

Operational Risk with Oracle Financial Services Analytical Applications

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In today's highly regulated financial services environment, organizations must comply with multiple regulations, policies, frameworks and standards as well as evaluate and manage all other risks. Although the concept of operational risk is far from new, the challenge associated with managing an increasing number of internal and external risk categories has become as great as ever. Changes in the people employed, enterprise processes and systems in an attempt to seek out more opportunities for increased profits and efficiency by the firm makes the likelihood of loss a constant threat. Many legacy risk and compliance solutions have been developed over time and now typically consist of an amalgamation of applications talking to each other. This has created a disjointed landscape that apart from being expensive to maintain, also makes it rigid, non-consistent and non-transparent. A unified and holistic system offering a single source of truth is a must in today's evolving business, risk and regulatory environment to reduce an organization's risk of noncompliance and facilitate better corporate governance with lower costs.

Business Environment and Scorecards

Oracle Financial Services Operational Risk begins with an assessment of the business environment to understand and arrive at the strategic objectives of the organization. It also helps understand the core business processes that exist to support those objectives and the various internal and external factors influencing these objectives. The Business Environment Scorecard (BES) is used to assist in determining the impact that these specific factors may have on a Business Unit. It also enables the capture of business objectives, which helps in identifying the risks that will threaten the achievement of those objectives.

Risk and Control Assessments

Oracle Financial Services Operational Risk helps drive a very effective risk and control management methodology within the organization. The application allows for recognition, assessment and control of operational risks impacting various categories of risk inventory (e.g. Credit, Traded, Non-traded, Market, etc.) that impact the strategic objectives of a business unit. Central libraries for risks and controls are available to ensure consistency in the management of risks and controls within the organization. The application allows for top down and bottom up instantiation of these risks and controls across various dimensions such as lines of business, locations, products, processes etc. allowing the assessments to take place at various granularities in the organization.

Multiple assessment methodologies such as questionnaire, formula based or manual assessments are supported within the application with the ability for an oversight user to challenge the assessment. A thorough linkage capability to other entities such as key indicators, internal and external loss events, obligations etc. offers a holistic view for users to make informed decisions.

Risk Event Types allows for consistent identification and reporting of risks across the organization. The application also offers a completeness check for risk identification by risk event types allowing businesses to review if specific risks are applicable or not applicable to them and reconcile it with losses for those risks.

Incident Management

Incident management functionality enables systematic gathering and analysis of loss data as per the requirements mandated by Basel II regulations. This functionality is addressed by an extensive multi-stage configurable workflow



to manage lifecycle of an event including incident investigation, approval, ownership, review and closure. The system captures different types of incidents which include: Actual Loss, Near Miss, Estimate and Provisional Losses. Additionally, the loss is captured under a cause, event and effect paradigm. As such, the Bank can classify the losses based on a causal category; classify losses based on the risk event types and its multiple effects with recoveries in a multi currency environment. The incidents are captured at the granularity of Business Unit, Location, Risk Category, Product and Process across the organization. Furthermore, to enable proactive operational risk management and to enable the 360 degree view of risk, the incidents captured can be linked to Risks, Controls, Internal Incidents, Key Risk and control Indicators, Issues and action plans. The application also facilitates capture of confidential, compliance and legal incidents and offers a different workflow and approval process from the respective departments.

A whistle blowing capability is also provided to records Incidents through a concept called Guest Users which is then routed to the Loss Manager who verifies and enriches the loss details to push it through the typical lifecycle of Incidents.

The application also provides banks with the ability to integrate external loss events from organizations such as ORX and/or BBA Gold to help benchmark themselves against their peers.

Key Indicators

Oracle Financial Services Operational Risk allows use of Key Indicators (KIs) as quantitative measures to monitor individual Risks and to determine the effectiveness of Controls. It is used as a mechanism for risk monitoring. Key Indicators can be simple based out a single measure or it can be calculated value from various measures joined by a formula behind it. The measures could get their values from both internal and external sources. The application allows users to define various levels of thresholds depending on the level of analysis required. KIs Values and are compared against threshold ranges defined. This determines the Red Amber Green (RAG) status of the KI. Various notifications and tasks can be sent to appropriate stakeholders depending on the level of the KI value breach. The RAG status can be used as an indicator of the effectiveness of the Controls on the Risk. KIs can be used to ensure that risk exposures are adequately monitored and to allow corrective actions to be taken before significant risks occurs.

Issues and Actions

Oracle Financial Services Operational Risk allows Issues to be created from any module in the application (i.e. Risks, Controls, Loss event, Key Indicators, Compliance etc.) and added to an issue tracking capability. It then allows definition Actions (a remediation for the issues) to be created, assigned and then routed through a completion workflow. The Issue and Action capability can also be used independently to address various kinds of audit activities. Actions can further split into multiple activities for better management of large and long lasting actions. Individual actions are reviewed and once all actions associated with an issue are complete, the issue gets closed. Delegation, re-assignment, transfer or ownership, reminders and escalations for action completion are available and are fully addressed by an auditable workflow.

The application also allows for a configurable option of turning off issue creation and management and instead directly creating actions against the entities such as Risks, Controls etc.

Furthermore, each Issue and Action has the ability to record associated costs to enable the organization to review the business from a financial angle to further focus resources and management attention.

Scenario Analysis

Oracle Financial Services Operational Risk provides for scenario analysis of top risks with links to individual risks and assessments to help the institution consider potential outlier risks, using a workshop analysis approach. Scenario analysis is a forward-looking methodology and is used to evaluate the typical and worst case impact and likelihood of extreme but plausible risk events across the whole firm. The assessment of the scenarios can be done differently for each of the impacted business units allowing more granularities. The assessments provide the four point estimate for scenarios which is a key input to capital modeling.

Change Initiatives

Oracle Financial Services Operational Risk allows managing change initiatives in the organization, which is quite frequent in any organization. The Change module is the central repository for capturing various types of change initiatives in the organization such as a new product launch, a regulatory change, new IT system etc. It is vital to identify and manage the execution and delivered risks associated with change initiatives to ensure the delivery of the objectives behind the change. Change Initiatives are evaluated through a change decision tree to get a recommendation of the risks to be considered, appropriate stakeholders for the change and the materiality of the change. Through a workflow it ensures that every risk owner performs a delivery risk assessment of the change with respect to each of the associated risks. The workflow also obtains sign-off from all the relevant stakeholders. The application also generates a delivered risk profile for the business unit showing how the change impacts the risk profile of the business unit.

Business Unit Risk Profile

Oracle Financial Services Operational Risk allows business managers to proactively evaluate a complete risk profile for each business unit across the firm, with detailed information on risks, controls, KRIs, regulations and obligations, and changes being made as a result of projects and from outstanding action plans. When generating the risk profile, the application allows specific filters to be applied and saved to consider entities based only on specific categories or themes. They can monitor trends through KRIs and other factors as changes to systems, improvements to controls or in processes, or other external events that could impact the level of future losses, and thereby operational risk capital. From this complete 360° view, managers are able to plan ahead and proactively manage all risks and protect reputation and capital accordingly. This application gives a 'bird's eye' view of everything a business manager or other senior level person needs to know about each business unit in the organization.

Other Features

- » **Dashboards:** Oracle Financial Services Operational Risk comes with an extensive library of predefined dashboards and reports for every entity in the system. A few examples are risk and control heat maps, assessment across various business units and jurisdiction, incident analysis, issue and action tracking, KI trends etc. Reports can be saved in and exported in any standard formats.
- » **Questionnaires:** Oracle Financial Services Operational Risk offers a rich questionnaire capability to achieve various functionalities with the application. Basic, Score based and Decision Tree types of questionnaires are supported. Questionnaires assist in assessment, attestations and other functionalities by allowing ratings to be based on opinion from a large user community. Questionnaires are fully configurable by a business user.
- » **Planning and Scoping:** Oracle Financial Services Operational Risk gives organizations the ability to drive assessments of risks and/or controls or any other entities in the application on a scheduled basis through auto-generated workflow requests to assessors. These can be based on preset dates, eliminating human interventions



for all planned assessment cycles. The module automatically detects multiple schedules for the same entity and provides recommendations to avoid 'assessment fatigue'.

- » **Administrative Capabilities:** The Oracle Financial Services Operational Risk application offers very exhaustive administrative capabilities like reference data maintenance, financial impact scales maintenance, delegation, user authorization, user preferences, search preferences and many more capabilities to offer flexibility to business users.
- » **Configurability:** The Oracle Financial Services Operational Risk application offers a lot of configurability to the customers through tools such as Forms Manager and Workflow manager which can be used by customers to configure their own screens and workflows, thereby reducing the dependency on the vendor.

About Oracle Financial Services Analytical Applications

Oracle Financial Services Analytical Applications bring financial institutions best-of-breed capabilities to proactively manage Financial Crime, Compliance, Risk, Treasury, Finance and the Front Office. The applications are built upon a commonly available analytical infrastructure consisting of a unified financial services data foundation, analytical computations, and the industry-leading Oracle Business Intelligence platform.

A single, unified data model and integrated metadata framework provides one version of the analytical "truth" to business users throughout the entire enterprise. This enables financial services institutions to confidently manage performance, governance, risk and compliance. Shared data, metadata, computations and business rules enable institutions to meet emerging business and regulatory requirements with reduced expenses and the unified platform helps financial institutions to leverage existing investments.



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