

# OPERATIONAL RISK MANAGEMENT

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# OPERATIONAL RISK – DEFINED

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*Risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.*

**Process Risks** Execution, Delivery, Process Mgmt; Business Disruption; & Systems Failure

**Conduct Risks** Clients, Products, & Business Practices; Employment Practices & Workplace Safety; Internal Theft & Fraud

**External Risks** External Theft and Fraud; & Damage to Physical Assets

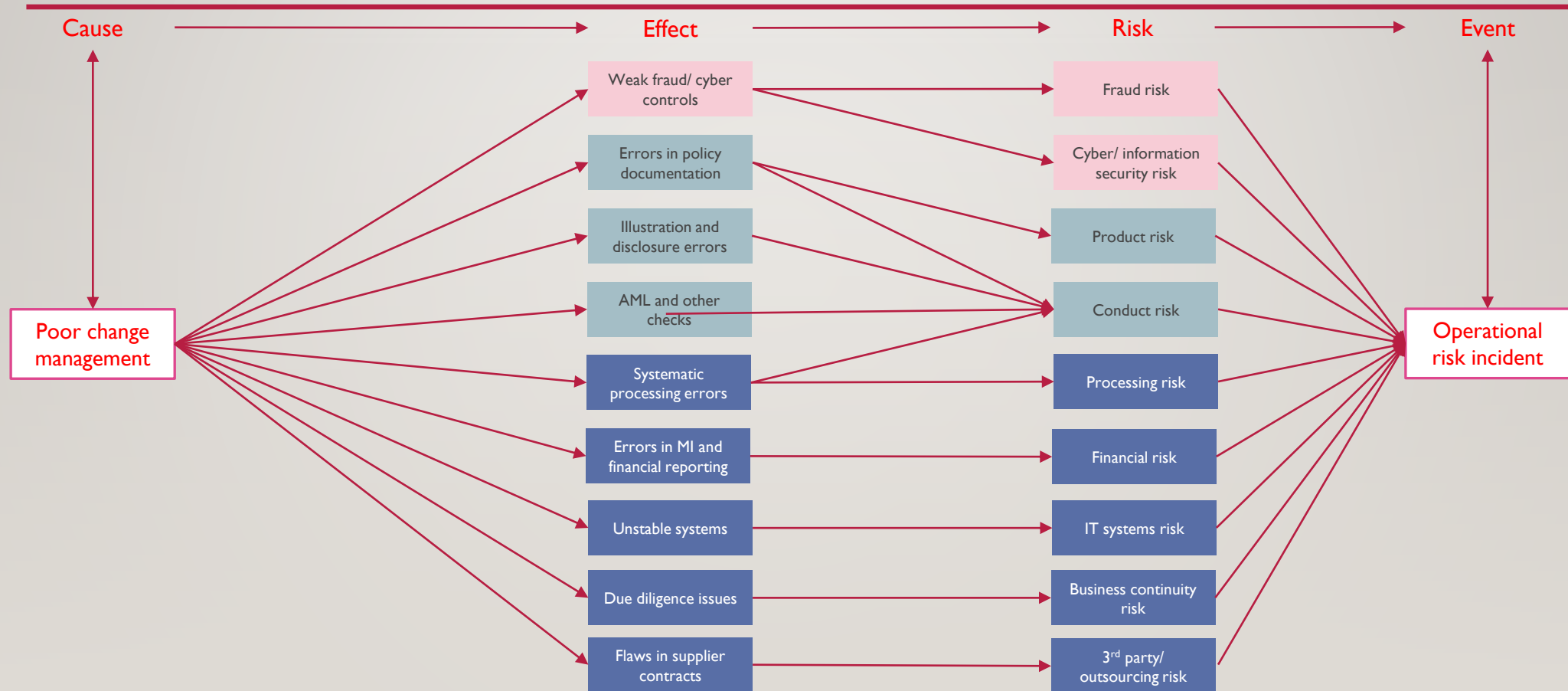


# TYPICAL OPERATIONAL RISK EVENTS

	<b>Insurance</b>	<b>Banking</b>	<b>Energy</b>
Low severity/ high frequency	Transaction processing errors eg., Claims processing, data errors, premium collection	ATM failures, small trader errors	Meter reading errors
Medium severity/ medium frequency	Fraud, regulatory compliance failure	Security breaches, fraud, regulatory compliance failure	Environmental contamination
High severity/ low frequency	Mis-selling, mispricing	Rogue trader	Oil spill, gas plant fire

Source: TK FIAJ

# MANIFESTATIONS OF OPERATIONAL RISK EVENTS (EXAMPLE)



# OPERATIONAL RISK EVENTS IN THE NEWS

## Absa bank embroiled in data leak, rogue employee accused of theft

Personal information belonging to banking customers was compromised.

### CNA Financial Paid \$40 Million in Ransom After March Cyberattack

- Payment bigger than previously disclosed ransoms, experts say
- Malware tied to Russian cybergang sanctioned by U.S. in 2019

## MetLife fined HKD 7 million for AML/CTF failures including PEP screening

01 April 2022 • Murray Jelbert

## Zurich Seguros customer data stolen in third party hack and published on dark web

20 January 2022 • Joseph Dooley

Athene Holding fined USD 45 million for unlicensed pension risk transfer deals

## Westpac to pay at least AUD 30 million for maintaining duplicate property insurance policies

27 April 2022 • S

## Santam and other insurers lose ZAR 944 million in premiums misappropriated by intermediary

10 January 2022 • Joseph Dooley

# OPERATIONAL RISK PROCESSES

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# OPERATIONAL RISK GOVERNANCE & 3 LINES OF DEFENSE

- Operational Risk Management is a collaborative effort by all lines of defense in an organization. This includes, lines of business, corporate functions, specifically, compliance, risk and assurance functions, and strong partnership with internal auditors, regulators and rating agencies.
- Risk accountability lies with every employee, manager, governing bodies with direct oversight and responsibility for enterprise risk management.
- Board engagement and oversight for Operational Risk is critical for a successful Operational Risk program.



# TOP 10 OPERATIONAL RISKS 2022

Risk	2022	2021	Change
IT Disruption	1	1	-
Theft and fraud	2	4	↑
Talent risk	3	-	↑
Geopolitical risk	4	9	↑
Information security	5	2	↓
Resilience	6	3	↓
Third-party risk	7	5	↓
Conduct risk	8	6	↓
Climate risk	9	-	↑
Regulation risk	10	7	↓

Source: Risk.net Top 10 op risks 2022



# OPERATIONAL RISK – KEY INDUSTRY THEMES

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## Talent

- **“Great Recession” impacting recruiting and talent retention**
- **Increased demand for specialized skills & expertise**
- **Employee driven market & changing employee expectations (salary inflation, future of work model, DE&I, social influences, faster development)**
- **Third party providers (sourcing partners) experiencing retention challenges**

## Artificial Intelligence / Bias

- **Evolving regulatory environment**
- **Potential bias in modeling / use of data (internal and 3rd party)**
- **Ability to meet customer requirements or expectations**
- **Potential limitations on use of data may impact business strategy / objectives**
- **Pace and increased development challenging ability to effectively govern**

## Cyber Resilience

- **Increase in frequency and severity of cyber attacks resulting in greater business disruption**
- **Increased dependency on technology and third parties**
- **Learnings from industry events (e.g. CNA) highlight potential gaps (out-of-band communication, recovery capabilities)**
- **Changing Board and regulatory expectations (response, testing, reporting)**

Q&A

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