



Operational Risk Reporting: searching for coherence and meaning

Sergio Galanti
Inveniat Consulting

New Basel Guidance

overarching governance and infrastructure
governance data architecture and IT
Infrastructure risk data aggregation capabilities

accuracy and integrity completeness
timeliness adaptability risk 2016 reporting
practices accuracy comprehensiveness

clarity and **usefulness** frequency
distribution supervisory review tools and
cooperation supervisory review remedial actions
and supervisory measure home/host
cooperation*

**Principles for effective risk data aggregation and risk reporting, January 2013, Basel Committee on Banking Supervision.*

Objectives of the new guidance

“...IT systems, data and reporting processes require significant investments of financial and human resources with benefits that may only be realized over the long-term.”*

“Strong risk management capabilities are an integral part of the franchise value of a bank. Effective implementation of the Principles should increase the value of the bank.”*

**Principles for effective risk data aggregation and risk reporting, January 2013, Basel Committee on Banking Supervision.*

Financial Crisis 2007-2008

One example of failure in reporting

“Key Findings Relating to the Causes of the Losses:

“...The reports did not, however, communicate an effective message for a number of reasons, in particular because the reports were **overly complex, presented outdated data or were not made available to the right audience.** The extensive catalogue of risk reports runs against a simple presentation of the risks that needed to be managed and identification of the actions that needed to be taken.

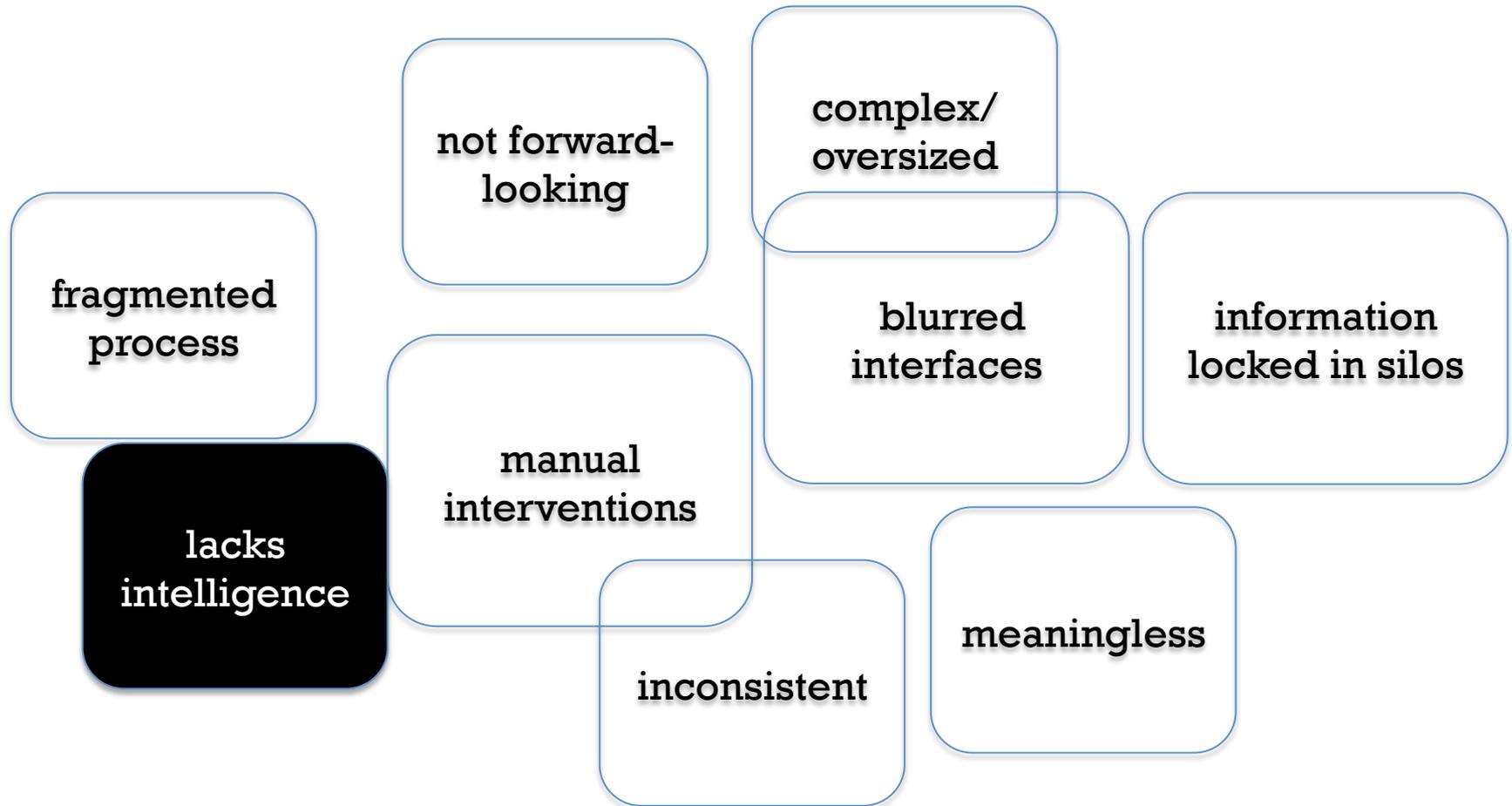
Risks were siloed within the risk functions without presenting a holistic picture of the risk situation of a particular business. “

**Shareholder Report on UBS' Write-Downs (April 2008)*

Legacy of Operational Risk

1988	Basel I Capital Accord	Common minimum capital standards
1991	COSO (Committee of the Sponsoring Organization of the Treadway Commission)	COSO officially coins the term Operational Risk
Early 1990s	Operational Risk practically did not yet exist as a professional category	
1998	“Operational Risk Management”: a Basel Committee paper	The Basel Committee begins work related to Operational Risk
2002	“Operational Risk is not a new risk...However, the idea that operational risk management is a discipline with its own management structure, tools and processes...is new”: British Bankers Association website	
2003	“Sound Practices for the Management and Supervision of Operational Risk”: a Basel Committee paper	Principle 5 - Reporting
2004	Basel II: International Convergence of Capital Measurement and Capital Standards	3 Pillars; shift to “enforced self-regulations”
2007-2008	Global financial crisis: “...complex reporting, presenting outdated data or not made available to the right audience” (UBS AG Shareholder Report on Write Downs, 2008)	
2011	“Principles for the Sound Management of Operational Risk”: a Basel Committee Paper	Principle 8 - Reporting
2013	“Principles for Effective Risk Data aggregation and Risk Reporting”: a Basel Committee paper	Applying the lessons learned from the global financial crisis

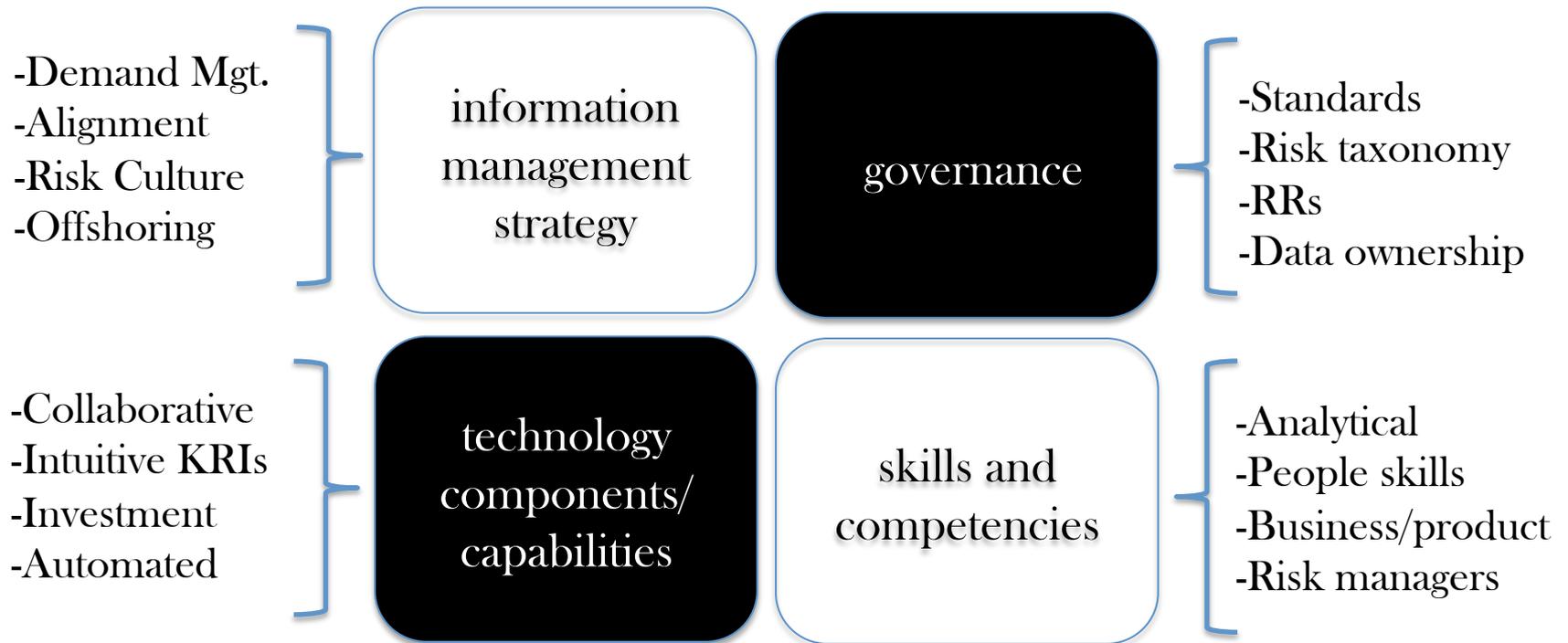
The Problem



The Root Cause



The Solution



The Benefits

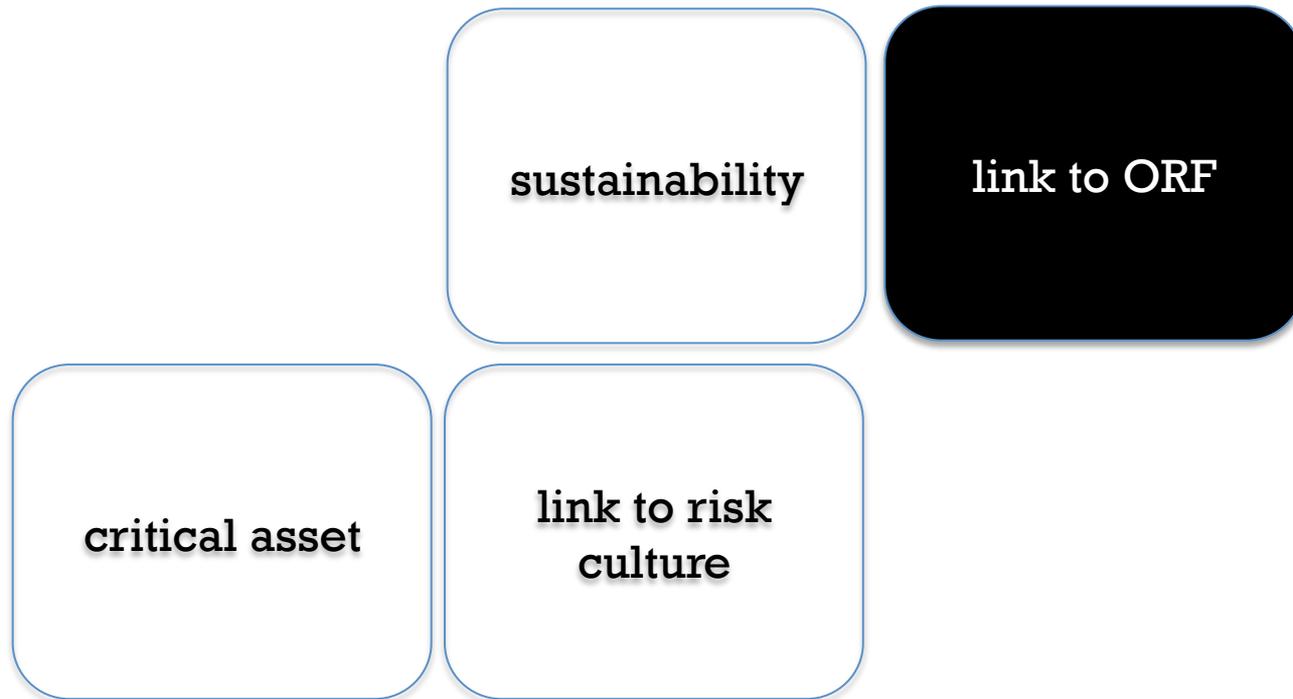
**increase
standardization
/efficiency**

**enhance
strategic
decision-
making**

**reduce
operational risk**

**savings/
increase
profitability**

Summary



Contacts

Sergio Galanti

Managing Director

Inveniat Consulting

Governance, Risk and Compliance Specialists

Email: sergio.galanti@inveniat.com

Phone: +41 (0)79 953 6103

www.inveniat.com

Follow us on Twitter: @inveniatconsult

