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CROs FORUM 2021

OPERATIONAL RISK MANAGEMENT IN POST COVID: OPPORTUNITIES & RESILIENCE STANDARDS

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KEY POINTS

- Pandemic has always been featured as **high impact-low probability risk** and went unmonitored
- very few companies had included **pandemic response** in their business interruption plans;
- Covid 19 Pandemic has caused a drastic change to the way firms conduct business the fact that raised **new risks** and **new operational challenges** to overcome its **long -lasting impact**.
- **Standard risk management practices** no longer suffice for a Pandemic on this scale.
- The current crisis has highlighted the importance of investing in **resilience efforts**.

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PANDEMIC MAJOR RISKS

- Two major risks surge out of this pandemic that businesses had to face:
 - **Business risk** that threatens the Co. ability to achieve its strategies and objectives, the fact that could lead to **failure** to deliver to stakeholders and **reductions** to profitability and cash flow.
 - **Operational Risk** (*mainly external events*) that has impact on people, processes and systems the fact that Cos., need to control its **preparedness** for them.

PANDEMIC CHALLENGES

- Financial institutions had to deal with two challenges in the face of the Covid-19 pandemic to enable overcome its repercussion and duration:
 - The **first challenge** is **financial** – how to address and mitigate the sharp drop in the value of financial assets or loss of liquidity.
 - The **second challenge** is **operational** – how to address the risk of failure of resources resulting from people, processes, technology, facilities, and information to deliver business services.
- Financial sector authorities are concerned with both sets of challenges, given that the response of financial institutions has implications for the provision of the financial services that support the economy

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PRINCIPLES OF RISK MANAGEMENT THAT HELPED MOVE THROUGH THE CRISIS AND BEYOND

- **Identify risks** : update the **risk profile** by bringing to light risks not yet considered –aligned with the **RCSA** Operational risk tool.
- **Be agile** : navigate with **flexibility** and understanding
- **Think People** : properly managing employees in terms of health & safety, financial, reputational, etc...
- **Consider Business continuity**: evaluate the impact of COVID-19 on your organization by looking:
 - **internally** (identifying critical employees and functions that support important business service) and
 - **externally** {identifying Critical vendors, suppliers, distributors which the org. relies heavily on their services)
 - Assessing **telecommuting capabilities** and increasing **cyber resilience**
- **Consult with advisors** (legal counsel, insurance broker, financial advisors, risk management consultant)

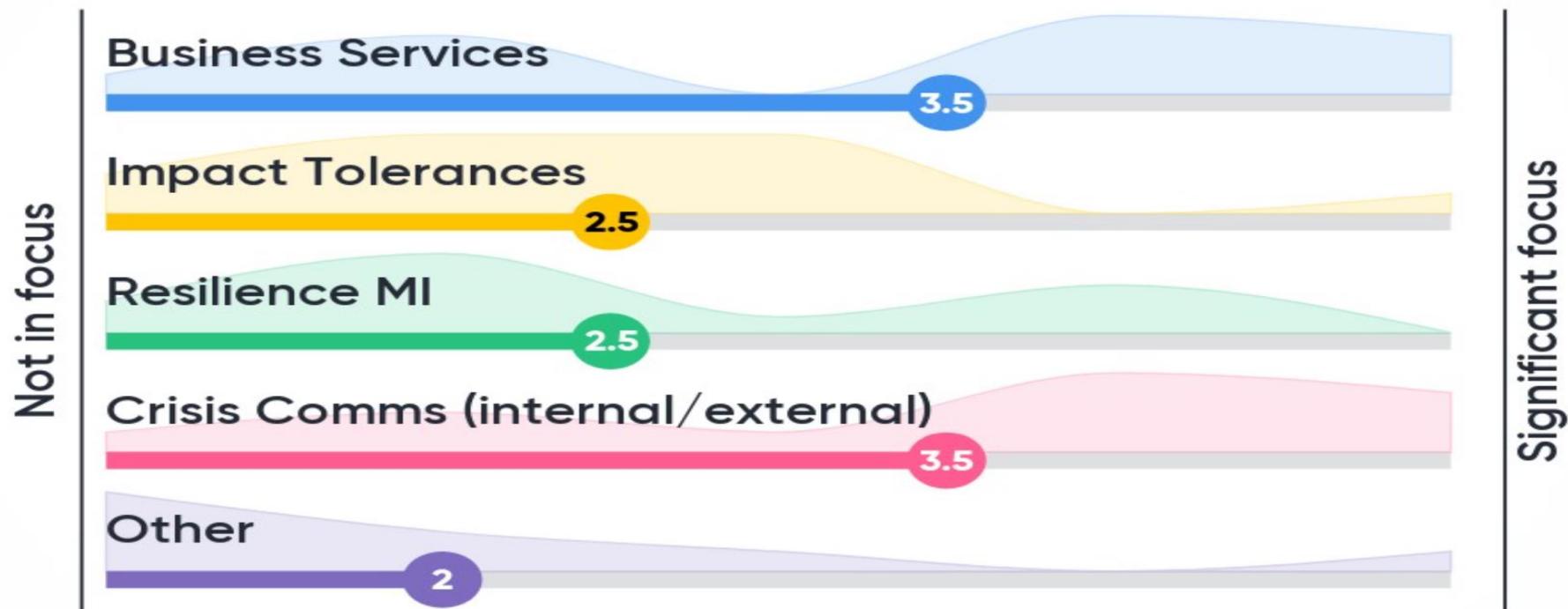
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OPERATIONAL RISK OPPORTUNITIES

- Operational risk is defined as “The risk of loss resulting from people, processes, systems or external factors.”
- Covid 19 Pandemic presented opportunities for risk managers to build **operational resilience** by rethinking the way to approach **risk mitigation** and **accountability**.

OPERATIONAL RESILIENCE ENHANCEMENT

Op Resilience focus is on



OPERATIONAL RESILIENCE (CONT'D)

- Maintaining **Continuity of Operations** was always one of the firms' key objectives
- **Business Services**
 - defining the most **important services** that provide a customer 'product'.
 - Assessing resilience as well as **risk profile** of the service end-to-end.
 - From Operational Risk perspective is the **alignment with** the Risk and Control Self-Assessments (**RCSAs**), if they are completed by process.
- **Enhancing Crisis Communication**
 - ensuring that a prompt and accurate message is sent, in case of disruption, and working out how to effectively reach the entire client base, retail and institutional.
- Developing **impact tolerances**, building a suite of **operational resilience metrics** and reviewing **business continuity** and **disaster recovery** plans

MANAGE COVID 19 IMPACTS

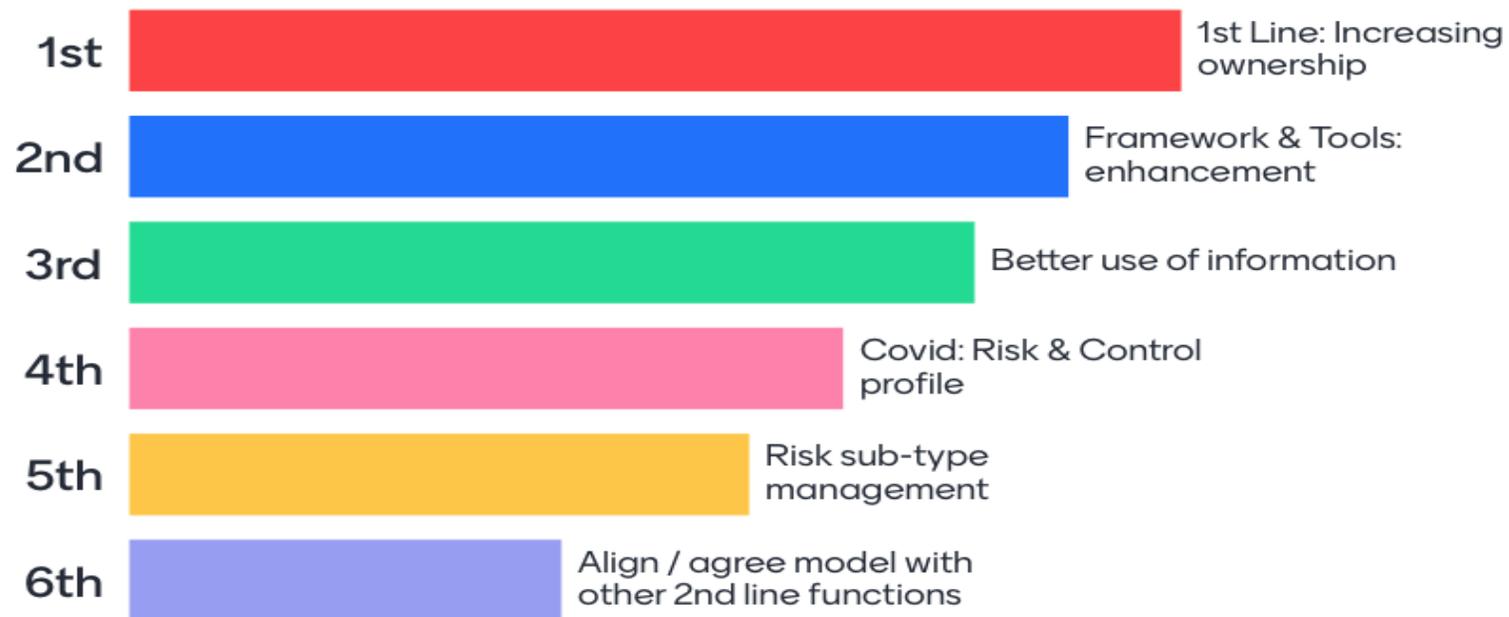
- Organize operations in order to continue providing the best solutions and accessibility to the clients during the crisis and this through:
 - *Continuous communication and **digital channels***
- To protect and **support the staff** during this period by **reinforcing values** and organizational **culture** through:
 - *Communication, team management, financial support, job stability , health measures (vaccination)*

MANAGE COVID 19 IMPACTS (CONT'D)

- Continue operating the financial institution by **managing** the **operational**, credit, liquidity and market risks that **were directly impacted by the pandemic**:
 - *Apply 3 lines of defense to manage Risk and review risk appetite*
 - *Ensuring business continuity :Adequate infrastructure capable of supporting operations in a remote environment (**IT Infrastructure and cyber resilience**)*
 - *Reducing workforce & increasing desktop virtualization, adopting flexible hours, ...*
 - *Real-time monitoring of the client's behavioral patterns and their credit quality*
 - *Consider measures adopted by the central bank for risks and liquidity management*
- Increase the level of preparedness to face critical situations by **continuously investing in people development and technology**, to run the Firm's operations as well as serve the clients

OPERATIONAL RISK PRIORITIES

Rank Operational risk priorities for 2021



Source: Best Practice operational risk forum

OPERATIONAL RISK PRIORITIES (CONT'D)

- **Increasing 1st Line Ownership & Accountability:** Embedding risk management across the Organization & using the tools for better decision Making
- **Continuous Enhancement of Frameworks and Tools:** new factors such as Operational resilience lead to necessary deliberations on how to integrate Operational risk and Operational resilience effectively, avoiding parallel frameworks and governance processes.
- **Better Use of Information:** Although focus on data and use of data analytics has moved up the priority risk, Risk data remains a challenge for financial services industry.

OPERATIONAL RISK PRIORITIES (CONT'D)

- **Covid-19 Risk and Control profile** : providing a transparent picture of weakened controls and the areas of increased risks.

(Many of the usual controls had to be relaxed to enable working from home, to allow for continuity of business.)

- **Management of sub-types of Operational risk:** Some examples include:
 - Information Security (including Cyber Risk);
 - Third party, with increasing organizational and regulatory focus;
 - Financial Crime;
 - **Change risk**
- **Alignment with other 2nd line functions** : Achieving synergy between 2nd lines and Audit

THE NEW NORMAL

- Responses to the pandemic have led businesses to deviate from their normal operations to a “ **New Normal**”.

How organizations will operate going forward?

- **Pre-plan** for Cash flow impact
- **Operate and measure the operations in real time** – change happens faster than **most leadership sees**
- **Track top key operating drivers & metrics in detail**
- **Becoming an agile business** - when the un-forecasted happens, redeploy resources quickly and change the operating model

FINAL REMARKS

- The Basel Committee on Banking Supervision's Principles for the sound management of operational risk explicitly mention the pandemic as one of the scenarios to take account of in business continuity planning
- Supervisory discussions have shifted towards achieving operational resilience more broadly.
- Whilst COVID-19 presents a lot of uncertainty and challenges for businesses, there may never be a better time for a chief risk officer to present risk management as an integral part of running a business than today.
- COVID-19 pandemic is the time for Operational risk practitioners to step up, take the lead in this important analysis and demonstrate to the boards and senior management the true value of risk management.



THANK YOU