



# **2014 FIRMA National Risk Management Training Conference**

## **Hot Topics In Operational Risk**

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## **Hot Topics in Operational Risk**

- 1. Outsourcing Trust Functions to Affiliates**
- 2. Trade Errors**
- 3. Money Movement/Wire Transfer Errors and Fraud**
- 4. Privacy, Online, and Mobile Banking**
- 5. Succession Planning for Key Staff Members**
- 6. Business Continuity**



## Outsourcing Trust Functions to Affiliates

- **Outsourcing to Which Affiliates?**
  - Local Affiliates
  - Foreign Jurisdiction Affiliates
- **Benefits**
  - Cost Savings
  - More Control over Arrangement
  - Easier Oversight
  - Compliance to Corporate Policies and Procedures



- **Risks and Disadvantages Associated With Outsourcing to Affiliates**
  - Not necessarily utilizing Best Practices
  - Harder to Enforce Service Level Agreements
  - No Ability to Shift Risk
  - Perceived Conflicts of Interest
  - Potential Regulatory Issues
- **Controls**
  - Due Diligence Process
  - Oversight Process
  - Metrics and Management Reporting
  - Escalation Procedures



## **RED** Flags Associated With Outsourcing to Affiliates

- Issues obtaining Legal & Compliance signoff for the outsourcing arrangement
- Sending and Receiving Entities cannot agree to procedures, performance measures, or management reporting
- Not meeting expectations in the Service Level Agreements



## Trade Errors

### **Who is affected – everyone!**

- Clients, Advisors, Associates, Portfolio Managers, Operations

### **Risk associated with trade errors:**

- Loss of funds
- Reputation/confidence concerns
- Inadequate technology-manual processes
- Lack of communication



## **Indicators that the risk exists in your bank:**

- Not following procedures or lack of procedures
- Trade reversals increasing
- Losses
- Client complaints

## **Controls to mitigate the risk:**

- Internal guidelines for handling daily trading
- Supervise trading – establish responsible parties
- Resolution procedure for “dollar” errors
- Create standard template



## Money Movement/Wire Transfers

### Primary Risks

- Transferring money without proper authority
- Transferring money to wrong recipient
- Lousy Client Service





## **Transferring Money Without Proper Authority**

- Counterfeit e-mails
- Counterfeit voicemails
- Missed co-fiduciaries
- Expired legal authority
- Theft
- Forged Paper Work
- Processed Wrong Amount

## **Transferring Money to Wrong Recipient**

- Lack of Proper Authority (above)
- Paperwork with errors or hard to read sloppiness
- Errors in input
- Errors in Processing



## Lousy Client Service

- Just saying **Be Careful**



## Money Movement Red Flags

- Misspelled words
- Different call back numbers
- Unable to reach authorized parties
- Changes in client behavior
- Duplicate payments
- Internal transfers to newly set up accounts
- Sloppy control environment



## Money Movement Controls

- Required minimum documentation
- Know your customer rules
- Call back documented phone numbers
- Standard transfer practices and paperwork
- Separation of order taking and verification
- Manager / secondary reviews
- Cumulative transaction reviews
- Processing controls
- Defined control environments and oversight testing
- Privacy Controls
- Standard Protocols for recurring situations (POA)
- Oversight of automatic and repeating payments



## **Privacy, Online and Mobile Banking**

### **Primary Risk - Failure to maintain control over client confidential information**

- Brand destruction
- Destroys client trust
- Regulatory violation
- Negative revenue impact
- Unsolicited / unwanted client contact



# Privacy, Online and Mobile Banking

## Controls

- System firewalls
- Employee Training
- Encrypted data and e-mails
- White rooms
- Technology profiles by employee need
- Standard Policies and Procedures



## Interesting Statistics

- 89% of consumers avoid companies who they think do not protect privacy online
- 85% of investors say boards should be involved in overseeing the risk associated with compromising client data
- 61% of directors are engaged in understanding privacy issues
- A single data breach cost \$500,000 on average
- Data breaches increase client churn nearly 4%
- CEO concern is up 15% on average in the last year



## It Only Gets Harder

- Expanding client interfaces
- Expanding mobile
- Offshore processing
- Global transactions
- Expanding connectivity of personal information
- Cloud storage
- Expanding B2B interfaces





## Succession Planning for Key Staff Members

*“Succession planning is a process for identifying and developing internal people with the potential to fill key business leadership positions in the company. A good succession plan enables a smooth transition with less likelihood of disruption to operations. Planning in advance adds value to your company and enables you to meet future needs.”*



## What Is Your Risk?

Do nothing and fail!

- Aging workforce or unexpected event
- Lack of talent awareness
- Not hiring to culture
- Inadequate training/growth

## Risk Indicators That May Exist

- No formal, informal or plan at all
- Inadequate officer and support staff
- Losses
- Excessive audit occurrences
- Loss of key staff members
- Customer complaints



## Mitigate Risk

- Make it part of your strategic plan
- Review your organizational chart
- Define appropriate staffing levels
- Focus on each specialized area of Trust
- Match job descriptions with current staffing
  - team up with your HR officers
- Create a template



## **Business Continuity**

### **Business Continuity**

- Internal Processes
- Outsourced Processes

### **Risks Associated with Business Continuity**

- Failure to provide/or provide timely Critical Processes & Services
- Failure to Protect and Safeguard Client Data and Partners
- Failure to Fulfill Regulatory Requirements

### **Resulting in**

- Losses
- Errors
- Missed Client SLAs
- Negative impact to Bank's Reputation
- Regulatory Issues



## Business Continuity Controls

- Documented Business Continuity Plans (Internal and Vendor)
  - Criticality of Service/Process
  - Business Continuity Mitigating Factors to Consider
    - Process
      - ❖ Duality
      - ❖ Pass the Book
      - ❖ Work From Home
    - System
      - ❖ Backup System or Vendor
      - ❖ Manual Workarounds
  - Event Monitoring and Escalation
- Annual Review and Testing of Business Continuity Plans (Internal and Vendor)
- Vendor Management



## **Indicators that your Bank may be susceptible to Risk associated with Business Continuity**

- Business Continuity Plans (Internal or Vendor)
  - ❖ Do Not Exist
  - ❖ Not Updated
  - ❖ Not Tested
  - ❖ Unrealistic