



The OpRisk Company
LTD

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Designing and Implementing an Effective Operational Risk Framework

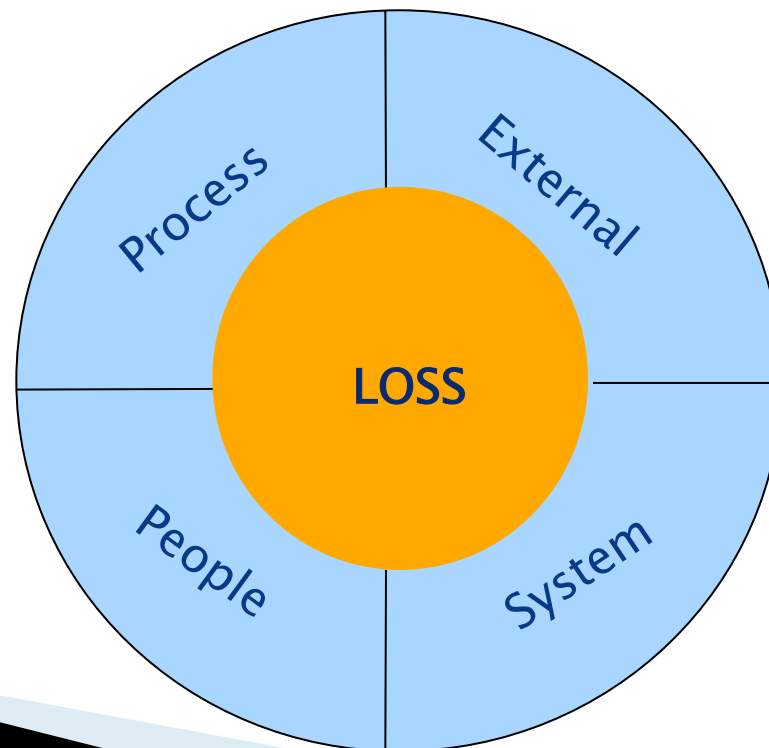
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Operational Risk Definition

Just **LOSS** no longer works

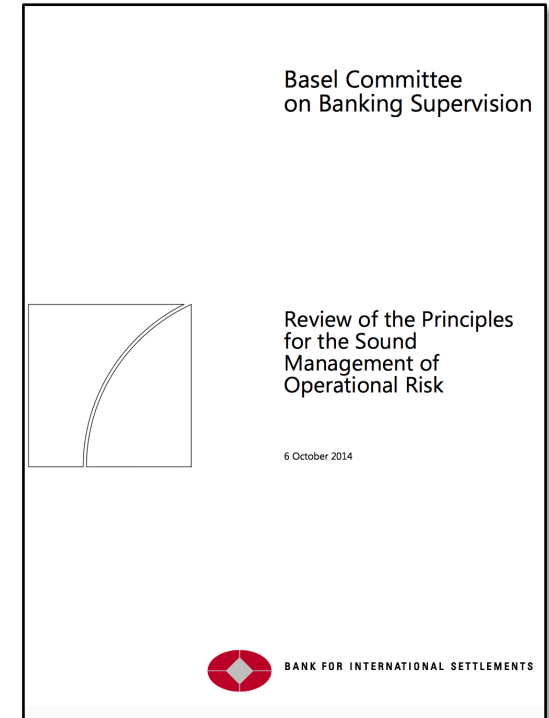
“the risk of *direct or indirect* loss [*or the risk of not achieving firm's objectives*] resulting from inadequate or failed internal processes, people and systems or from external events”





RCOSA – Industry Benchmark

- **RCSAs remain a core tool of the Operational Risk Framework**
‘most banks have established a risk and control self-assessment’
- **Many banks are looking to improve the tool** *RCSAs ‘currently undergoing some form of change or enhancement’*
- **Application varies** *‘fewer than half the banks indicated that the RCOSA was implemented on an enterprise-wide basis’*





RCSA – The Questions

- Key Risks – in what? Process? Department?
- Top Down or Bottom up?
- Workshop: with Risk or Control owners, or both?
- Inherent or Residual?
- Controls: Assess or Test?
- Assess: What grading scale?
- Tester: Independent?
- Result: how to present?

To achieve the best cultural and organizational fit,
derive maximum benefit and demonstrate the 'use test'



Measures of Success

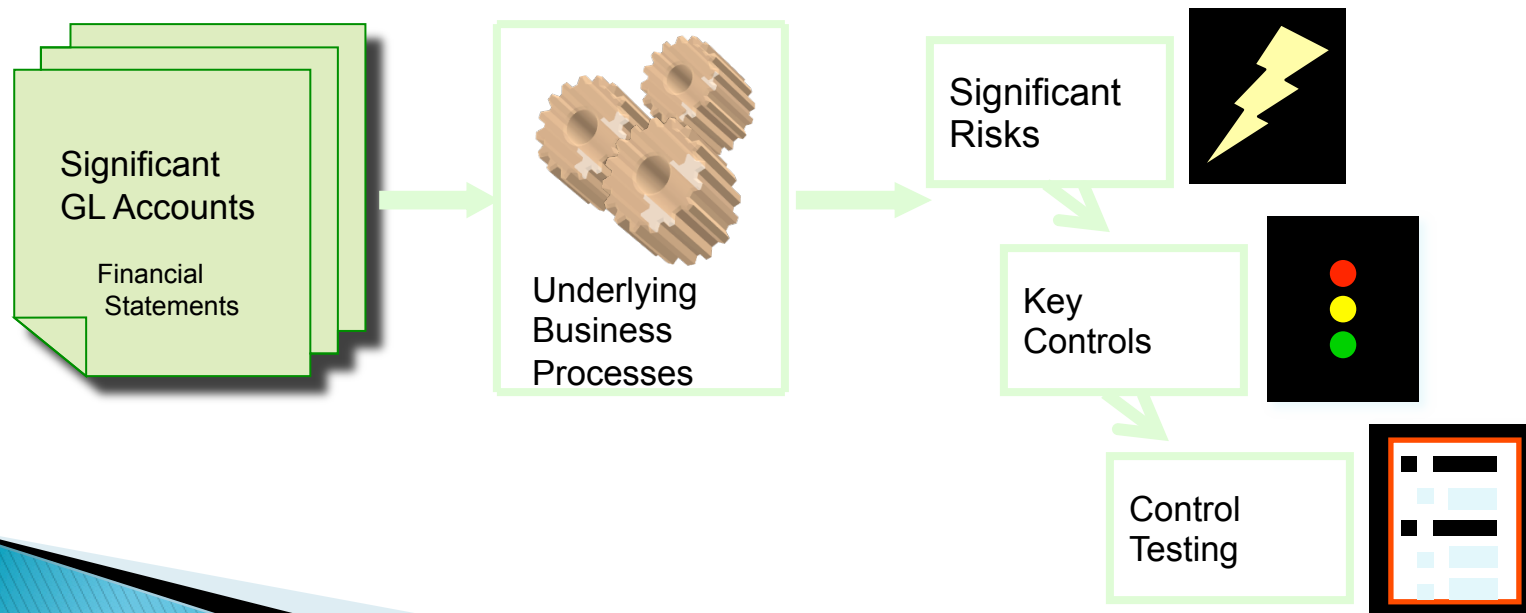
- **‘Usefulness / Actionability’** measure: the number and monetary value of investments emanating as a result of the RCSA(s);
- **‘Risk Awareness / Risk Management’** measure: % of significant issues raised by Internal (External) Audit that are already known / self-identified via RCSAs.



RCSA – Process Based

- ❖ A bottom-up internal control self-assessment program which focuses on business processes that impact the Company's most significant General Ledger accounts.
- ❖ Identifies significant risks related to those processes and key controls in place to mitigate those risks.
- ❖ Driver : Sarbanes-Oxley

High-level Overview:

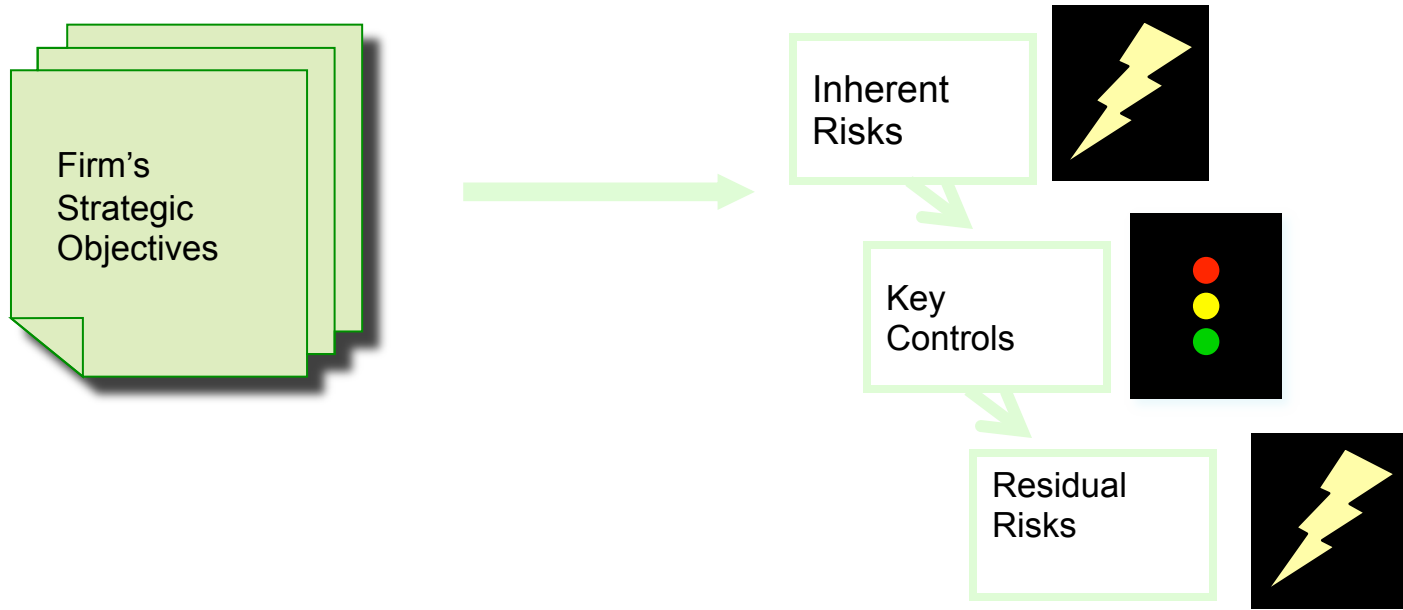




RCSA – Strategy Based

- ❖ A Top-down self-assessment program which focuses on strategic objectives of the firm.
- ❖ Identifies risks that can prevent the firm from achieving its objectives and key controls in place to mitigate those risks.

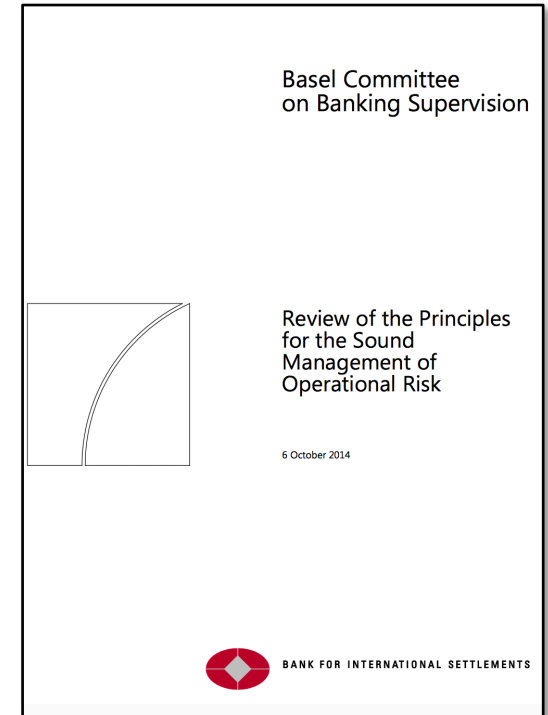
High-level Overview:





Change – Industry Benchmark

- **One of the lower average ratings** *‘many aspects of change management not fully implemented’*
- **Principle 7 ‘approval process that fully assesses operational risk for all new products, activities, processes and systems’**
- **Noteworthy practice** *‘product risk framework and life-cycle’*





Highlighted Challenges

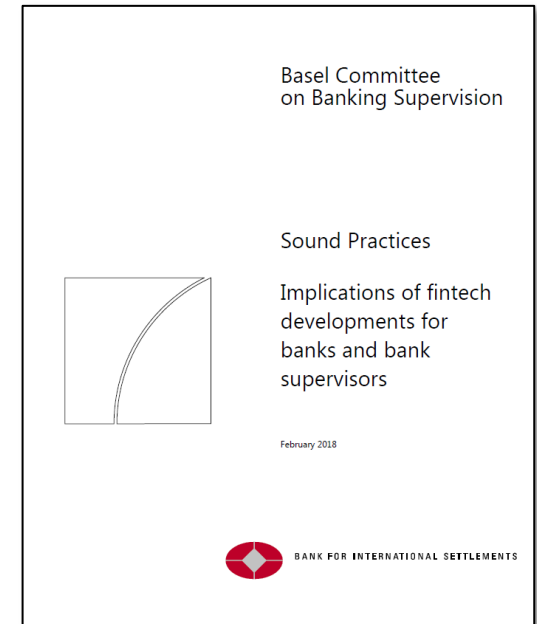
- Absence of a holistic definition of “change” leading to the governance framework not covering all types of change;
- Decentralised management of change with processes not completely aligned;
- Operational risk taxonomy not consistently applied to various changes;
- ‘Second Line of Defence’ roles inadequately structured;
- Lack of monitoring of risks following approval and absence of formal post-implementation reviews.



And a Final Thought

Are Operational Risk tools fit for fintech space?

Basel Committee analysis and recommendations on the application of Principles for the Sound Management of Operational Risk to fintech (p.25–26)





Thank You!

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