

OPERATIONAL RISK MANAGEMENT & MITIGATION (ASSESSMENT TO IMPLEMENTATION) 2 DAY SEMINAR

LIVE SEMINAR

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COURSE DESCRIPTION

This is an intensive course on **Operational Risk Management & Mitigation** – from assessing the operational risks to how to implementing a working, viable operational risk management system. Aimed at the financial services industry this course explores the Operational Risk management function and mitigation requirements as mandated in the Basel Accords. A key objective of this course is to move the participants beyond the operational risk compliance requirements set down in the Basel Accords to an understanding of managing operational risk as a value added proposition that can be instrumental in increasing the profitability of the bank while at the same time improving its structural strength.

Now in 2014, the ongoing continuum of headline-grabbing operational risk incidents at banks, other financial institutions and even regulators continue to keep the issue of operational risk management at the top of agendas of CEO's , CRO's, Risk Managers and Internal & External Auditors alike. These incidents are wide ranging and flow from issues like bank ATM collapses, bank operating system failures, regulatory settlements (fines) in the ongoing US sub-prime mortgage saga, rogue traders and the related risk managers who either missed or were wilfully blind to all the warning signs. As the size and complexity of financial institutions has increased, so too have the challenges of understanding and reducing operational risks down to truly manageable levels. Increased regulatory concern and scrutiny have also increased the cost of operational risk events in the shape of outright financial loss, regulatory fines and declining customer confidence.

Operational Risk Management (ORM) is an effective tool for not only maintaining but increasing, bank profits, shareholder value, public perceptions and goodwill. Executed properly, improvements in ORM can lead to substantial financial, reputational and regulatory benefits – all this adds up to increased profitability, greater financial stability and improved customer satisfaction – in short, a better safer bank/ financial institution. But, to achieve these gains, financial institutions must apply a consistent and comprehensive approach to managing their operational risks. They must also understand that this approach is fundamentally different from the approaches that they use in managing market, credit and liquidity risks.



“Bad” Operational Risk Management has a severely negative effect on financial institutions in four very clear ways;

- ❑ Actual operational risk losses are a direct hit to the income statement. Equally the massive fines being paid have the same effect.
- ❑ The market punishes companies, via the stock price, for operational risk failures. This loss of value could well exceed the actual financial loss experience by the risk event in the first place.
- ❑ Lowered Credit Ratings, which raises the institutions cost of borrowing money in the marketplace.
- ❑ Operational risk failures can vastly increase the cost of compliance by raising the level of regulatory scrutiny and complexity not to mention substantial penalties.

WHY SHOULD YOU ATTEND :

The objectives of this training course is to provide all staff, irrespective of whether they work in the front-, middle- or back-office, with a sound foundation in the theory and practice of Operational Risk Management. This training is provided in a practical “hands-on” manner that allows them to implement what they have learned easily and effectively the minute they return to the office.

This course provides a complete structured package for learning in all main aspects of the subject of managing Operational Risk under the Basel Accords. It will enable participants to prepare and manage the planning and implementation of operational risk management processes in their bank/ financial institution or firm. This training course uses a combination of prepared tuition, examples, discussions, exercises and case studies.

Most importantly it will offer participants, opportunities to share experiences and plan work within small working groups, providing practice in the application of the techniques and tools generating active participation.

AREAS COVERED IN THE SESSION :

- ✓ The aim of the course is to provide;
- ✓ An understanding of Risk in all its facets
- ✓ What the Basel Accords say about operational risk and its mitigation
- ✓ An understanding of Operational Risk Techniques for assessing, managing and mitigating Operational Risk
- ✓ A link between Operational Risk management theory & practice
- ✓ A clear “road-map” on how to implement a Operational Risk management structure them in practice in a banking organization.



Course Structure

All too often banks have seen the need to effectively manage their operational risks as simply an issue of complying with what the bank regulator requires, in this case the operational risk requirements of the Basel Accords, rather than a disciplined process in its own right, that serves to not only ensure a bank's survival but which can, in the long run, contribute to that bank's financial fortune. Implementing an effective Operational Risk Management routine ("Good" Operational Risk Management) is a complex process. At its core is an understanding of what Operational Risk is and how it can be managed.

This course is an intensive introduction to Operational Risk Management and Mitigation. It is designed to provide a practical "hands-on" approach to participants which will furnish them with all the tools and techniques they need to begin implementing what they have learned almost as soon as they return to the office.

The underlying course philosophy is to move the participants beyond the largely theoretical international compliance requirements for operational risk (specifically those contained in the Basel Accords), and into an understanding of the practice of operational risk management and an ability to actually implement these procedures.



ORGANIZATIONS

- ✓ Commercial Banks
- ✓ Central Banks
- ✓ Investment Banks
- ✓ Bank Regulators
- ✓ Asset management firms' representatives
- ✓ Pension funds
- ✓ Hedge funds
- ✓ Leasing companies
- ✓ Insurance companies
- ✓ Fund managers
- ✓ Other financial institutions

PROFESSIONALS

- ✓ Financial Officers.
- ✓ Risk Officers.
- ✓ Internal Auditors.
- ✓ Operational Risk Managers.
- ✓ Compliance Officers
- ✓ Staff with roles and responsibilities in operational risk in risk management departments, businesses and central departments.
- ✓ All front-, middle- and back-office staff in operational roles.
- ✓ This course is not restricted to management staff alone but to all staff who are required to be "Operational Risk" aware.



THE WHY, HOW & WHAT OF OPERATIONAL RISK

What is risk?

- Operational Risk – The big picture
- Dimension & drivers of risk management
- Business drivers
- Regulatory drivers
- Rating Agencies & risk
- Cross-border implications
- What is the value of Operational Risk Management?

1

Risk Types

- How we categorize risks
- What is covered under Basel II?
- Risk categories
- Basel's risk coverage
- Operational risk categorization
- The financial risk management environment
- The operational risk management environment
- The technical Implications of operational risk management

2

Risk & Capital - An Introduction to Basel I, II and III

- What is capital?
- Capital in financial institutions
- The BIS capital standards
- Basel's three pillars
- Basel's operational risk option
- Implementation considerations
- Implementation of Basel
- The Pillar II maze

3

Managing Operational Risk

- Implementation issues
- The governance process
- Setting risk management objectives
- Building a risk culture
- Examples of a staff risk culture
- Examples of management risk culture
- Why are risk cultures important?

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Operational Risk – Practical Examples

- Participants are led through a series of operational risk failures in recent years aimed at illustrating the wide variety of operational risks that occur in reality.
 - **Case Study:** We take detailed look at the US\$ 7.2 billion loss at SocGen, its causes, the key warning signals that were overlooked, and the consequences for the financial industry.
 - **Case Study:** Understanding why legacy systems pose an operational risk.

- **Why are so many banks facing recurring IT outages and IT related crisis?** We look at the evolution of IT technology in the financial sector and understand why methodologies used have created a huge operational risk potential for some of the largest banks.

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- **Group Discussion:** How to solve the legacy system problem.

Key Elements in Managing Operational Risk

- The core issues in managing operational risk
- Risk Analysis
- Determining the "Risk Appetite"
- Risk impact/ Event frequency
- Impact vs. Probability
- A generic case study

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Operational Risk Financing

- Risk financing
- Optimizing risk & reward
- The cost of risk
- The operational risk financing program
- Operational risk financing mechanisms
- How financing methods are applied

7

THE WHY, HOW & WHAT OF OPERATIONAL RISK

Methods & Models

- Measurement methods
- The Loss Modelling Method
- Monte Carlo simulations
- Operational risk & bank strategy
- Quantitative & Qualitative approaches
- Key Risk Indicators (KRIs)
- Operational risk & the business cycle
- Problems in identifying operational risks

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COSO ERM Framework

- COSO - an integrated risk management framework
- The COSO framework
- COSO in finer detail
- Codification of the 17 COSO Principles

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The Black Swan

- The challenges of outlier events for contingency planners
- Understanding a “Black Swan” event and its principal characteristics.
- We examine the nature of a Black Swan event
- Challenges for Planners, Strategists and CEOs.
- How can you mitigate a Black Swan event?
- Case Study: Can recent outlier events, like the eruption of Iceland’s Eyjafjallajökull volcano, the Deepwater Horizon catastrophe and the Japanese Tsunami be seen as black swan events? Gain a deeper insight into some of the subtleties of operational risk in the real world.

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Operational Risk & Basel

- The BIS definition of operational risk
- BIS standards for managing operational risk
- Basic Indicator Approach (BIA)
- Business Lines Approach
- Advanced Measurement Approaches (AMA)
- Loss event types
- Criteria for the Advanced Measurement Approach

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All Basel material is current and up-to-date in terms of current BIS developments

Managing Operational Risk under Basel - A “Hands-on” approach

- Basel Standards
- Basel’s’ three approaches

“Sound Practices for the Management and Supervision of Operational Risk”

- Principles for the management of operational risk
- Sound operational risk governance
- Each of the 11 Principles are examined in terms of their content, meaning and implementation factors
- Responsibilities

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IMPLEMENTATION

Developing an appropriate Risk Management Environment

- Policy & structure
- Developing an appropriate risk management environment
- Implementation
- Mapping risks to controls
- Understanding risks, goals and priorities
- Prioritizing risk based on probability & impact
- Establishing responsibilities for risk management
- Mapping risk strategies to categories of control
- Designing & Documenting specific controls
- Implementing risk management controls

1

Defining the Categories of Operational Risks

We examine the BIS categories of operation risk in terms of specific examples. The categories covered are:

- Internal Fraud
- External Fraud
- Employment Practices and Workplace Safety
- Clients, Products & Business Practices
- Damage to Physical Assets
- Execution, Delivery & Process Management
- Business Disruption & System Failures

2

Products & Operational Risk

• **Case Study:** Poor financial product design and Operational Risk

- The recent global financial crisis was triggered by the Sub-Prime Mortgage problem in the United States. The repercussions are still being felt today bank after bank are sanctioned with fines and other penalties. This case study clearly illustrates how insufficient or total lack of attention to the basic principles of Operational Risk Management in the detail and stress testing of the financial products based on Mortgages, its various derivatives and their processes and operational led to financial meltdown in the US and worldwide financial contagion.

3

CAUSES & CONSEQUENCES – THE BOW TIE

- The math of operational risk management
- Causes & consequences of loss events and what they tell us
- The Bow Tie Diagram – building and using this method to create effective operational risk management controls

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MANAGING OPERATIONAL RISK – TOOLS & TECHNIQUES

Methods for Assessing Operational Risks

- Four basic assessment methods
- Loss data collection (internal & external)
- Using loss data
- Internal data
- External data
- Scenario analysis
- Using scenarios
- Tabletop/ Desktop exercises
- Making tabletop exercise effective
- Why exercise? Why use scenarios?
- Statistical techniques

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Desktop Exercise:

- Scenarios form the basis for a desktop exercise in which participants use and develop their newfound operational risk management skills to work through the simulation of a real risk event.

A Risk Assessment Model

- The process
- Environmental survey
- Technology inventory
- Identifying & assessing the operational risks (including an illustrative operational risk management plan)
- Minimum control requirements
- Risk identification tools

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Current Operational Risk Management Themes in Banking

New technologies and practices are changing the nature of bank operational risk in many dramatic ways. In this section we explore a selection of current and developing “risk themes” and get to grips with how the operational risk profile is changing in the constant struggle between profit and prudence. This is a fast changing area and this section of the course is being constantly updated.

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Closing CASE STUDIES

The final two case studies examines and analyses two recent rogue trading “events”

- **Kweku Adoboli** – from rising UBS star to rogue trader.
- **Bruno Iksil “The London Whale”** – what went wrong with JP Morgan’s internal operational risk/ oversight procedures?

These case studies based on two recent events provides an in-depth examination of operational risk management failures at two international banks, UBS and JP Morgan.

We examine what went wrong, how they compare and what lessons can be learned from these events.

Included in these concluding case studies is a special section on Rogue Traders in which we cover issues such as;

- The psychology of the rogue trader
- Types of traders
- The FSA investigation and their findings
- What other rogue traders make the rogue traders “league table”
- Ranking Adoboli in the rogue traders league

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FIELD OF STUDY

Management Advisory Services: 7 CPE Credits

Economics: 2 CPE Credits

Auditing: 1 CPE Credit

Business Management and Organization: 1 CPE Credit

Computer Science: 1 CPE Credit

Production: 1 CPE Credit

Regulatory Ethics: 1 CPE Credit

Specialized Knowledge and Applications: 1 CPE Credit

Statistics: 1 CPE Credit

Social Environment of Business: 0.5 CPE Credit

Program Delivery Method: Group-Live

Program Level: Basic

Advance Preparation/Program Prerequisites: None



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ABOUT YOUR TRAINER



Richard Barr

Richard Barr , holds a B.S. in International Business Administration from San Jose State University in California. His professional experience spans over 23 years, 5 of which were spent with Wells Fargo Bank. Another 5 were spent honing his global banking skills, when Richard was intimately involved with International Trade Finance, Real Time Gross Settlement and Cross Border Banking. The past 14 years have been in the private and high-tech sectors providing high-level consulting services, business analysis, project management and training to a wide range of banking clientele across the globe. Richard has also filled the role of advisor to central banks on payment systems and technical payments issues. Furthermore, key staff members from the Bank of England, South African Reserve Bank, Central Bank of Ireland, Bank Indonesia, European Central Bank and Bank of Portugal have attended training sessions presented by Richard.

REGISTRATION INFORMATION

Registration is available on www.epsilontraining.me or phone 1-805-751-5566

Price for Day 1 & 2 - \$999

Date: 8 & 9 January 2017

Duration: 16hrs | 9am-5pm

CPE Credits: 16.5

Venue: Dubai, U.A.E

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