Some Practical Considerations in Compliance Risk Management

Presented by: TriComply, a Temenos Product
Presenter: Blair Rugh
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Risk Evaluation Factors

- Potential damage if event occurs
- Probability of event occurring
- Frequency of occurrence
Compliance Risk Management

• The purpose of a risk management program is to use limited resources to prevent the occurrence of unacceptable risks.
• You can't avoid every risk every time.
• The business of banking is the business of taking risk.
Compliance Management vs. Compliance Risk Management
Risk Events

• First list all of the significant compliance risk events inherent in the operations of your bank.

• Ignore the small stuff and the things not related to your job.
Damages

• Compliance risk
• Financial risk
• Reputation risk
• Put a value on each risk event
Probability of Occurrence

• Assign a probability to each event
• Multiply the risk value by the probability
Frequency of Occurrence

- Some events are relatively isolated
- Some events are repeaters
  - Automation errors
  - Procedure errors
- Multiply the risk value probability result by the frequency of occurrence to get an overall risk quotient.
Value Order

• Put all of the risk events in order of their overall risk quotient.
• Rethink the order
• Determine which events have an insignificant risk quotient.
Value Order

• Determine which events have a risk quotient you are willing to accept.

• Finalize the risk event list.
What Does it Cost?

• For each risk event determine the cost (time/money) to ameliorate the risk to an acceptable level.

• Total it up.
You Don’t Have That Many Resources!

• Determine the resources that you have and allocate them appropriately to the risk events.

• Don’t under allocate to an event if the under allocation does not significantly solve the problem.
Review Your Results with Management

- This is what I can do with what I have got.
- Is this acceptable or do you want to dedicate additional resources?
- Do you want a reallocation of resources?
- Reshuffle everything.
Go Do It!
QUESTIONS?