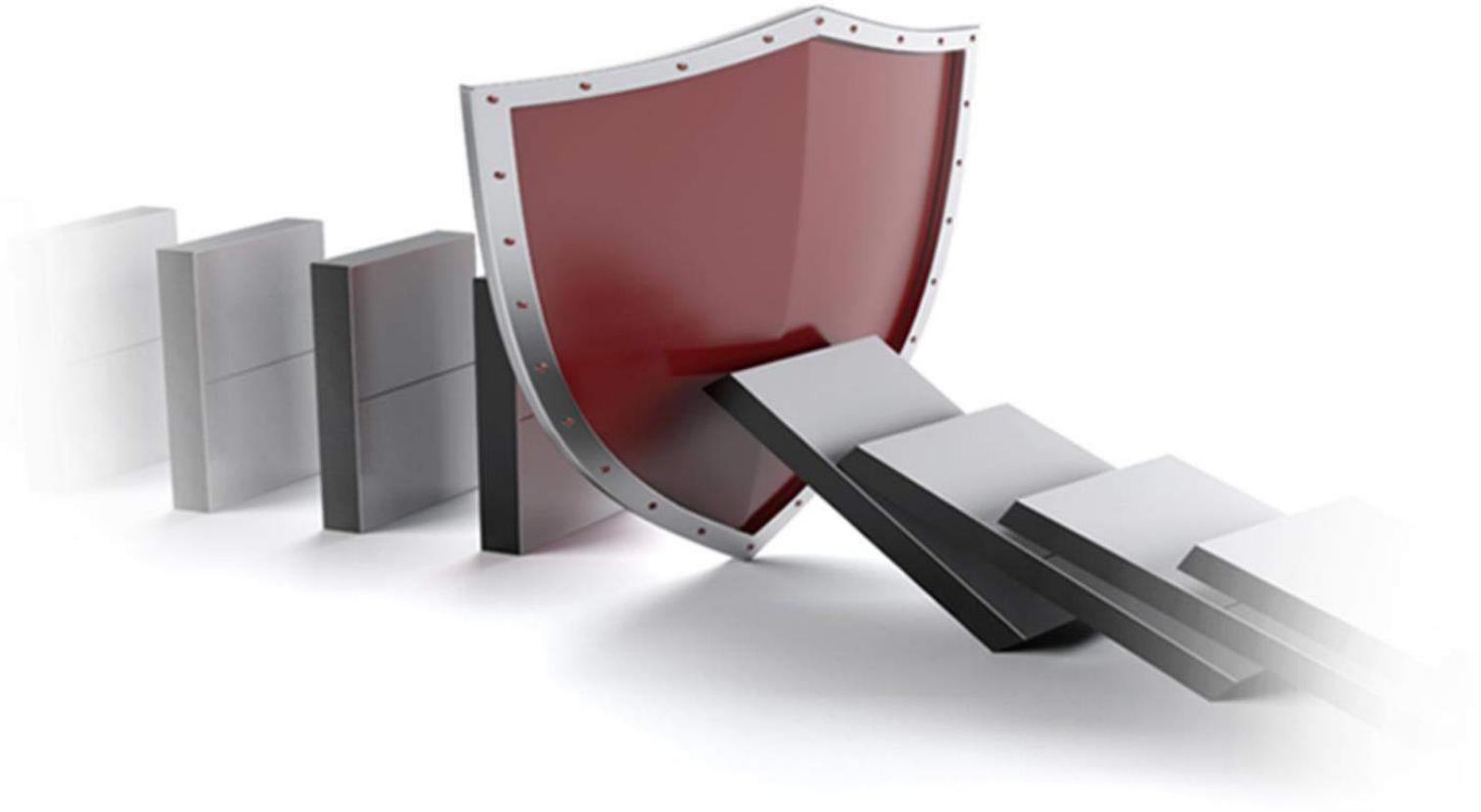




IMARTICUS MANAGEMENT DEVELOPMENT PROGRAMS



CASE STUDY

A LEADING FULL SERVICE COMMERCIAL
AND INVESTMENT BANK IN ASIA



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This case study facilitates in Performing the Operational Risk Function by Developing robust Policies and Procedures.

Developing robust policies and processes

Facts: The case presented below is one of the major banks in Asia and in the world, with reach across the region in commercial and investment banking. As such, it represents all the business units that are referred in the Basel documents and is a convenient baseline with which to address any bank.

The bank is a nationally important brand and, as such, is held up as a regional example. The national regulator invokes Bank of International Settlement (BIS) standards in its audits, so the bank comes under pressure to meet Basel II and III operational risk standards.

This case study is critical because several important knowledge elements are highlighted.		
Operational risk is not a silo activity and it involved multiple functions.	It is not all about data but about process, documentation, training and stakeholder management as much as it is about analytics.	A best practice structure to a policy revamp exists which comes across in the following sections.

A major global bank’s operational risk policy revamp described and discussed

Phase 1: The baselines

- 1.1. The bank had committed to the revamp, had allocated a budget, and formed a Project Management Team, co-led by the Chief Technology Officer and the Chief Operations Officer. They served as the liaison with the stakeholders (the Board and the Chief Executive Officer) and were tasked with all support for the successful completion of the project. The newly appointed Chief Risk Officer was the executive lead for the project and tasked with delivering results to the stakeholders.
- 1.2. A Big 4 firm was retained to provide consulting services, invoking their audit experience to ensure the implementation was on track and in line with Basel guidelines.
- 1.3. Project time was one calendar year.
- 1.4. A series of meetings were then held with the key stakeholders, following which a first deliverable of an audited (by the Big 4 firm) mapping of the business strategy to regulatory requirements was presented and signed off.

Phase 2: The policy and procedures revamp

- 2.1. The project then moved into Phase 2, which involved an exhaustive re-organization and re-documentation of policies and policy frameworks. A clear mapping was established from Policy to Procedure with an auditable intermediate step for Process.

- 2.2. Policies were explicitly mapped to the risk appetite⁷, and controls were established for key risk drivers for each policy and procedure. The risk controls were put in place for each procedure. Care was taken to ensure no disconnect of authority and accountability.
- 2.3. Each procedure was then subjected to comprehensive audit from the Big 4 firm, and then sent on for approval processes. The approvals were by different levels of authority: the Board, the Executive Committee and Risk Management, and combinations of the above as were appropriate from a regulatory standpoint.

Phase 3 – Processes and assurance

- 3.1. Upon completion of Phase 2, the project then entered Phase 3: rollout and implementation, which focused on processes. This phase began with outlining process assurance.
- 3.2. Assurances were assigned to process owners and their backup owners at a Country, Business and Group level for each process, with upwardly cascading ownership. The office of the Chief Risk Officer at all three levels was the co-signatory for all processes.
- 3.3. All processes were then consistently templated, and all workflows were similarly documented and put through approval processes. The Assurance checklist was then rolled out and the project went live with new processes and metrics.

Milestones in the revamp (Phase 2) and how they were achieved

Milestone 1 through 6:

- Policy Milestones (CRO signoffs at all levels)

Milestone 1:

- Mappings of all Risk Policies to Risk Appetite at Group Level completed
- Board signoffs obtained

Milestone 2:

- Group Policy Framework finalized and signed off at the Board Level

Milestone 3:

- Group Policies translated down to Business Lines
- Duplication not permitted
- Business owner signoffs obtained

Milestone 4:

- Support functions mapped to Business Lines and audited
- Support function head signoffs obtained

Milestone 5:

- Country specific regulatory requirements mapped to Group and Business Line policy, where appropriate
- Country head responsibilities assigned and signoffs obtained

Milestone 6:

- Final Policy List prepared
- Policy Lists:
 - Group Policy List
 - Business Line Specific Policies

⁷ The level of risk that an organization is prepared to accept in pursuit of its objectives and before action is deemed necessary to reduce the risk. It represents a balance between the potential benefits of innovation and the threats that change inevitably brings.

- Country Specific Policies
- Audited and Signed off

Milestone 7 through 10:

- Process and Assurance Milestones (CRO signoffs at all levels)

Milestone 7 (and sub-milestones):

- Pre-Implementation documentation completed
 - 7a. Reviewed and reworked Templates
 - 7b.
 - Reworked and Approved Workflows in line with Basel II/III compliant policy standards
 - Platform housing all policies established
 - 7d. Audit

Milestone 8:

- Transition Rules on how to transition from old to new process with time frames signed off

Milestone 9:

- Process Prototypes (for each product and business line) presented and approved
- Housed on Process Platform

Milestone 10:

- Manuals for each Process completed and Mapped to each Process and Policy
- Audited and signed off at appropriate level by business line and support function heads
- Final roll out