



Operational Risk Management

3 days

Objectives

- **UNDERSTAND** the concepts and practical application of operational risk management
- **LEARN** how to ensure risk management is seen as a business enabler
- **EXPLORE** operational risk in the context of Basel II and Basel III
- **DEVELOP** an embedded risk management approach
- **IMPLEMENT** the different techniques for identifying and evaluating operational risks
- **MANAGE** the effective implementation of successful risk mitigation
- **LEARN** how to link risk management into the business planning process
- **DEVELOP** techniques for the assessment of people, process and reputation risks
- **REDUCE** the impact and likelihood of significant events including 'black swans'
- **UNDERSTAND** specific risks in the financial sector
- **ASSESS** major areas of risk for your business with confidence
- **UNDERSTAND** how to record the risk process effectively

Training Methodology

A mix of practical exercises and facilitated learning using case studies and current thinking on the subject

Day 1 : Understanding Operational Risk

What is Operational risk?

- **Explanation of operational risk and why it is often not properly understood**

- The role and responsibilities of directors and senior management with respect to Operational Risk
- The Basel requirements
- Specific operational risks in the financial sector
- Selling the benefits to top management
- How to quantify and measure risk – and why the approach followed by most organisations may be misleading
- Establishing an operational risk process - the steps to success
- New paper on RM and the role of Executive management will be shared

Exercise 1 – The major operational risks impacting SABB

The link between operational risk and business objectives

- The need to understand the organisation's strategic and other key objectives
- New risk tips paper will be shared
- Developing a programme to reflect these objectives
- Categories of risk
- Establishing a risk management framework
- The results of a Global RM study will be shared
- Why RM is receiving such publicity
- High profile corporate failures and the lessons to learn
- Explanation of the new ISO 31000 international risk standard
- New ISO 31000 and RM paper will be shared
- The regulatory regime and impact on RM

Exercise 2 – Analysing a Disaster – delegates will be asked to review a major disaster and identify the significant risks

Establishing an Embedded Risk Management Process

- Surprises and risk
- The widening of the risk portfolio
- New and emerging operational risks- reputation, social, environmental
- Formalising or refocussing the risk process for your organisation
- Selling the benefits to management
- The need for risk champions
- New guidance paper on risk champions will be provided
- Risk and competitive advantage

Exercise 3 – Risk and reward - A team exercise to show risk taking In action

Risk Identification and Evaluation

- The need for quantitative risk analysis

- Approaches and techniques
- How to identify, sift and group the risks
- Measuring the consequences and the likelihood of occurrence of each risk
- The use of risk matrices to prioritise the risks.
- Risk as an opportunity

Exercise 4 – 30 questions about causes of risk

Risk appetite and risk tolerance

- Risk appetite – the least understood aspect of risk?
- What is risk appetite?
- The difference between risk appetite and risk tolerance
- Defining risk limits
- Black swans
- Risk profiling
- Developing risk appetite statements
- Examples of risk appetite statements

Exercise 5 – Defining risk appetite

Day 2 : Identifying the operational risks

Risk Measurement methods

- The need for quantitative risk analysis
- Root cause analysis
 - Structured Interviews
 - Risk workshops
 - Delphi (expert analysis)
 - Ishikawa diagrams (fishbone analysis)
 - Failure mode and effect analysis (FMEA)
 - Scenario planning
 - Monte Carlo analysis
 - Bayesian networks
- The pros and cons of the various methods

Risk workshops

- The power of workshops
- Techniques for successful risk workshops
- Analysing root causes during workshops
- The need to involve peer groups

- Establishing a risk workshop
- Facilitation techniques

Exercise 6 –Operational risk identification workshop

Delphi (expert analysis)

- Getting consensus from experts of different backgrounds and perspectives
- Comparing the opinions of qualified experts from different fields
- Determining acceptable risk by using experts to assess e.g. total credit given versus credit available or to establish creditworthiness criteria
- Worked example

Exercise 7: Delphi exercise – Who killed Amos?

Ishikawa (fishbone) analysis

- Very effective in evaluating risks with multiple causes
- Steps in fishbone analysis
 - Problem identification
 - Primary and secondary causes
 - Establishing priority criteria
 - Preparing fishbone diagram
 - Analysing the output

Exercise 8 Fishbone exercise - loss of key personnel

Root cause analysis

- Identifying causes and effects
- Evaluation of potential failure modes for processes
- The likely effect on outcomes and/or performance
- Risk reduction measures to eliminate, reduce or control the potential failures
- Impact, probability and detection criteria
- Failure mode analysis
- Fault tree analysis
- Worked example of FMEA

Exercise 9 FMEA exercise

Monte Carlo simulations

- Mathematical technique that allows people to account for risk in quantitative analysis and decision making.

- Provides a range of possible outcomes and the probabilities they will occur
- Determines a probability distribution
- The types of distribution
 - Normal(bell curve)
 - Uniform
 - Triangular
- Uses of Monte Carlo simulations
 - Used to price complex financial instruments
 - To determine the VAR (value at risk)
 - Determining the option to expand, contract, or postpone a project

Exercise 10 Monte Carlo exercise

Bayesian networks

- Bayes theorem
- Adding more data to an original idea to enhance decision making
- Use of Bayesian networks
 - Will it rain tomorrow
 - Visiting the doctors
 - Banking sector

Exercise 11 Bayesian network exercise

Day 3 : Dealing with the risks

Assessment of Risk Mitigation

- Ensuring risks are managed effectively
- How to assess risk mitigation
- The need for diligence and challenge
- Identification of risk exposures
- Dealing with the exposures (the 4 Ts - terminate, tolerate, treat or transfer)
- The need to keep the process as simple as possible
- Establishment of action plans
- Allocation of risk owners

Exercise 12: Risk Exposures

The Risk register challenges

- Why the RM process often fails to engage management

- Risks recorded are much too general
- Causes and effects are confused with risks
- Only residual risk is concentrated on
- Various different methods are used for scoring risks
- Benefits are difficult to determine
- The register is spread sheet based
- The process is far too complex
- The Risk register solution

Exercise 13 –The risk register

Linking the output into the Business Planning Process

- Linking corporate risks with the strategic planning process
- Linking operational risks into business planning
- Risk owners – how to determine such personnel and enforce ownership
- Annual statements by risk owners
- Developing risk tracking
- New risk culture paper
- Using the risk register as a decision skeleton
- Quarterly board reporting to review progress in addressing the exposures
- Risk management committee reporting
- Half yearly evaluation of key risks to ensure new risks identified and included

Exercise 14 – Ownership of risks – delegates will be asked to determine an effective process for risk ownership

People and Process Risks

- Key risk themes and how to deal with them
 - Failure to manage projects effectively
 - Loss of IT systems
 - Failure of partners or inability to establish effective partnering
 - Loss of key personnel
 - Hacking/breach of system security
 - Failure to innovate
 - Poor prioritisation of systems development
 - Loss of morale / stress
 - Too much data – insufficient information
 - E-Commerce – the key risks and steps to take to mitigate them
 - IT security – how to evaluate effectiveness and influence change

Exercise 15 – People and System risks

Focussing the Operational Risk Environment

- **The need to coordinate and link the output**
- **Flagging interdependencies – if one risk treatment is changed the other party or parties impacted need to be notified**
- **Risk treatment analysis – how to determine the cost/benefits of dealing with exposures / exploiting opportunities**
- **Risk management as a route to reducing bureaucracy**
- **How to use the risk process to break down the cultural barriers**
- **Reports for senior management**

Cascading the Process

- **Stakeholders interest in risk**
- **Making risk management second nature**
- **Keeping up the momentum**
- **How to measure the benefits**
- **Sharing output with partners**
- **Evaluating risks within these relationships**
- **Risk indicators (KRI's)**
- **New paper on KRI's will be provided**
- **How to identify and reduce excessive controls**
- **Feeding key risks up the organisation**
- **Coordinating the whole process**
- **Useful web sites and reference books**
- **How to use the programme to change the culture**

Exercise 16 –Measuring the benefits – delegates will be asked to discuss and determine effective risk measures