. The Company’s Statement of Risk Appetite is defined by Senior Management, approved at least annually by the Board, and guides the Company’s business and risk leaders. The Company continuously monitors its risk appetite, and the Board reviews risk appetite reporting and analysis.

Topics for Discussion:

- Techniques on managing your risk culture in times of change or uncertain
- Incorporate risk considerations into decision making, including strategic initiatives, to align outcomes to the Company’s risk appetite
- Engage in monitoring and management of aggregated risks: concentration risk, current and emerging risks, and risk appetite

Roles and Responsibilities

Topics for Discussion:

- Implementing a clear and concise roles and responsibilities framework
- Who is responsible for risk?
- What can go wrong?

Risk Tools

- Four components for effective risk management: IAMM - identifying, assessing, mitigate and monitoring

- Risks are identified through a variety of risk programs:
    - Risk and Control Self- Assessment (RCSA)
    - Risk Based Process Management (RBPM)
    - Business Change Risk Assessments (BCRA)
    - Key Risk Indicators (KRIs)
    - Operational Loss Program
    - Regulatory Change Management

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Key Takeaways

- Risk management is the process of identifying, assessing, and controlling threats to an organization's capital and earnings. These threats can come from various sources, such as financial uncertainties, legal liabilities, technology issues, strategic management errors, accidents, and natural disasters. The goal of risk management is to identify potential dangers and threats and take steps to eliminate or reduce the chances of them happening. Effective risk management can reduce the possibility of a risk occurring and its potential impact. Risk can be perceived either positively or negatively, and a risk is the potential of a situation or event to impact the achievement of specific objectives.

- It doesn’t sound easy, because it’s not

- If you can’t measure it, you can’t manage it

- Embedding a “raise your hand” and accountable risk culture is key