



# FAILURE OF OPERATIONAL RISK

Lessons from the  
Ghanaian Banking  
Industry.

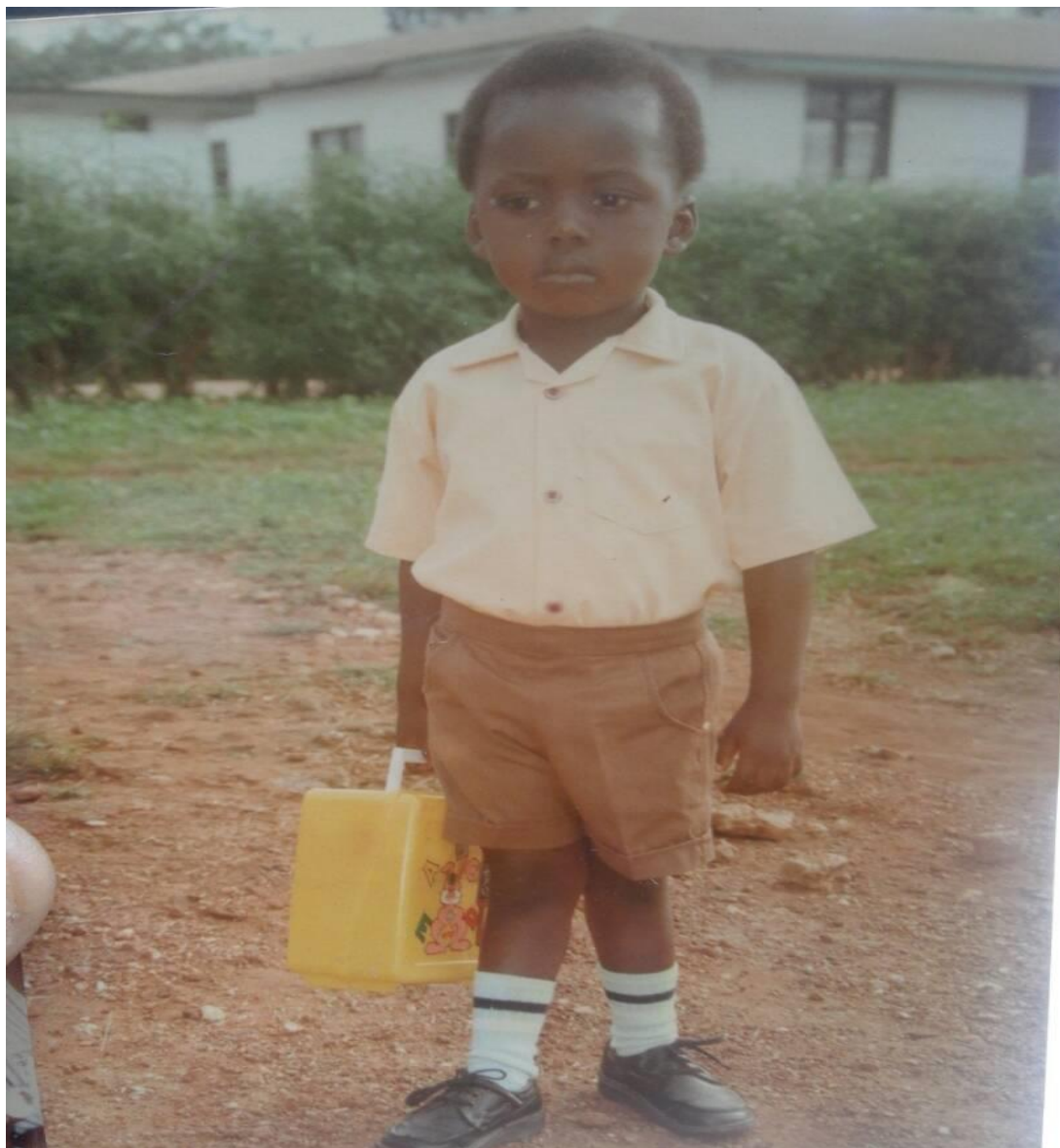


# Lessons for Decision Optimization – Stories from UT Bank, Capital Bank and uniBank

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# ABOUT AUTHOR

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Samuel Okyere has a Bachelor of Science degree in Actuarial science from the University of Cape Coast, Ghana and a distinction in a Masters of Risk Management and Finance from the Business School Netherlands. He holds a degree in Law and is a PECB Certified Information Security Master.

He is an expert in Enterprise Risk Management, Strategy and Business Optimisation as well as Banking and Finance. His passions span academia, consultancy, social influence and leadership. He is the Head of Operational and Market risk, Environmental and Social Risk Coordinator and Information Security Manager.



# FAILURE???

*Systemic long coming issues that could have been prevented by effective risk management.*



## UNCERTAINTIES

Expectations as we dream them may not be as realities presents



## MARKET DYNAMICS

Markets do not operate at our wishes, we can only seek to understand the market drivers and harness the forces that shape market behavior



## VALUE PROPOSITION

Value is determined not on our assumptions but on the nature of problem it solves



## SYSTEM THINKING

The interconnected web can and do cloud us to assume functional integrity

1976 - 1983

7million –  
60million in  
2008

# Evolution of Patterns

120million to  
400million in  
2018

60million -  
120million  
in 2013

1996 - 2001

# At the Heart of Operational Risks

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**Effectiveness**



**Internal Control**



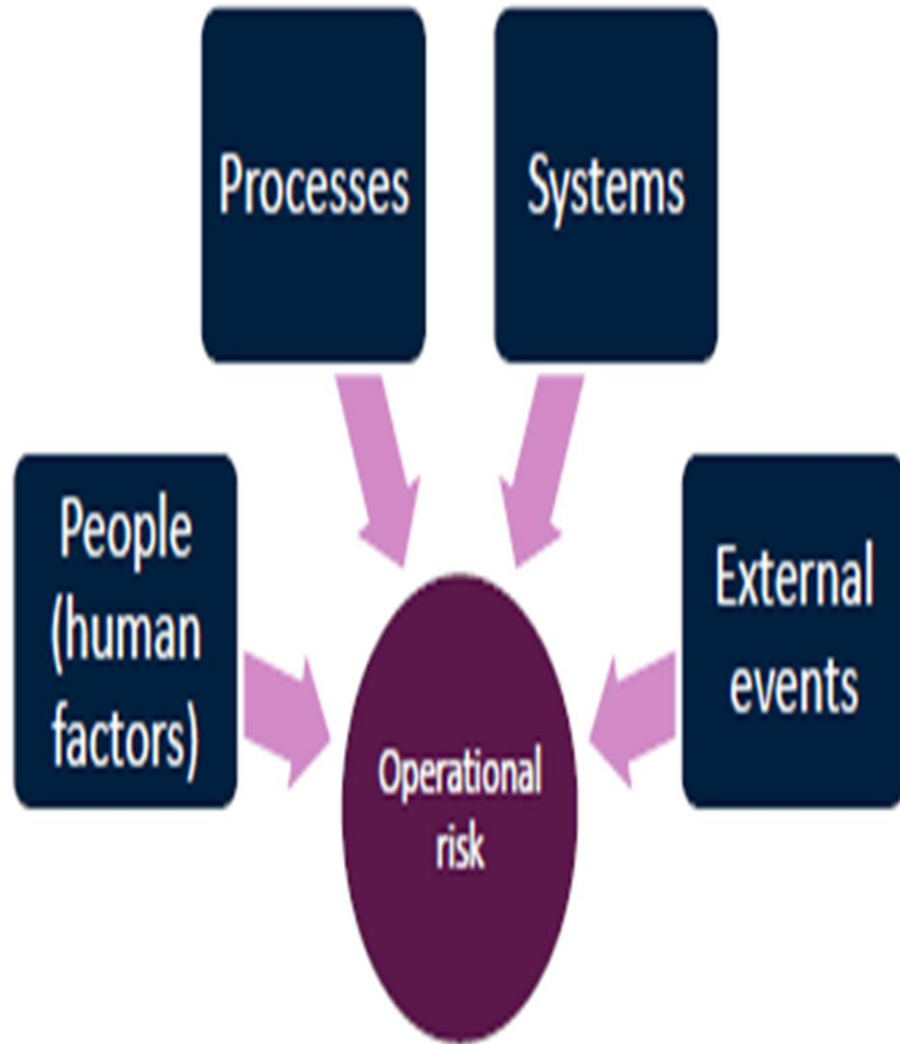
**Adaptability and Optimization of  
Uncertainties**



# Conceptualizing Operational Risk

- Value 4 U

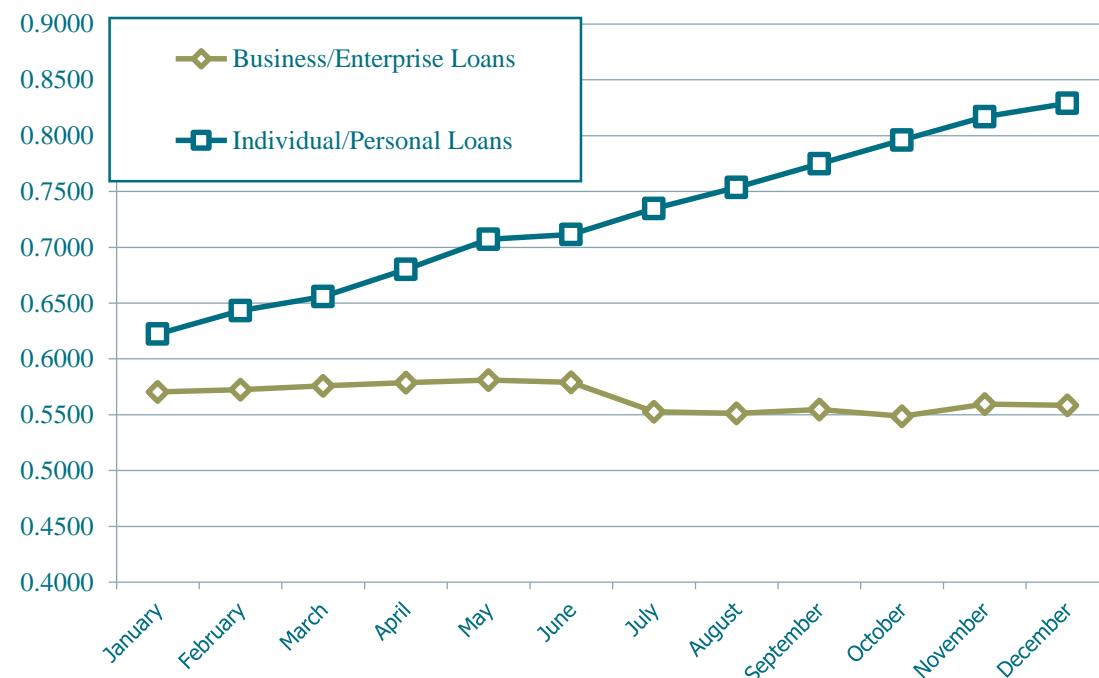
## 7 Operational Risks Projected by BASEL II



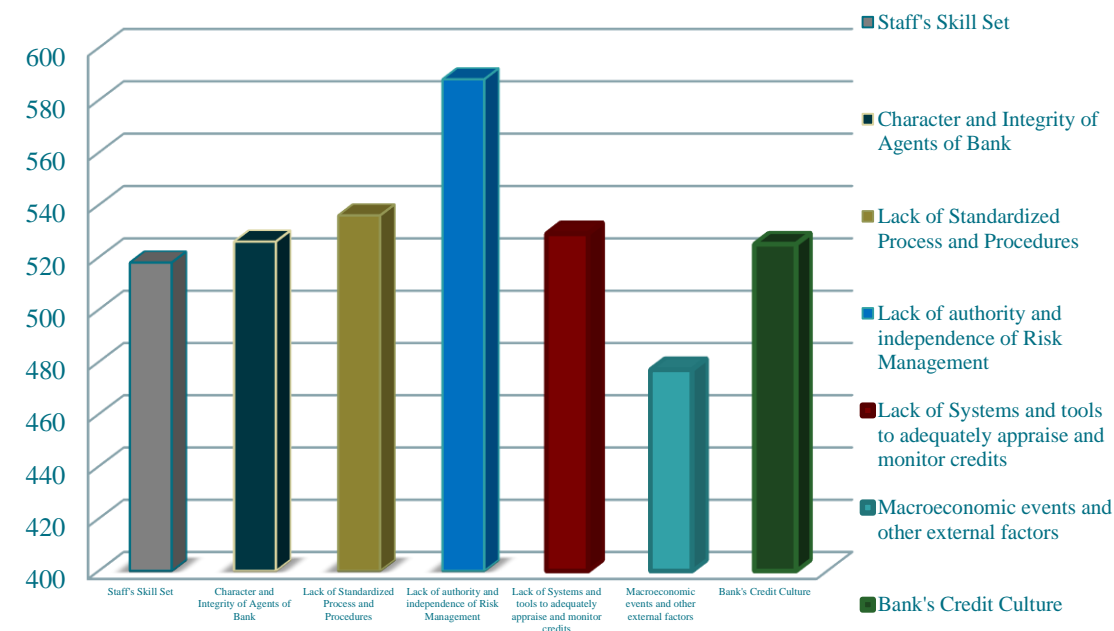
# Number Stories

*Two data sets points to the problem far better than any words may*

## Probability of non-payments - 2014



## Perception of Causes of Failure





# PUZZLE OR MYSTERY?

# BUSINESS MODEL – SYSTEM’S HEART

*Business life cycle management is important for the longevity of the product or idea, but a fundamentally unsustainable idea will not survive the ‘rough weather’ businesses operate in, irrespective of how much the business is jacked up through the cycle*

1

## PHILOSOPHY

Every product or idea is borne out of the founder(s)’ sense of wonder. The sense of wonder at the product generation stage leads to the ‘knowledge’ which are usually convictions of assumption to begin an enquiry. Philosophy argues, To wonder means leading to knowledge.

2

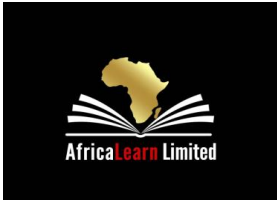
## VISION

vision has two key components: a base ideology and visionary future. Base ideology gives the reasons for the organization’s existence, its persistent features and authentic identity. Visionary future primarily describes the state of the organization in twenty to thirty years from now.

3

## MISSION

Mission describes the organization’s identity, product, market and the particular methodology or technology of emphasis. The mission statement incorporates specifics about the organization that make it unique



## KEEPING THE WHEELS STEADY

*The principle is that the value of a future gain should be directly proportional to the chance of getting it. The principle could be restated as; the cost of procuring a chance should be less than the expected value of the chance.*

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### Value of the Loss

**GH¢12.7billion** (29bks.)

**Reputational & Legal**

**Social Consequences**

**Contagion Effect**

### Availability Bias

The world in our heads is not a precise replica of reality; our expectations about the frequency of events are distorted by the **prevalence** and **emotional intensity** of the messages to which we are exposed.

### Overconfidence

Good stories are argued to provide a simple and coherent account of people's actions and intentions. If one therefore thinks that an actor is handsome and charming, they are likely to rate him as a better actor than he may actually be. A compelling narrative fosters an illusion of inevitability hence people assert to know things but forget that we can only know something that is **true** and **knowable**.



Rationality is the process of making decisions that are sensible, or logical, within a given reasoning system. “Common sense” reflects social and physical realities and has shared meaning within the culture.

## Reasoning Systems

The lack of integration to solve an imminent liquidity challenge. The change process had no recourse to the fundamental causes but had become a silo which professed solutions which had no direct bearing to solving the underlying issues. What was needed was an organizational transformation that sought to change culture, business model and to draft a long time strategy.

## Integrated View

The worse part of both UT and Capital bank’s change process was the reassignments of employees across the bank. There were massive reassignments with people going to start new portfolios in new branches and others assigned to new departments to start careers they had no education, training or aptitude for. This lead to an exodus of some of the most productive employees and depriving the remaining employees of any sense of loyalty to the company. At the same time the organization sough to extend and spread with related party transactions increasing. Holding groups must build synergy not representation

## Unsustain Focus

# YOUNG SAILORS & STRATEGIC MISDIRECTION

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Strategic flaws can be costly and therefore any strategy needs to be **reviewed often**, so as to correct possible pitfalls with **precise, measurable and sustainable yardsticks for gauging progress**. The pursuit of the glorious future should not be misguided by a dispersed and poorly constructed map



# LACK OF INDEPENDENCE

*Humans are not exactly lemmings, but they are easily influenced by the statements and deeds of others*

## The Reverend Jim Jones

The Reverend Jim Jones was the founder and leader of the People's Temple. In 1978 Jones, facing charges of tax evasion, moved most of his one thousand followers from San Francisco to a small settlement in Guyana, which he named Jonestown. Facing a federal investigation for reported acts of child abuse and torture, Jones decided that his followers should poison their children and then themselves. Jones's decision was resisted by a few people, others shouted out their protest but they were silenced as vats of poison was prepared. Following Jones's orders, and the social pressures imposed by one another, mothers and fathers duly poisoned their children and then after poisoned themselves. Their bodies were later found arm in arm, lying together.

Information

Social  
Cohesion



# WOLVES IN SHEEP CLOTHES

*Trust is a function of a productive and successful community but how do we rank on trustworthiness?*

**Competence**

*Unproductive Politicians*

**Reliability**

*Passive leaches*

**Integrity**

*Fraudulent Thieves*

# SLEEPING GODFATHERS

Legal Responsibility



Date	USD Rate	Change
2007-12-31	0.9701	
2013-01-02	1.9022	96.1%
2014-12-31	3.2013	68.3%
2016-12-30	4.2023	31.3%
2018-01-02	4.4189	5.2%



Specific Entity Impact



Systemic Impact



Public Trust Requirement

# BROKEN STATE

*The data shows that the financial sector performance is linked with general economic performance, and that financial sector problems are normally preceded by economic problems.*

2013

2015

2012

2016

GDP per Capita

GDP per Capita

Economic Growth

Economic Growth

Cost of Doing Business

USD 1,767

USD 1,346

9.3%

3.5%

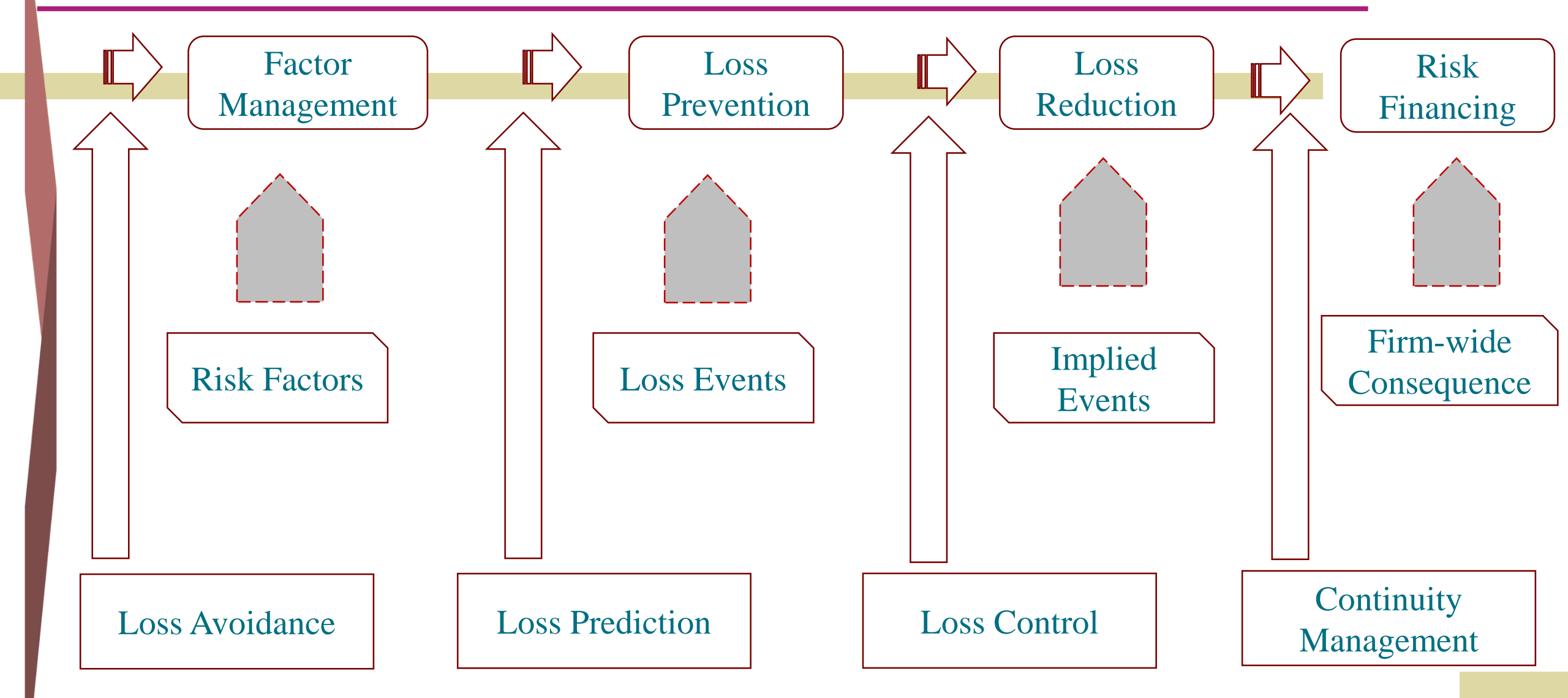
-24%

2.65 X

- DUMSOR
- LEGAL REGIME
- CORRUPTION
- GOVERNMENT DEBT



# Operational Risk Management thrown out the Gutter



# The 'Challenger' Challenge or Disaster Ritual?

*Munich ABS experiment, 1960s Sweden road change over & Zebra Crossing Dilemma*

- Challenger Space shuttle, which blew up over southern Florida on January 28, 1986 after the Three Mile Island (TMI) accident in 1979 and Apollo 13 in 1970
- Richard Feynman, Nobel Prize-winning physicist who served on the 'Challenger commission said that at NASA decision-making was 'a kind of Russian roulette.' when the O-rings began to have problems and nothing happened, the agency began to believe that "the risk is no longer so high for the next flights" we can lower our standards a little bit because we got away with it the last time.
- There were six volumes of shuttle components that were deemed by NASA to be as risky as O-rings. Where do we go from here???



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# Imperial Vision and the Scipio Siege

*The probability that a company will not be around in five year is a staggering 32% - Boston Consulting Group*



Insight & Skill



Risk & Reasoning Systems



Diversity & Renaissance



Rational Misbehaviors



Designing Resilience



Biological Thinking



## *Mona Lisa*

Italian: *La Gioconda*, French: *La Joconde*



Artist	Leonardo da Vinci
Year	c. 1503–08, perhaps continuing until c. 1517
Medium	Oil on poplar panel
Subject	Possibly Lisa Gherardini
Dimensions	77 cm × 53 cm (30 in × 21 in)
Location	Musée du Louvre, Paris

“

No masterpiece  
was ever created  
by a lazy artist”

■ —Anonymous





# THANK YOU!

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