



WHAT IS OPERATIONAL RISK?

Factors Influencing the Importance of Operational Risk

- Market consolidation and margin squeeze
- The complexity and sophistication of IT systems
- Basel II and risk capital allocation pressures
- Hidden risks posed by complex financial products
- Improved communications and reliance upon efficient IT systems and STP

Identifying and Classifying Operational Risk Categories

- Fraud
- Systems and operations
- Communication
- Documentation

ANALYSING SPECIFIC RISKS

Technology

- Systems failure
- Programming errors
- Telecoms

People

- Incompetence
- Fraud

Process

- Execution error
- Booking error
- Transaction and mis-matching of trades

Workshop: Developing operational risk management

- Objectives of operational risk management
- Responsibilities
- developing a risk awareness culture
- developing operational risk management procedures
- Operational risk management techniques
- self assessment
- benchmarking
- allocating operational risk costs

MEASURING OPERATIONAL RISK

Understanding the Risk Impact

- What is measured and how
- What not to measure
- The interpretation of information
- Capital allocation assumptions
- Capital adjustment policies

Workshop: Utilising risk measurement techniques

Case Studies: Rogue trading and fraud

Practical Workshop: Identifying and managing operational risk in a merger scenario

Stage 1: Understanding how the new operational risk environment might look

- Covering the period after the offer announcement
- Systems map and assessment
- Take-over rules - ensuring information security

Stage 2: Understanding the new operational risk environment

- Covering the period after the offer is agreed
- Matching of people
- Matching of systems
- Assessing how the support function will work

Stage 3: Living with the new operational risk environment

- Short-term - surviving the first few months
- Making the two firms work
- Getting the systems to communicate and work in tandem
- Living with multiple back-office and front-office systems
- Living with multiple processes
- Politics
- Dealing with resentment, dismissals/ redundancies

Stage 4: Designing and building a better operational risk environment

- Longer-term - integration and rationalisation
- Process re-engineering and streamlining processes
- Removing duplication
- STP projects
- Systems design and end-user considerations
- Single back office and front office
- Overcoming resistance and introducing training strategies
- Project planning, budgeting and communications
- Assigning responsibility for risk policy

Exercise: Analysing a situation

- Identifying potential risks
- Identifying killer risks
- Identifying the cause of the risk situations
- Devising the recovery plan

MANAGING AND IMPLEMENTING THE OPERATIONAL RISK MANAGEMENT POLICY

Generic Approaches

- Do nothing
- Insurance
- Risk profiles mapping
- MIS
- Straight Through Processing (STP)
- Processes and controls
- Overcoming data incompatibility
- Systems reconciliation

Soft Issues

- Building risk awareness culture
- Building consensus on risk allocation policies
- Building sense of responsibility for risk reduction
- Overcoming resistance to change and establishing clear, straight-through communication channels
- Corporate governance

Identifying and Tackling Line Management Issues

- Assessing the level of senior management buy-in to operational risk solutions
- Understanding reporting lines and roles/ responsibilities
- Implementing effective management control
- Empowerment and staff control

Practical Workshop: Delegates will be required to identify and manage operational risk in a problem with a system implementation

Practical Workshop: Delegates will be required to identify and manage operational risk in a personnel issue