

**A practical guide to understanding
operational risk and how to manage it**

MASTERING OPERATIONAL RISK

second edition

- Provides an invaluable framework for the management of operational risk
- Helps you identify and manage risk appetite
- Provides a practical approach to applying stress testing to operational risk
- Gives you a business approach to modelling operational risk
- Shows you how to change your culture effectively

**TONY BLUNDEN
JOHN THIRLWELL**

FT PUBLISHING
FINANCIAL TIMES

Mastering Operational Risk

Mastering Operational Risk PDF eBook

Table of Contents

Cover

Contents

Preface to the first edition

Preface to the second edition

Acknowledgements

The authors

Part 1: Setting the scene

Chapter 1: What is operational risk?

The road to operational risk

What do we mean by operational risk?

The boundary issue

Why operational risk is different from other risks

Cause and effect

Measurement and management of operational risk

Challenges of operational risk management

Introducing the framework

Chapter 2: The business case for operational risk management

Getting managements attention

Operational risk management as a marketing tool

Benefits of getting operational risk management right

Benefits beyond the framework

Business optimisation

Conclusion

Part 2: The framework

Table of Contents

Chapter 3: Governance

- Getting it right at the outset
- The three lines of defence
- Operational risk management framework
- Operational risk policy
- Roles and responsibilities statements
- Glossary
- Timeline

Chapter 4: Operational risk appetite

- Risk appetite and control appetite
- Risk appetite
- Control appetite

Chapter 5: Risk and control assessment

- Aims of risk and control assessment
- Prerequisites
- Basic components
- Avoiding common risk identification traps
- Assessing risks
- Owners
- Identifying controls
- What a risk and control assessment looks like
- Action plans
- How to go about a risk and control assessment
- Using risk and control assessments in the business
- Why do risk and control assessments go wrong?
- Summary

Chapter 6: Events and losses

- Introduction
- What is meant by an event
- Data attributes
- Who reports the data?

Table of Contents

- Reporting threshold
- Use of events
- External loss databases
- Using major events
- Timeliness of data
- Summary

Chapter 7: Indicators

- What do we mean by key?
- Key performance indicators and key risk indicators
- Establishing KRIs and KCIs
- Targets and thresholds
- Periodicity
- Identifying the leading and lagging indicators
- Action plans
- Dashboards
- Summary

Part 3: Advancing the framework

Chapter 8: Reporting

- Why reporting matters
- Common issues
- Basic principles
- Report definition
- Reporting styles and techniques
- Dashboard reporting
- Summary

Chapter 9: Modelling

- About operational risk modelling
- Previous approaches to operational risk modelling
- Towards an inclusive approach
- Distributions and correlations

Table of Contents

Practical problems in combining internal and external data
Confidence levels and ratings
Obtaining business benefits from capital modelling
Modelling qualitative data
Obtaining business benefits from qualitative modelling
Summary

Chapter 10: Stress tests and scenarios

Introduction
What are they and what's the difference between them?
Why use scenarios?
Problems with scenarios ...
... and how to do them better
Governance
Points to consider before developing scenarios
Developing a set of practical scenarios
Preparing for the extreme event
Typical problems following scenario development
The near death experience
Applying scenarios to operational risk management data
Summary

Part 4: Mitigation and assurance

Chapter 11: Business continuity

Ensuring survival
Business continuity and risk management
Policy and governance
Business impact analysis
Threat and risk assessment
The business continuity strategy and plan
Testing the plan
Maintenance and continuous improvement

Chapter 12: Insurance

Table of Contents

Operational risk and insurance

Insurance speaks to cause

Buying insurance

The insurance carrier

Alternative risk transfer mechanisms

Conclusion

Chapter 13: Internal audit the third line of defence

Audit and the three lines of defence

Independent assurance

Internal and external audit

Internal audit and risk management oversight

The role of internal audit

Audit committees

Effective internal audit

Part 5: Practical operational risk management

Chapter 14: Outsourcing

What is outsourcing?

Outsourcing transforming operational risk

Deciding to outsource

The outsourcing project getting it right at the start

Risk assessment

Some tips on the request for proposal

Selecting the provider

Some tips on service level agreements

Managing the project

Exit strategy

Chapter 15: Culture and people risk

Why its all about people

How to embed a healthy operational risk culture

Mitigating people risks

Succession planning

Table of Contents

The human resources department

Key people risk indicators

Chapter 16: Reputation risk

What is reputation?

Stakeholders

Reputation and brand

What is reputation risk?

Valuing reputation and reputation risk

How can reputation be damaged?

A framework for reputation risk management

Reputation risk controls

Tracking reputation risk

Managing intermediary risk

It won't happen to me: what to do when it does

Resources and further reading

Index