Operational Risk Management for Financial Institutions
22nd and 23rd August 2011, Auckland

Key Risk Indicators for the Financial Sector
24th August 2011, Auckland

Risk and Control Assessment for the Financial Sector
25th August 2011, Auckland

Facilitator:
Paul Barton

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Operational Risk Management for Financial Institutions

Current status of Operational Risk Management
• Drivers of current ORM practice
• Objectives and milestones of ORM success
• Challenges for the CEO and the Board

Understanding Operational Risk
• Key definitions
• Nature and characteristics of risk
• Risk categories
• Understanding risk causes, events, impacts, and controls
• A risk categorization framework

A framework for Managing Risk
• The framework
• The risk management process: AS/NZS 4360, COSO, ISO3100
• Case Study 1: The Rogue Trader - Barings Bank

The Regulatory Driver
• The Basel II requirements (and Basel III)
• Meeting RBNZ’s and APRA expectations

Setting up the Structure
• Organisation structure and 3 levels of defense
• Responsibilities for ORM
• Policies and procedures
• Setting the risk appetite

An ORM Methodology
• Risk and control self-assessment (RCSA)
• Defining key controls
• Key risk indicators
• Incident Management
• Risk treatments and remediation
• Risk quantification and capital allocation

Risk and Control Self-Assessment (RCSA)
• Aligning RCSA with business context, strategy and performance indicators
• Carrying out an RCSA
• Avoiding poor quality assessments
• Case study

Control Monitoring and Testing
• What is a control?
• Assessing the effectiveness of controls?
• What does a test script look like?

Key Risk Indicators
• What is a KRI/KCI and what are their purpose?
• Identifying, collecting, scoring, weighting, aggregating and reporting indicators
• Basel II and Regulator requirements
• KRI Class activity
• Case Study 2: “The bargain of the year”- ING

Incident Recording and Management
• The identification and management process
• Incident reporting and use
• Regulatory requirements

Risk Treatment Options
• What are the options?
• How do you assess the options?

Risk Capital Calculation and Allocation
• Regulatory requirements for capital
• Loss distribution approach and calculation
• Allocating economic capital in the business

Integration of the parts
• Pulling the risk model together
• Benefits of integrated programme

Reporting
• Report format, content and process
• Towards a true dashboard report

The Key to Achieving ORM success
• Identifying and overcoming hurdles
• The importance of risk culture
• The keys to success

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Key Risk Indicators for the Financial Sector

Current status of Operational Risk Management
- The past and the present
- The risk management challenge
- Organisation structure and three lines of defence
- The components of an operational risk management (ORM) framework
- Applying KRIs within the risk framework

Regulatory Drivers
- The Basel II requirements (and Basel III)
- Meeting RBNZ’s and APRA expectations

Defining KRIs
- What is a KRI?
- Distinguishing between KRIs, KCIs and KPIs
- What is the objective of KRIs?
- How are operational risk KRIs different market, credit, and liquidity risk measures?

Identifying KRIs
- Identify your key risks and key controls
- Align KRIs to those risk components that matter: causes, events, controls
- Identify KRIs that measure those risks
- Examples of KRIs
- What are the different types of KRIs
- Lagging versus leading KRIs
- Raw KRIs versus composite KRIs
- Qualitative versus quantitative KRIs
- Class Activity 1: Mix and match

A KRI library
- Purpose of a KRI library
- Contents of a KRI library
- Using and maintaining a KRI library

Ranking KRIs
- How robust is the KRI?
- Are they leading or lagging?
- Ease of use and collection of data
- Quality of historical data sets
- Aggregating (smart) KRIs
- Case Study: Ranking KRIs

The KRI Process
- Identifying and collecting KRIs
- Sourcing and validating KRIs
- Linking KRIs to risks and controls

- Establishing thresholds and tolerance levels
- Monitoring and reporting of KRI data
- Quality assurance surrounding KRI data

Reporting of KRIs
- Objective of KRI reporting
- Types of reports:
  - Traffic light
  - Trend Setter
  - Benchmark Scatter

Using KRIs
- As a risk and control monitoring tool?
- As a feedback and incentive tool
- As a management tool
- As an input into the risk assessment process
- As a benchmarking tool

The future of KRIs
- Where to next?
- Maximising value from the KRI process
- Main pitfalls to be aware of
- The keys to KRI success

Paul Barton
Paul is principal and principal trainer of RiskHub Limited. Paul has experience in all facets of risk management with particular specialisation in Operational Risk Management. Prior to setting up RiskHub, Paul has spent nearly 16 years working in a risk management capacity both here and in Australia. Paul has extensive financial services experience where he headed up the risk and compliance functions across superannuation, wrap platforms, and insurance for BT Financial Group in Sydney. Most recently Paul has led the operational risk function at ANZ Bank in Wellington.

Facilitator: Paul Barton
Auckland
24th August 2011
Mercure Hotel

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Current status of Enterprise Risk Management
- The past and the present
- The risk management challenge
- Organisation structure and lines of defence
- Components of a risk management framework
- Challenges for the CEO and the Board

Defining Risk & Control Assessment (RCA)
- Key definitions
- Objectives of RCA
- The importance of linking to business context
- Various approaches to RCA

A framework for Managing a RCA programme
- The 7 R’s and 4 T’s
- Align to business strategy, performance and process objectives using Balanced Scorecard, Porter’s Value Chain & FMEA
- Identify risks and key controls
- Assessing inherent and residual risk
- Assessing the effectiveness of controls
- Risk profile and map
- Respond to the risk via 4 T’s
- Develop action plans
- Escalate, communicate and reports findings

Inputs into the RCA process
- Access to data sources including ILD, ELD, Key Indicators, audit reports, other risk profiles, extreme event scenarios, other sources etc
- Determining what risks to consider and the use of a central library
- Identifying and assessing key controls, what is a control and what are the types of controls
- Understanding control design versus performance
- Setting the likelihood and consequence scales
- How many scale levels are right?
- Aligning consequence thresholds to reflect the risk appetite and tolerance of the business
- Likelihood measures – what makes sense?
- Using average, plausible or worst case

RCA Process in Action
- Linking risks to business context, causes, events and key controls
- Assessing the size of the risk:
- Assessing the primary consequence and likelihood. What is the direct financial loss?
- Assess the effectiveness of controls and establishing risk treatments
- Determine the residual risk rating. Is inherent risk useful and can it be assessed?
- Reaction planning and the worst case
- RCA Case Study: Carrying out a RCA

Setting up the RCA process
- Set the scope. Who should participate?
- What background due diligence, research and preparation is required?
- Carrying out the assessment

RCA Reporting
- How to support the CRO and CEO
- Types of reports and information to report
- The value of dash board reporting

Using RCA outputs
- Escalations, notifications and follow up
- As a risk monitoring and management tool
- As an input into the risk capital model, benchmarking tool, and driver of behavior

Review and evaluate the framework

The Future of RCA
- Pitfalls of RCA process to watch out for
- Risk systems
- Enterprise risk management
About these courses

OPERATIONAL RISK MANAGEMENT FOR FINANCIAL INSTITUTIONS

This course provides a comprehensive overview of operational risk management (ORM) as it applies to financial institutions. It addresses all aspects of an integrated ORM process including risk and control assessments, control assessments, key risk indicators, incident management, risk treatments, risk capital calculation, and allocation, and reporting.

LEARNING OBJECTIVES
• A working knowledge and understanding of the regulatory environment and external guidance including the APS 114 and APS 115, AS/NZS 4360, COSO and ASX Principle 7
• Gain practical skills to make ORM work in your institution
• A practical understanding of the various techniques required for comprehensive ORM

KEY RISK INDICATORS FOR THE FINANCIAL SECTOR

This workshop is aimed at risk practitioners and business managers who have or are looking to implement a robust key risk indicator (KRI) programme within their organisation. It covers all aspects of setting up, developing and running a KRI programme.

The course is hands-on and involves case studies to reinforce concepts covered in a practical workshop environment.

LEARNING OBJECTIVES
• Gain an understanding of how KRIs fit into the risk management framework
• Design, develop and implement an effective group of relevant KRIs
• Understand external regulatory requirements for using KRIs (Basel, RBNZ and APRA).

RISK AND CONTROL ASSESSMENT FOR THE FINANCIAL SECTOR

This workshop is aimed at risk practitioners and business managers who have, or are looking to, implement a robust and comprehensive risk and control assessment (RCA) process within their organization. It covers all aspects of the RCA process from design and implementation through to carrying out assessments, reporting results, and creating follow-up actions.

The workshop is aligned with the Basel II standards, current regulatory requirements, and ISO31000 when undertaking a RCA programme.

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LEARNING OBJECTIVES
• Gain an understanding of the RCA process and how results can be used in scenario analysis, key risk indicators, incident management, and compliance
• Design and implement an effective and efficient RCA process
• Set relevant risk assessment thresholds aligned with risk appetite of the business
• Use RCA results to drive process improvement programme and treatments

TRAINING METHODOLOGY:
These intensive training courses will combine tutorial sessions and case studies with interactive learning exercises. All attendees will be provided with a workbook and a certificate of completion.

WHO SHOULD ATTEND?
• Group Operational Risk Managers
• Risk Officers
• Risk Managers
• Financial Controllers
• Internal Auditors
• External Auditors
• Risk Advisers and Consultants
• Regulators
• Insurance Specialists
• Fraud Managers
• IT Security and Operations staff

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**RISK MANAGEMENT FOR FINANCIAL INSTITUTIONS**

Operational Risk Management for Financial Institutions

Key Risk Indicators for the Financial Sector

Risk and Control Assessment for the Financial Sector

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  - (4 July 2011)
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  - (4 July 2011)

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