OPRATIONAL RISK MANAGEMENT FRAMEWORK

submitted by

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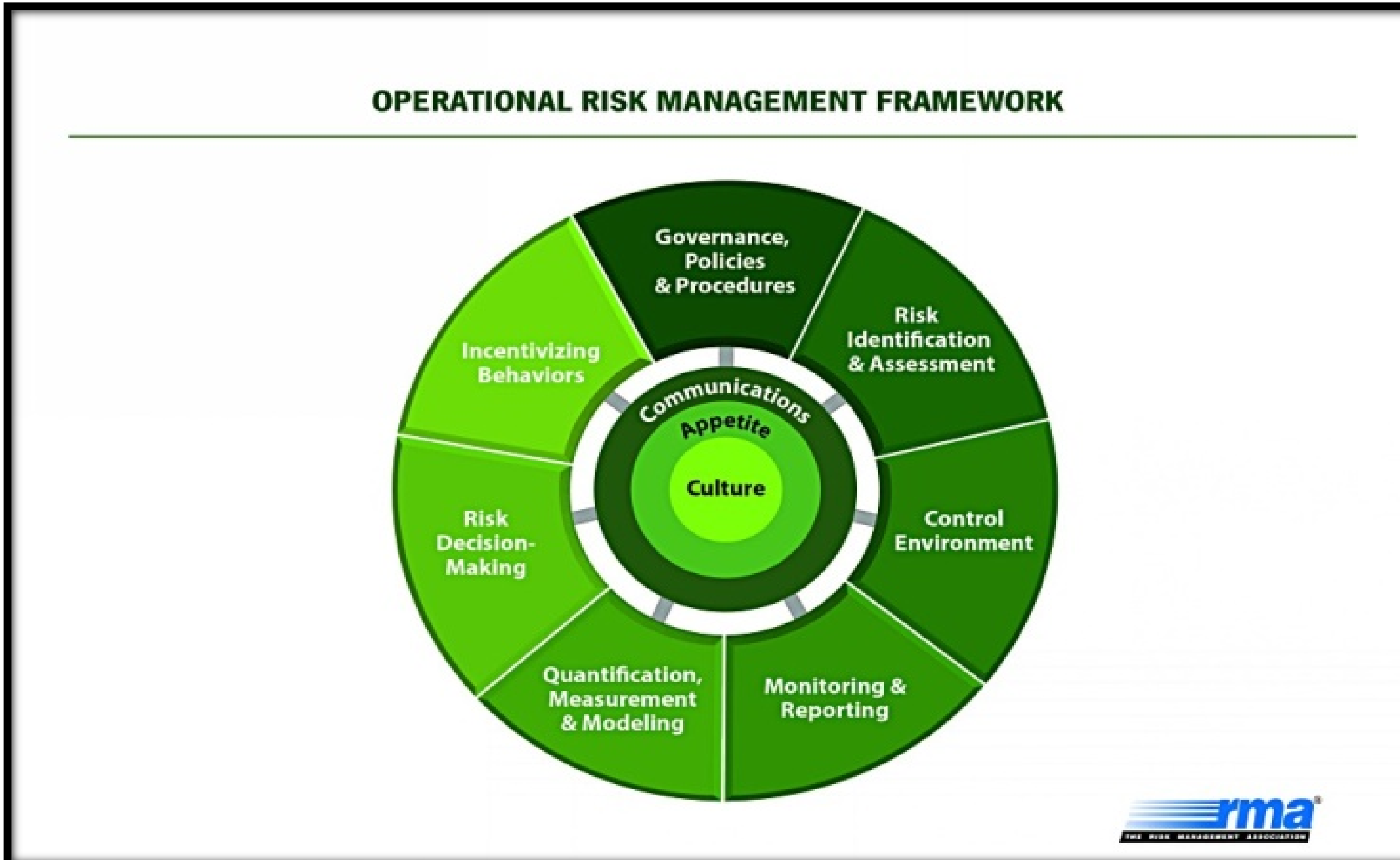
INTRODUCTION

The operational risk management framework provide guidelines for risk management. The operational risk management framework provide the strategic direction and ensure effective operational risk management throughout the organization.

Operational Risk Management

- ORM is a continuous and systematic process of identifying and controlling operational risks in all activities and areas according to a set of pre-determined parameters by applying appropriate and effective polices and procedures. This process includes detecting hazards, assessing risks, implementing and monitoring risk controls to support better and informed decision making

OPERATIONAL RISK MANAGEMENT FRAMEWORK



CORE COMPONENTS OF ORM FRAMEWORK

- **CULTURE:-** For effective risk management , there is a great need to have strong risk management culture. The board of director and senior management should take the responsibility for establishing a strong risk management culture that is guided by strong risk management and provide standards and incentives for responsible behaviour.

CULTURE= provide appropriate standards , code of conduct , policies and procedure for managing risk

- **APPETITE**:-Risk appetite can be defined as the amount and type of risk that an organisation is willing to take in order to achieve strategic objectives. The board of directors should approve and review a risk appetite and tolerance statement for operational risk that articulates the nature, types and levels of operational risk that bank is willing to take,

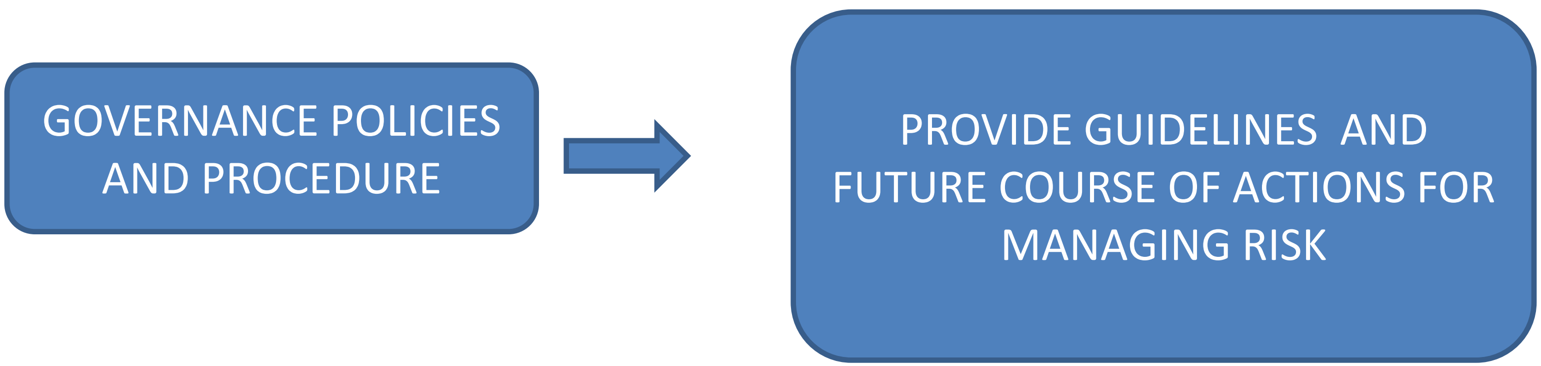
- **<u>COMMUNICATION</u>**:-For effective operational risk management there is a need to have proper and developed communication system in bank or financial institution for infirming the employees about potential hazards, risk and standards for mitigating and management risk.

COMMUNICATION ABOUT →

- RISK STANDARDS
- RISK APPETITE
- CODE OF CONDUCT
- TOOLS FOR MANAGING OR

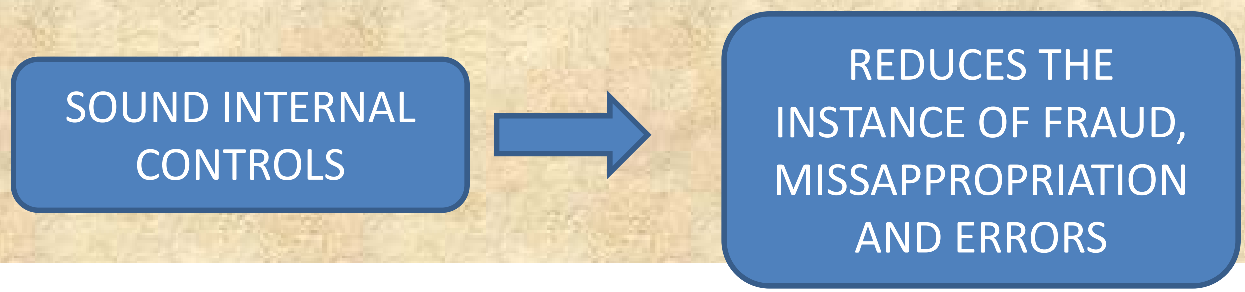
ORM PROCESS

- **GOVERNANCE, POLICIES,PROCEDURES:-** For proper risk management the governance structure should be well defined , clear and transparent. Senior management develop effective , clear governance structure , policies and procedures for managing operational risk appropriately.



- **<u>RISK IDENTIFICATION AND ASSESSMENT</u>**:-Bank should identify and assess the operational risk inherent in all material products, activities, processes, and system. Risk identification and assessment is a deliberate and systematic efforts to identify, quantify and document the institution's key risks. Bank should also ensure that before new products, activities and system, the operational risk inherent in them is identified clearly and subjected to adequate assessment procedures.

- **<u>CONTROL ENVIRONMENT</u>**:-control environment is the foundation on which an effective system of control is built and operated in the organisation. A system of effective controls is a critical component of bank risk management framework and foundation for the safe and sound operations of bank organization.



- **QUANTIFICATION, MEASUREMENT AND MODELING**:-Effective risk quantification and measurement allows the bank to better understand its risk profile and most effectively target risk management resources. For quantification there is need to have systematically tracking and recording of the frequency and severity of each loss events along with other relevant information on individual loss event

- **RISK DECISION MAKING**:-It involve decisions regarding whether to transfer, reduce or mitigating the risk. The type of decision depend upon the nature and scope of particular risk. A bank can also use 4T risk response strategies i.e Treat, Terminate, Tolerate, transfer for managing risk.

- **MONITORING AND REPORTING**:-Regular monitoring activities can offer the advantage quickly detecting and correcting deficiencies in the policies, processes and procedures for managing operational risk. Promptly detecting and reporting these deficiencies can substantially reduces the frequency and severity of operational risk

- **INCENTIVIZING BEHAVIOUR**:- It means to provide monetary and non-monetary incentives for professional behaviour of employees who implement the practices and policies that avoid and manage most unwanted risk in the institutions.

CONCLUSION

In nutshell an operational risk management framework provide guidance, policies and procedures for effective operational risk management in the bank..