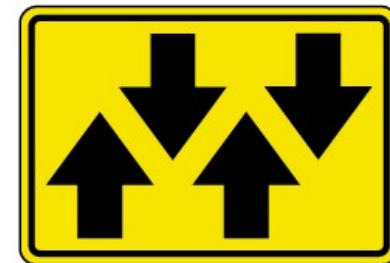




Institute of Internal
Auditors Belgium

From Findings over KRIs to Process Control

F. Deliën - QPMC



method
ware

Key Risk Indicators

- Early warning system.
- A lot of talk about them, but not a lot is actually been done to establish and monitor KRI across organisations.
- Some industries are doing more, i.e. Healthcare, Financial
- Drivers:
 - ◆ Financial Services Authority (FSA) – UK regulator is pushing the use of KRI's during its 'Arrow' visits.
 - ◆ Principles of Sound Operational Risk Management.
 - ◆ COSO 'Enterprise Risk Management Integrated Framework':
 - Event Indicators – monitoring data correlation to events, e.g. correlation between borrowers late payment and eventual loan default
 - Performance Indicators – relating different sets of data to one another, e.g. staff turnover rates by functional unit.



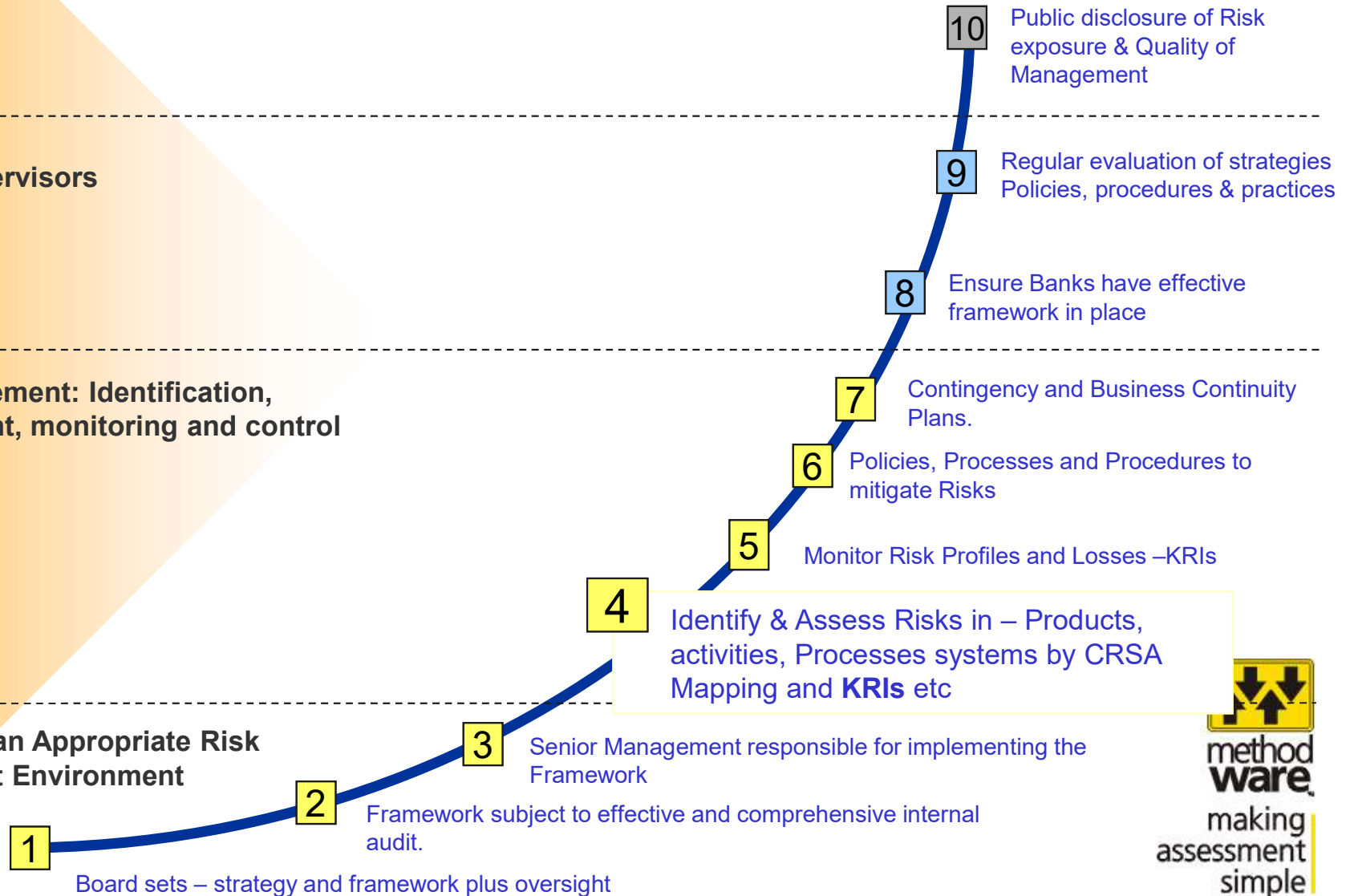
Principles of Sound Operational Risk Management

Disclosure

Role of Supervisors

Risk Management: Identification, measurement, monitoring and control

Developing an Appropriate Risk Management Environment



Principle 4

Principle 4: Banks should identify and assess the operational risk inherent in all material products, activities, processes and systems. Banks should also ensure that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment procedures.

25. Amongst the possible tools used by banks for identifying and assessing operational risk are:

- Self-or Risk Assessment...
- Risk Mapping ...
- Risk Indicators: risk indicators are statistics and/or metrics, often financial, which can provide insight into a bank's risk position. These indicators tend to be reviewed on a periodic basis (such as monthly or quarterly) to alert banks to changes that may be indicative of risk concerns. Such indicators may include the number of failed ...
- Measurement ...



Source - Basel Committee on Banking Supervision, [Sound Practices for the Management and Supervision of Operational Risk](#). Feb 2003

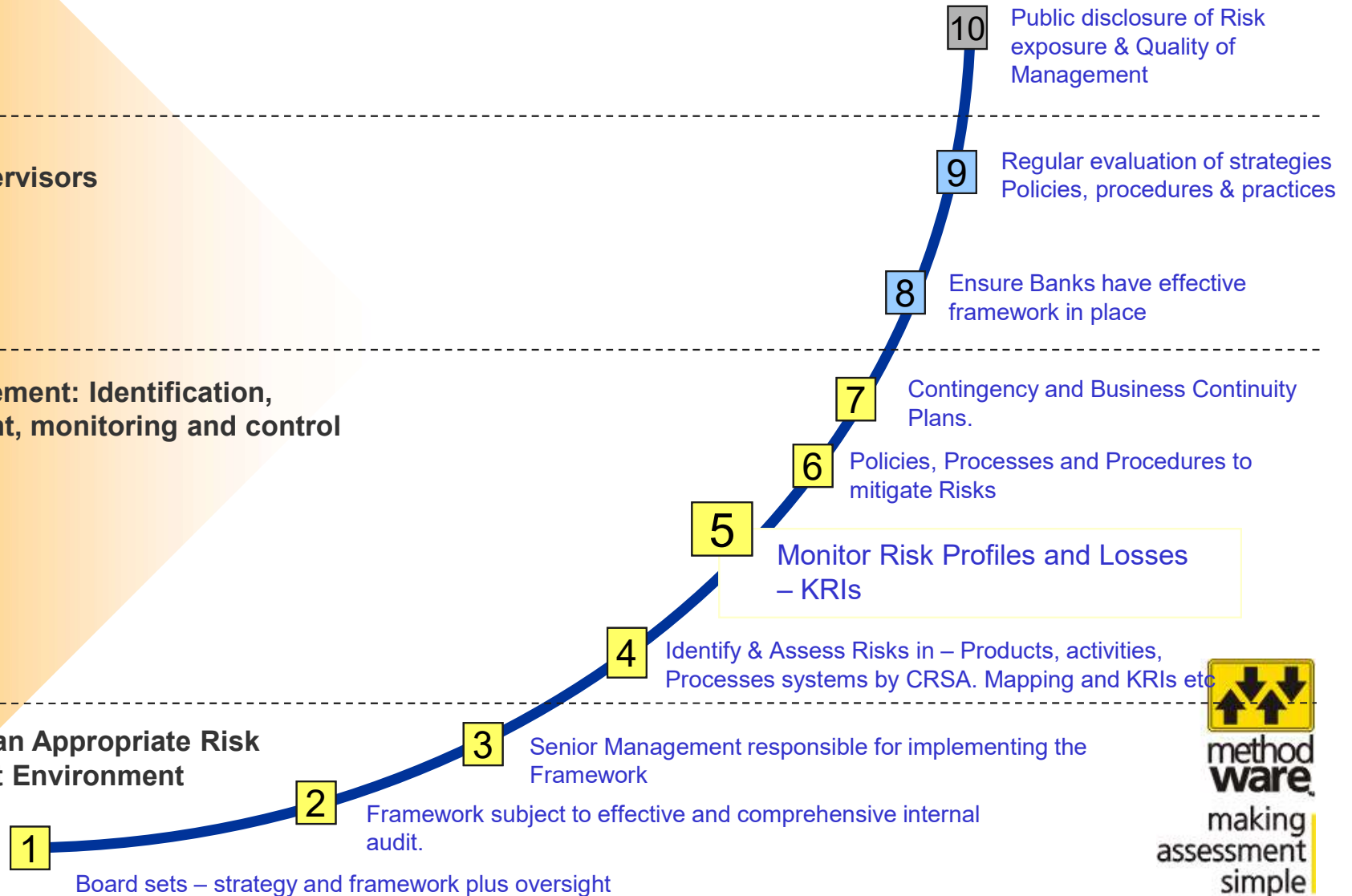
Principles of Sound Operational Risk Management

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Principle 5

Principle 5: Banks should implement a process to regularly monitor operational risk profiles and material exposures to losses. There should be regular reporting of pertinent information to senior management and the board of directors that supports the proactive management of operational risk.

27. In addition to monitoring operational loss events, banks should identify appropriate indicators that provide early warning of an increased risk of future losses. Such indicators (often referred to as key risk indicators or early warning indicators) should be forward-looking and could reflect potential sources of operational risk such as rapid growth, the introduction of new products, employee turnover, transaction breaks, system downtime, and so on. When thresholds are directly linked to these indicators an effective monitoring process can help identify key material risks in a transparent manner and enable the bank to act upon these risks appropriately.



Source - Basel Committee on Banking Supervision, [Sound Practices for the Management and Supervision of Operational Risk](#). Feb 2003

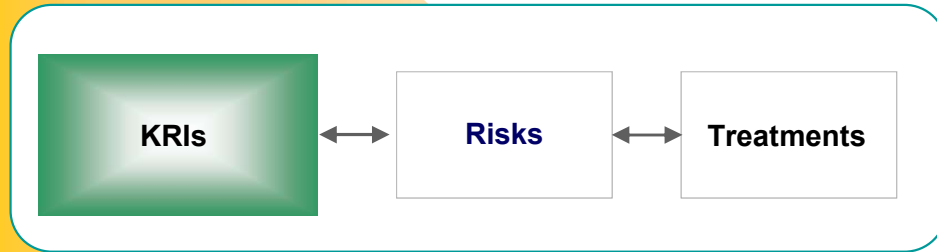
Key Risk Indicators

- Small number of KRI they track either at a corporate and/or business level.
 - ◆ Attrition rates
 - ◆ Attrition rates in key positions
 - ◆ Worker injury
 - ◆ Lost time injury
 - ◆ No of 'incidents'
 - ◆ Hazardous waste generated
 - ◆ Airborne emissions
 - ◆ Regulatory infringements
 - ◆ System downtime
 - ◆ Delivery Rates
- Essential they are - Measurable, Managed, & Monitored

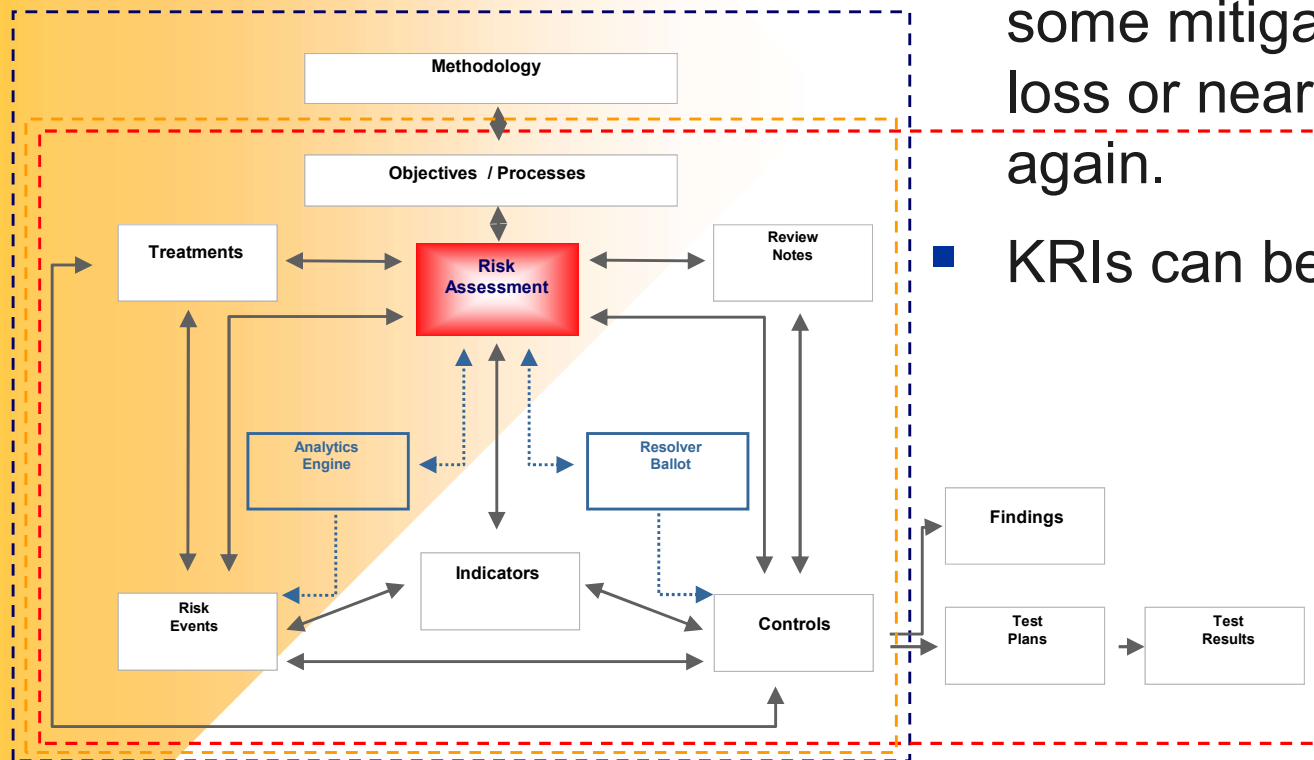
Key Risk Indicators - ERA

- Standard module in all Solutions.
- Data can be imported from other systems, or manually entered.
- Dimensions can be captured to provide additional information, e.g. attrition rates by business function and/or position, regulatory breaches by location.
- Multiple boundaries can be set up for a KRI:
 - ◆ Upper Bound – values above a certain value
 - ◆ Benchmark -
 - ◆ Lower Bound – values below a certain value
- eMail alerts can be set up to assign responsibility to key personnel – automated through C/S, manual through Std & MU.

Links



- Can be linked to risks – early warning system for risk materialising.
- Treatments are raised at the risk level if required – to put in place some mitigating action to stop the loss or near miss from happening again.
- KRIs can be linked to other KRIs.



Questions



Materials available
from QPMC website
www.q-project.be/IIASWD