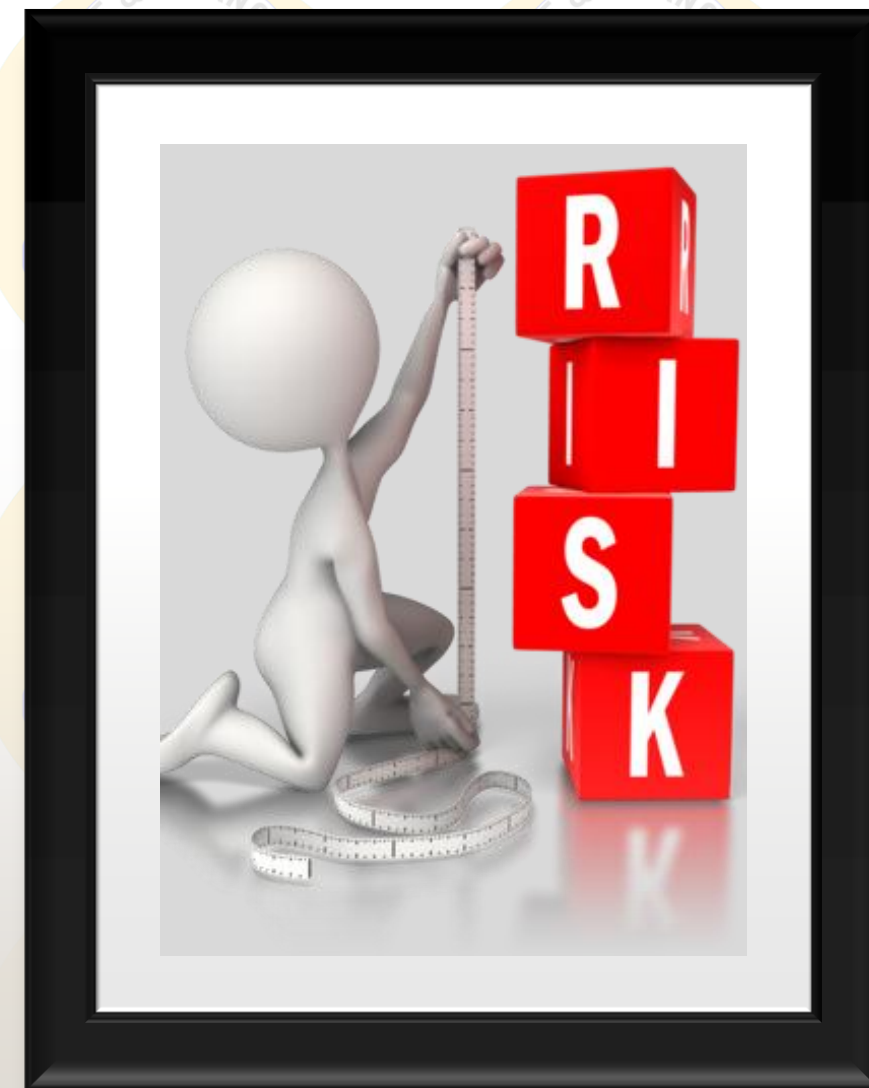


EMIGROUP 2017

MANAGING OPERATION RISKS & REWARDS

IN SUB SAHARAN AFRICA



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VIDEO

THIS IS FUNNY BUT WHAT HAPPENS WHEN
THE CRYSTAL BALL BREAKS?



4 MANAGING OPERATIONAL RISKS & REWARDS

- I. Definition of Operational Risk (OR)
- II. Sources & Components of OR
- III. Operational Risk Management (ORM) Best Practices
- V. Rewards/Benefits of Efficient & Effective ORM

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I- DEFINITION OF OPERATIONAL RISK (OR)

ISO DEFINITION OF RISK

Risk is Defined by ISO Guide 73 as the:

“effect of uncertainty on objectives”.

The Guide Also states that an effect may be **positive**, **negative** or a deviation from the expected, and that risk is often described by an event, a change in circumstances or a consequence.

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OPERATIONAL RISK DEFINED BY BASEL II

Basel II defines Operational Risk as:

Operational risk is **defined** as the **risk** of loss resulting from inadequate or failed internal processes, people and systems or from external events. This **definition** includes legal **risk**, but excludes strategic and reputational **risk**.

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OUR DEFINITION OF ENTERPRISE RISK MANAGEMENT (ERM)

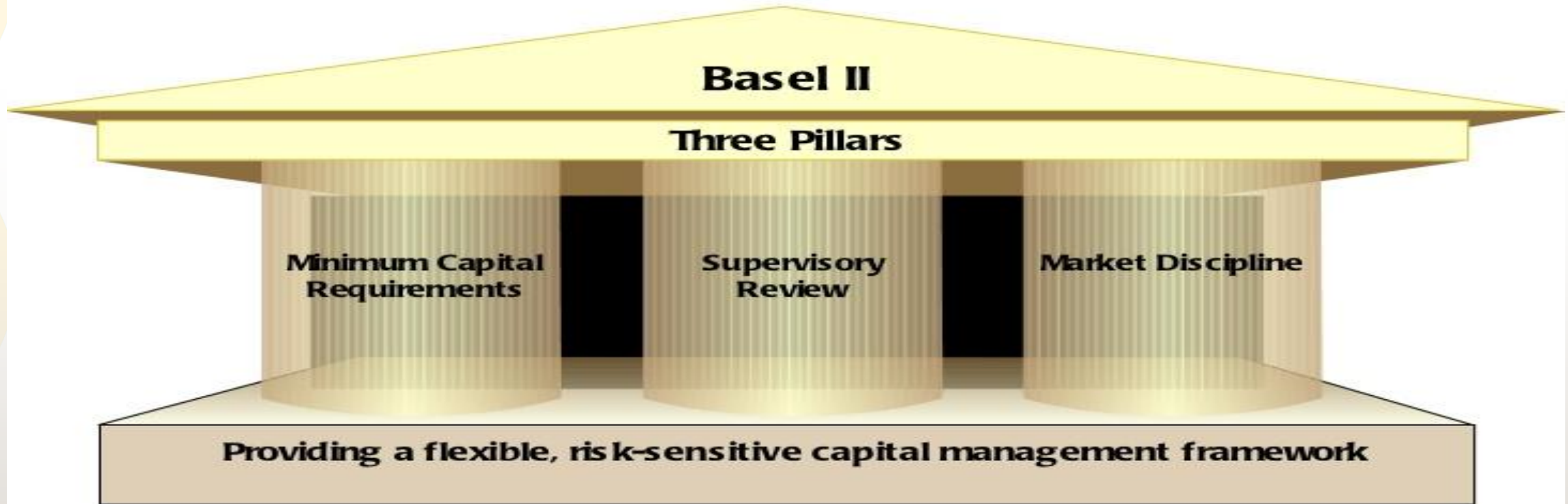
E-veryone is a

R-isk

M-anager

Basel II – Evolution of Ops Risk

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March 4, 2011

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OPERATIONAL RISK CASE STUDY

WHAT WENT WRONG?

WELLS FARGO SEPT 2016

Before September 2016, Wells Fargo was a very well-managed compliant company. Then the case of Fraudulent Accounts surfaced:

- Fraudulent practices of opening unauthorized deposit and credit card accounts:
 - Creation of more than 1.5 million unauthorized deposit accounts and
 - more than a half million bogus credit card accounts
- \$185 Million fine
- 5000 employees fired

II LESSONS FROM THE WELLS FARGO CASE

What's interesting about Wells Fargo is that they have historically managed risk well.

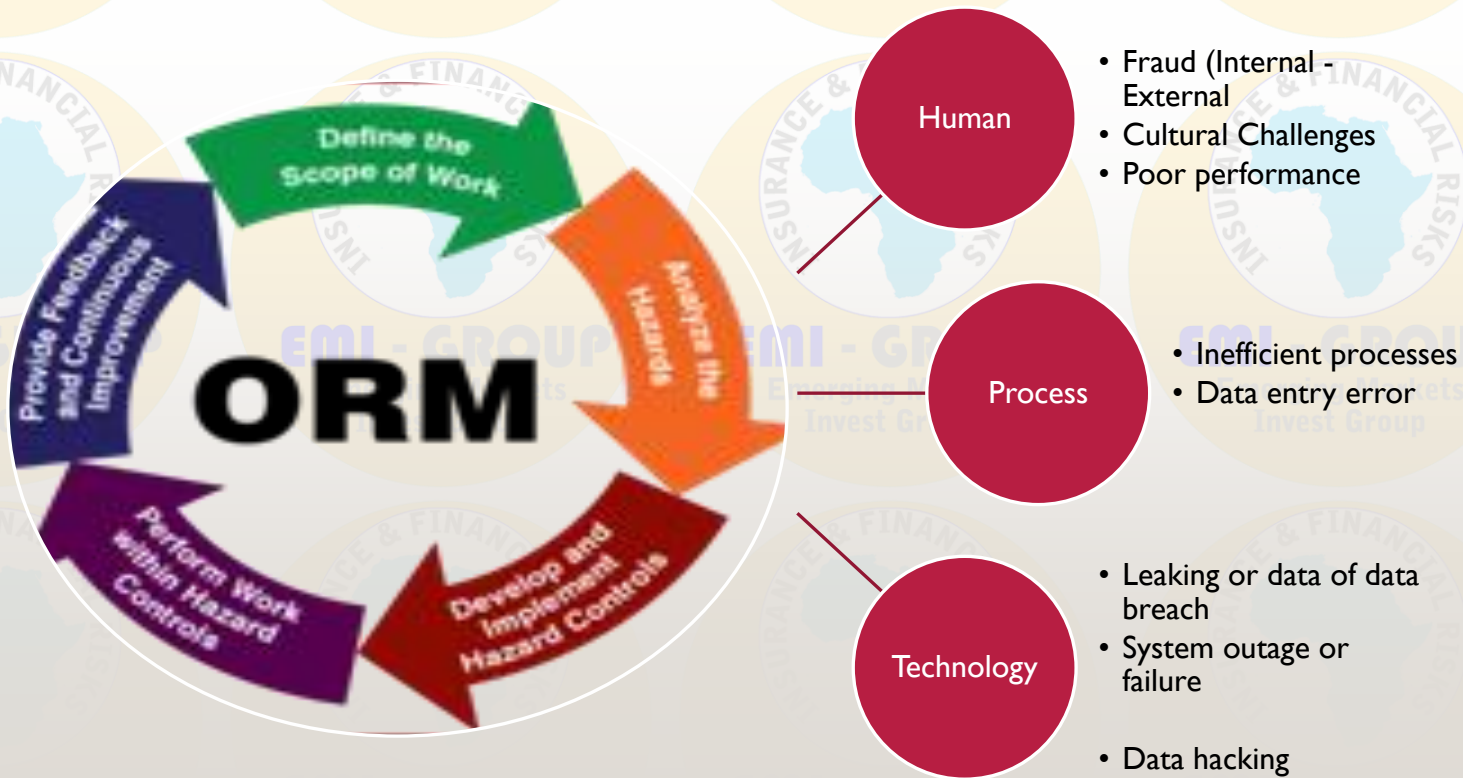
But unlike credit or market risk, which both can be measured and monitored fairly well.

The bank clearly was unable to identify the degree to which employee business practices were creating extensive operational, reputational and regulatory risk for the firm.

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II- SOURCES OF OPERATIONAL RISK

OPERATIONAL RISK REVIEW:



OPERATIONAL RISKS REVIEW

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❑ Human: Potential losses due to a human error, done willingly or unconsciously

- Internal Fraud or failure
- External fraud or failure
- Cultural challenges
- Performance risk (underperforming staff & low engagement level of staff)

❑ Process : Potential losses due to improper information processing and inaccuracy of data processing

- Efficiency challenges
- Data entry errors
- Poorly designed processes

❑ Technology Potential losses due to system failures and programming errors

- Leaking or hacking of information
- System failure
- Data breach

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EXAMPLES OF OPERATIONAL RISKS



INTERNAL PROCESS

- KYC not Observed
- resulting in AML violations

PEOPLE

- Unskilled workers
- resulting in errors, poor service, and loss of business

TECHNOLOGY

- Unreliable systems
- resulting in outage, data leakage and reputational risks

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THE HUMAN FACTORS TIPS TO SENSE (OR) IN YOUR ORGANIZATION

- **Are your employees engaged?**

- Employees are the direct links to business operations
- So give your employees ample space to openly address issues

- **Do your employees have the talent and skills?**

- Do you have the right people at the right place?
- Are your employees trained and equipped for the job?

- **Is there an efficient channel of communication?**

- Two ways communication is key- **Remember the boss is not always right**
- Understanding Communication in African Culture
- Are your employees empowered to speak honestly and freely?

- **Have you been paying attention to your employees?**

OPERATIONAL RISK MANAGEMENT (ORM) BEST PRACTICES

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OPERATIONAL RISK MANAGEMENT (ORM) BEST PRACTICES

- Board Ownership
 - Board Involvement
 - Sufficient resources and attention from entire organization
- Risk Management Policy
 - Written Risk Procedure
 - Communicate Risk Tolerance
 - Define everyone's Role and Responsibilities
- Track and Monitor OR
 - Assess all threats
 - Internal Versus External

ORM BEST PRACTICES (CONTD.)

- Establish Key Risk Indicators (KRIs)
 - Organization's Operational objectives and Risk appetites
 - KRIs dashboard
- Communicate Across the Organization
 - Communicate Key Risks Indicators
 - Ensure readiness of all functional areas
 - Communicate KRIs Dashboard Regularly

IV- REWARD/BENEFITS OF ORM

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BENEFITS OF OPERATIONAL RISKS MANAGEMENT

- Provide insights and support to the Board of Directors. ...
- Improve customer satisfaction
- Reduce business liability. ...
- Discover and report unauthorized activities.
- Monitor customer contact activities to discover and prevent potential customer satisfaction problems.

Benefits of Operational Risk Management (ORM) (con't)

- Increases stakeholder confidence and trust*
- Establishes a reliable basis for decision making and planning
- Improves operational effectiveness and efficiency*
- Minimizes losses*
- Reduce business liability. ...

* Direct impact on the Bottom Line

23 REFERENCES

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