

Contents

<i>Introduction</i>	viii
1 THE OPERATIONAL RISK UNIVERSE	1
Post barings	5
The influence of BIS	6
Operational risk management	6
Types of risk	7
2 DEFINING OPERATIONS RISK IN INVESTMENT AND RETAIL BANKING	8
Retail banking	8
Managing operations risk in retail banking	9
Types of operations risk affecting retail banks	11
Customer account errors	12
Immediate observations	12
Possible outcomes	12
Action	13
Risk impact	13
Damage limitation and preventative action	13
Managing other operations risks	14
Risk in Investment Banking	14
3 OPERATIONS RISK	16
Analysing the risk value	19
Summary of operations risk	22
Market risk	22
Management risk	23
Market or principal risk	23
Credit or counterparty risk	25
Operational risk	25
Other risks	32

	Understanding risk	33
	Operations management	34
4	MANAGING THE RISK	35
	How does the business manage operations risk?	35
	Devising a strategy to manage operations risk	36
	Self-assessment techniques	36
	“Risk envelopes”	38
	“Risk waves”	39
	“Risk scoring”	41
	“Fishbone analysis of cause”	42
	Risk volcanoes	43
	Summary	45
5	UNDERSTANDING A RISK EVENT	46
	Pre-event	46
	Time lag	49
	Realisation	49
	Mitigation	50
	Lessons learned	51
6	WORKFLOW AND OPERATIONS RISK	52
	People	52
	Management	54
	Analysing risk in the workflow	55
	Analysing workflow	56
7	RISK AND REGULATION	60
	Regulation in respect of custody services	62
	Regulation affecting brokers and fund management companies	62
	Exchange and clearing house regulation	63
	Summary details on regulation	63
	Summary	64
8	INNOVATIVE TOOLS TO MANAGE PEOPLE RISKS	65
	Analysing Hypnotherapy as a tool to reduce operations risk	65
	Hypnotherapy	67
9	INSOURCING AND OUTSOURCING RISK	69
	Guiding principles – Overview	69

Case study 1: German loan factory	71
Case study 2: Australian regulator investigates bank outsourcing	71
Case study 3: Outsourcing unit pricing for managed funds	72
Case study 4: OCC action against a bank and service provider	72
Case study 5: Joint examinations of third-party service providers in the United States	73
Summary	75
<i>Glossary of risk terminology</i>	76
<i>Appendix 1: Consolidated KYC risk management</i>	89
<i>Appendix 2: A collection of excerpts and published operational risk guidelines and recommendations</i>	96
<i>Appendix 3: Global clearing and settlement – The G30 twenty recommendations</i>	105
<i>Appendix 4: ISSA recommendations 2000</i>	116
<i>Index</i>	171