* Operational Risk

According to Basel Committee on Banking Supervision (2003), Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people, systems or from external events. There are different types of operational risks like fiduciary breaches, aggressive sales, breaches of privacy, account churning, failure of IT systems, health and safety, litigation and misuse of confidential information.

Operational risk management activities and processes, including: risk identification; risk and control assessments; and the implementation of effective risk appetite, risk management and governance frameworks.

Implement the techniques that support a robust operational risk management framework.

Key Risk Indicators: an important tool within operational risk management, facilitating the monitoring and control of risk. Indicators are metrics used to monitor identified risk exposures over time.

* Used to measure:

The quantum (amount) of exposure to a given risk or set of risks.

The effectiveness of any controls that have been implemented to reduce or mitigate a given risk exposure.

How well we are managing our risk exposures (the performance of our risk management framework).

* three different types of indicators:

risk (exposure) indicators: exposure to a given operational risk which the organization has at a particular point in time

Appendices (8.1).

control effectiveness indicators: a given control is meeting its intended objectives in terms of loss prevention, reduction. measure the effectiveness of particular operational risk controls at a particular point in time.

an explicit relationship to both the specific control and to the specific risk against which the control has been implemented.

performance indicators: metrics that measure performance or the achievement of targets.

An organization’s risk exposure arise from its unique business activities, corporate strategy and culture. So the set of indicators which measure and monitor that exposure level are likely to be different.

* How to use risk indicator

1. Risk monitoring

Emerging risk trends and issues on the horizon that may need to be addressed (via ‘leading’

indicators);

• Current exposure levels; and

• Events that may have materialised in the past and which could occur again (via ‘lagging’

indicators).

The frequency with which an indicator is measured is an important factor

1. Support Operational Risk Assessments and track risk exposures
2. Indicators, Risk Appetite and Governance
3. Performance Management and Strategic Management
4. Regulation and Capital Assessments

Boundary and threshold

This implies that the organisation should periodically review not just the indicators it is using, but the thresholds applied to those indicators. However, if the thresholds are too narrow, they will result in false alerts and then over time, people ignoring the alerts altogether. Too broad, on the other hand, and the organisation learns too late that a major issue has suddenly emerged, with potentially significant adverse consequences.

Thresholds, Limits and Escalation Triggers

From a governance perspective it is recommended that the process to add, change or remove specific indicators is evidenced by proper documentation, including who needs to do what with regard to existing data, the collection of new data and changes to reports.

Indicator Dimensions and “Buckets”

The indicator data collected by an organisation should usually be sub-divided into some form of subgrouping, such as: customer type; transaction type; location; product type; etc

Reporting

Prioritising Risk Indicators

lists of operational risk categories

<https://www.cia-ica.ca/docs/default-source/2014/214118e.pdf>

Basel II risk events types:

• Internal fraud;

• External fraud;

• Employment practices and workplace safety;

• Clients, products and business practices;

• Damage to physical assets;

• Business disruption and system failures;

• Execution, delivery and process management

* Labeling function 1

https://www.sciencedirect.com/science/article/pii/S1877050918318982

**8K Forms**

The Form 8-K is what a company uses to disclose significant developments that occur between filings of the Form 10-K or Form 10-Q. Major organizational/company events that would necessitate the filing of a Form 8-K include bankruptcies or receiverships, material impairments, completion of acquisition or disposition of assets, and departures or appointments of executives.