

Operational Risk Management

– *Merits of 'The Standardised' Position*

Financial Stability Institute, BIS

October 2006

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Standard
Chartered 

Some of the views expressed are the presenter's and may not necessarily be that of the Standard Chartered Group.

Presentation Outline

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Standard Chartered Group - Overview

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Basel-II Position

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Operational Risk Management Approach

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Current Challenges - Practical Issues

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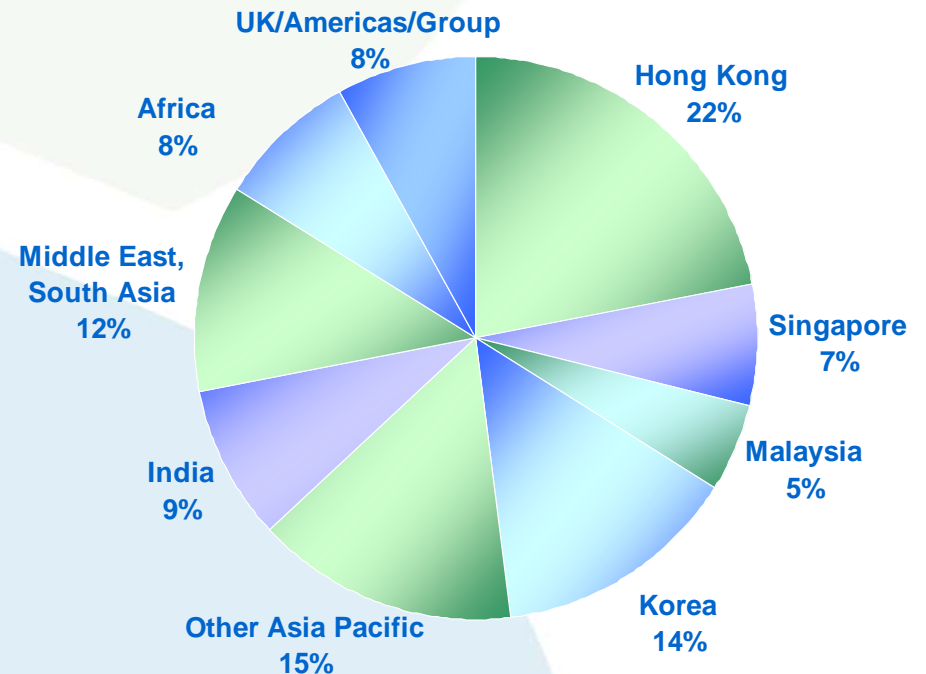
Current Challenges - Practical Issues

Our International Business

Key Facts

- Established for over 150 years
- Dual-primary listed - London, HK
- Top 25 of FTSE 100 companies
- Regulated by FSA
- 56 countries, 1,200 locations, 3,000 ATM's
- 40,000+ employees, 80 nationalities

> 95% of income from Asia, Africa and the Middle East *



**Based on Final Results 2005*

Our Footprint



International footprint, with focus on
Asia, Africa and the Middle East

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Standard Chartered – Basel-II OR Position



- **Be Compliant – FSA (BIPRU) and local regulations.**
- **Governance for Basel-II OR Programme in place**
 - Separate OR Programme under overall Group Programme for Basel / BIPRU compliance
- **Basel-II OR Pillar-1 Position Established and Approved**
 - Our initial target is ‘The Standardized Approach Plus’ (TSA Plus)
 - We will however continue to make enhancements to the framework as we deem necessary for us to manage risk better. This will position us well from an AMA context.
 - AMA option to be reviewed regularly but decision to transition linked to ‘cost-benefit’.
- **Basel-II OR Pillar-2 Position Established and Approved**
 - Operational Risk will be integrated into overall Group ICAAP process
 - Pillar 2 plan in place and focus is to support Group ICAAP process.
 - Specific refinement of methodologies in OR context to be considered in 2007
- **Country local regulatory developments being monitored**
 - Engage with country teams to keep track of local regulatory developments.
 - Provide advice and guidance as deemed appropriate

Our Position on AMA

- **We are supportive of the principles behind AMA and the work undertaken at the industry level in this area. We believe this is directionally the way forward for large internationally active banks like ours.**
- **We believe that we need to be AMA ready first (in terms of framework and infrastructure) internally. We are pacing our transition.**
- **Our foundational blocks and approach take into consideration AMA requirements and views of AMA industry groups. It is however important to get the basics to work properly first.**
- **We also believe that banks like ours will be progressively ‘nudged’ towards AMA standards under Pillar 2 in due course.**

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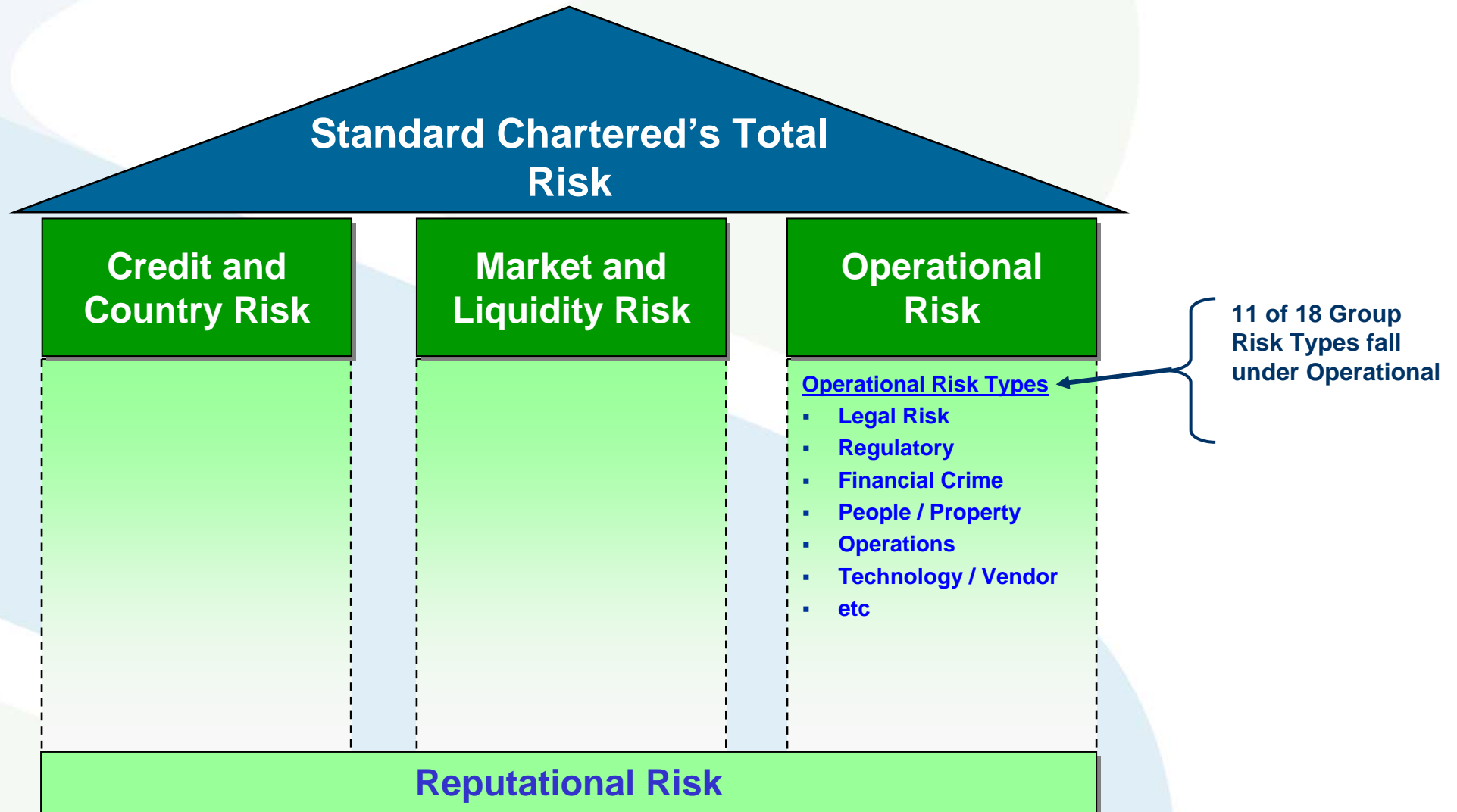
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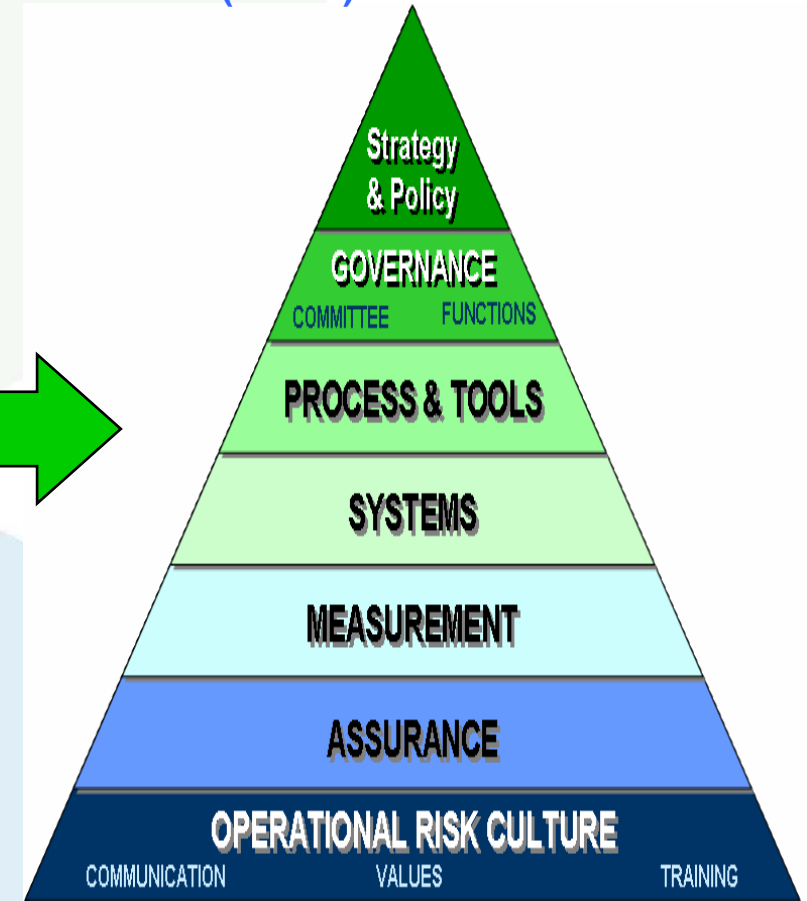
Current Challenges - Practical Issues

Management of Risk Types Simplified



Effective and Consistent Risk Management - Robust Framework

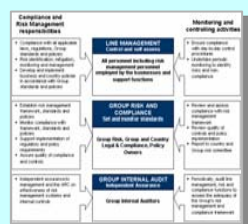
Operational Risk Management Framework (ORMF)



Key Framework Elements

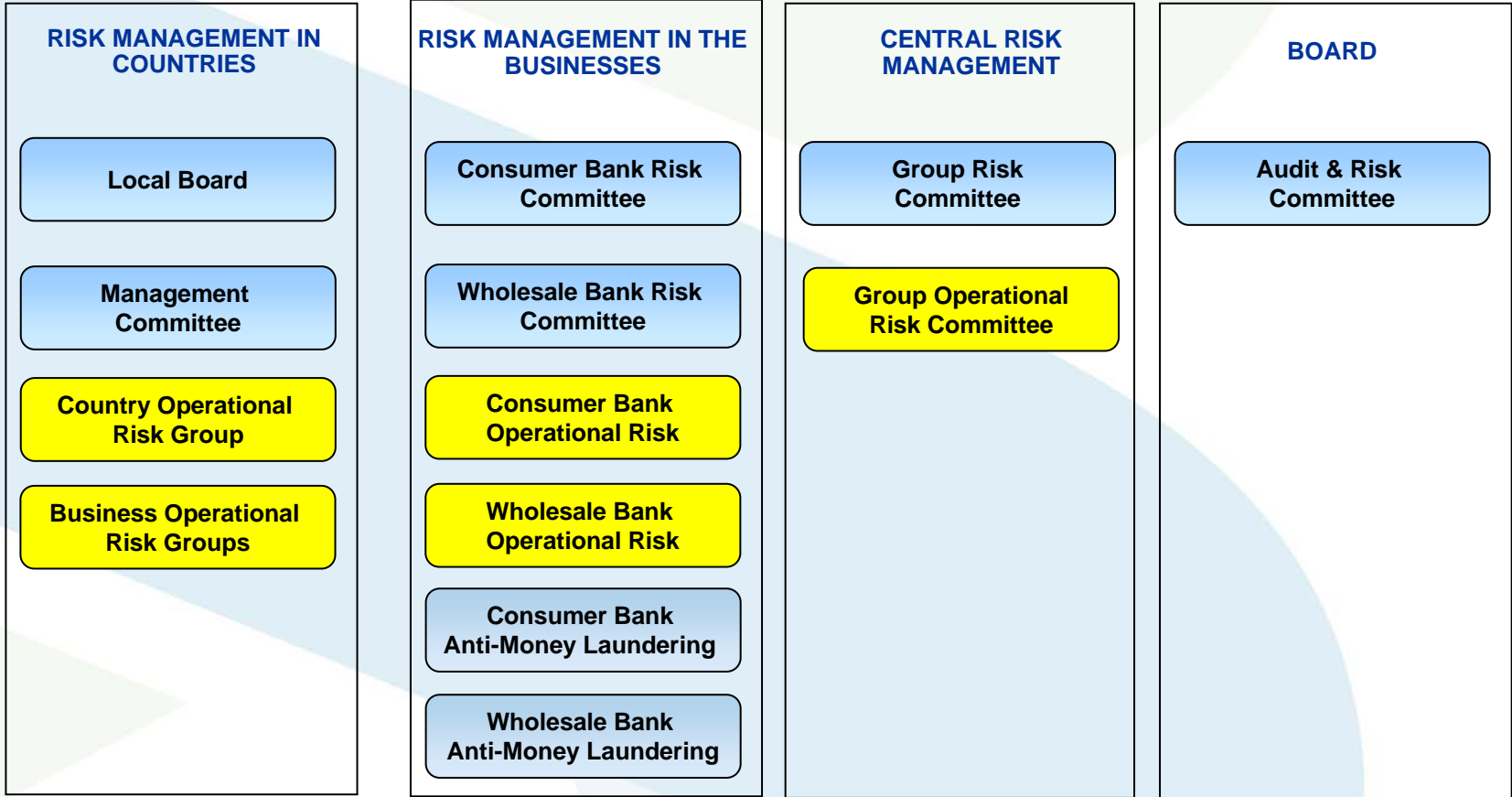
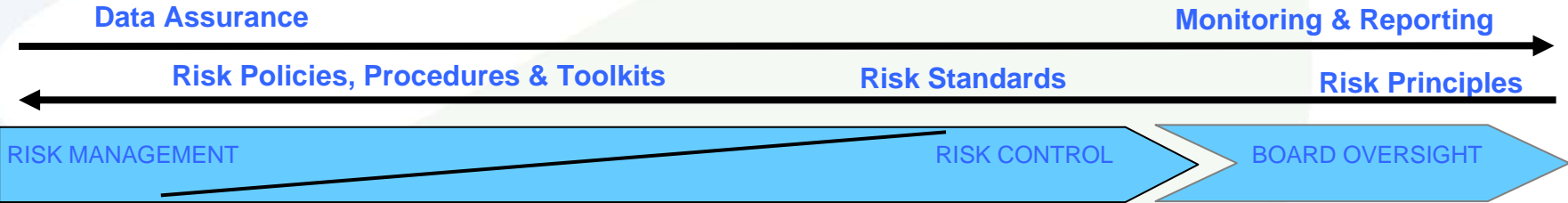
Operational Risk Management Framework (ORMF)



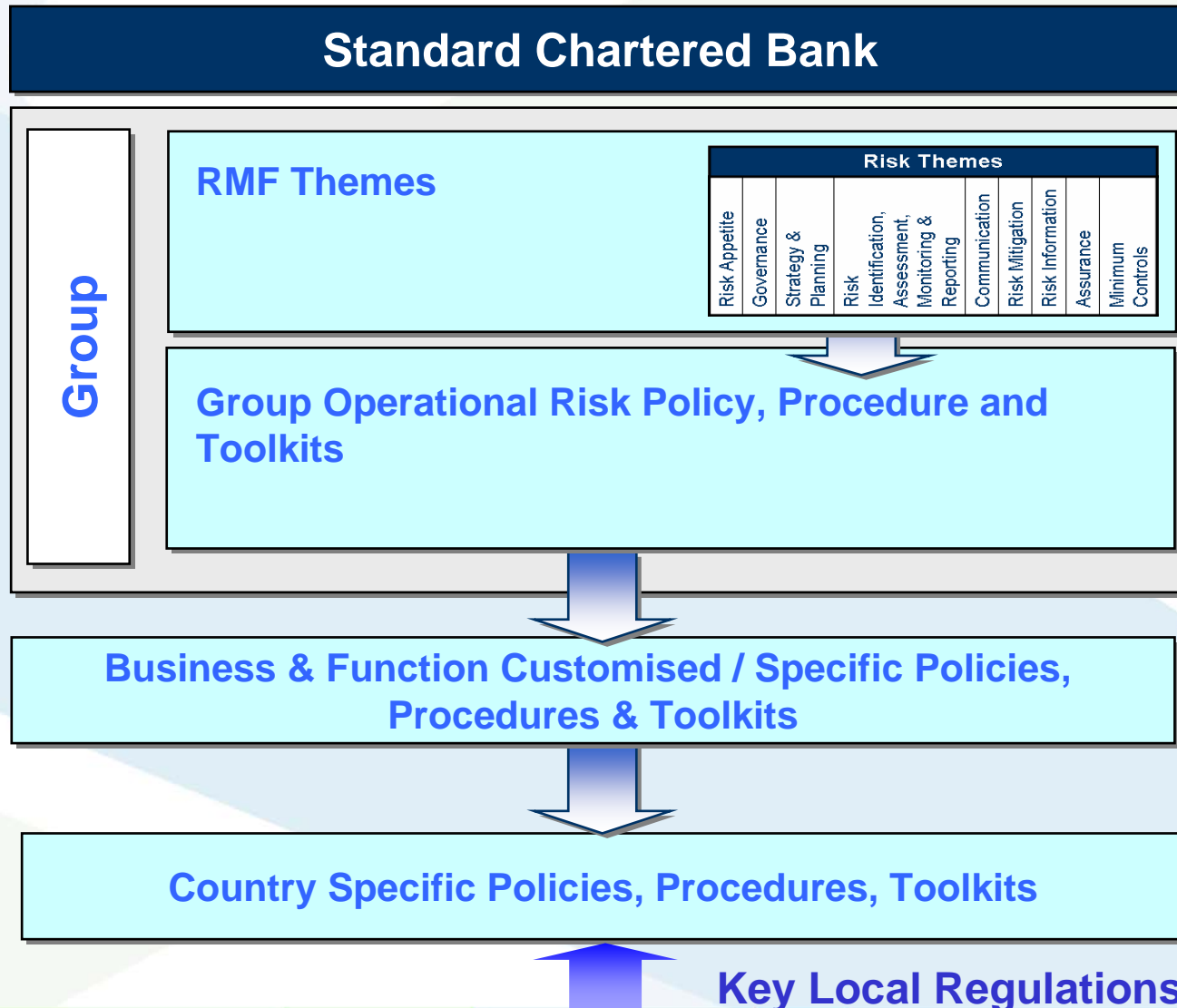
Policy	Governance	Processes & Tools	Systems	Assurance	OR Culture	Measurement
<ul style="list-style-type: none"> OR Policy OR Procedures Key Controls 	<ul style="list-style-type: none"> Group Business / Function Country 	<ul style="list-style-type: none"> Process Mapping Self Assessment KRI Risk Grading 	<p><u>Short-Term / Tactical</u></p> <p><u>Long-Term</u></p> <ul style="list-style-type: none"> System Technology Roadmap 	<ul style="list-style-type: none"> 3 Line Assurance Model 	<ul style="list-style-type: none"> Training 	<p><u>Risk Capital</u></p> <ul style="list-style-type: none"> Pillar-1 Capital Economic Capital Stress Testing & Scenarios Analysis ICAAP

- ORMF comprises of 7 key elements
- Each element of the framework has its own components
- Some components have been in place for quite some time and need to be aligned to changes in environment and approach.

Making the Risk Management Framework Effective



Operational Risk Policies Aligned to Risk Policy Framework and Key Regulations



Our Effective Position - TSA 'Plus'

1. **Allows us to focus on key foundational / architectural aspects of the OR Framework.**
2. **OR input considered in all strategic initiatives including acquisitions.**
3. **Does not inhibit us from establishing standards commensurate with AMA. Our Pillar 2 work will also move us closer to AMA.**
4. **Our pace is consistent with progress of OR in our key markets. We are however not being complacent. Clear roadmap of activities in place for 2006-2008.**
5. **We will progressively strike a better balance between measurement and management.**

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Other Practical Challenges

- **Moving 'Beyond the Form'** – lack of coordination amongst Risk Types results in inefficiencies, lack of holistic risk management. Flushing out the **'real risks'**
- **Pillar 2 in the OR Context** – integration into overall ICAAP; Use; SREP application in our key markets (Asia, Middle East). ICAAP for TSA Banks!!!!
- **Stress Testing** – Our experience to date has been more on Scenario Analyses. We see capital validation as only one of the objectives of Stress Testing. Risk type Scenario Selection; Completeness of OR input into exposure assessment; correlation.
- **Data Quality** – Accuracy important for risk management; Inadequate data points for OR Unexpected Loss Modeling; questions remain over relevance of external losssdata for modeling purposes.

Critical to Success

In a Nut-Shell

- Integrated
- Balanced
- Standardized
- Risk based



The End