



Operations Risks – Is there an opportunity to bring in radical change and help bank be smarter in managing risk.

By using First Time Right and Wind Tunnel Testing banks can help reduce the duplicity, save huge amount of money spent on Operation Risks.

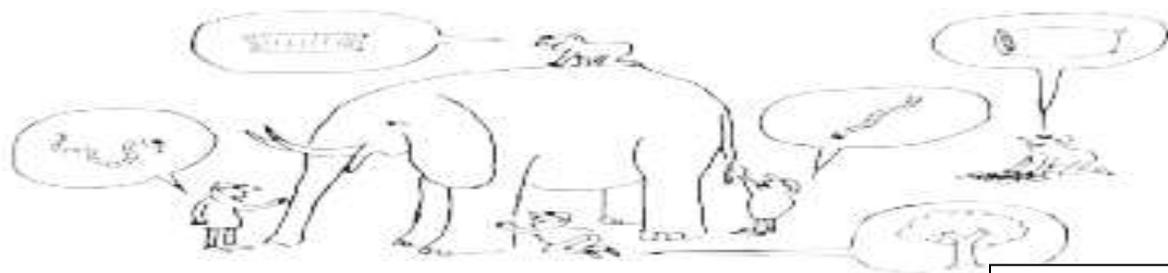
The Basel II Committee defines operational risk as:

"The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events."

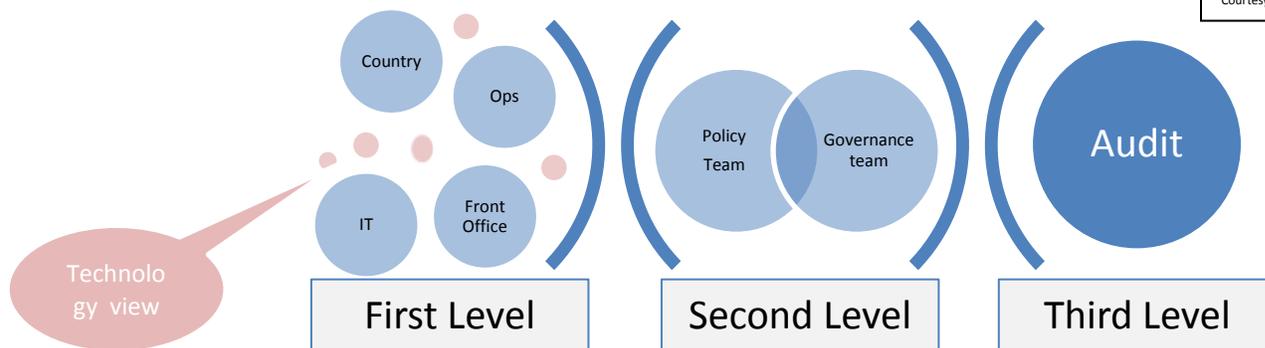
However, the Basel Committee recognizes that operational risk is a term that has a variety of meanings and therefore, for internal purposes, banks are permitted to adopt their own definitions of operational risk, provided that the minimum elements in the Committee's definition are included.

The operation risk teams are spread across Business, IT, Operations and support team along with advisory team which helps in providing guidance. Apart from this, there are internal audit and external audit teams reviewing the process. A multilayered teams running to manage the operation risks for the organizations and helping in addressing various challenges for the bank.

Sometime as mentioned elsewhere –“ it looks like 7 blind man looking at an Elephant and defining it”



Courtesy – Google images



Banks have been in business for decades, most of the product are there for a while but still banks continue to increase its work force in risk and also audit continues to find issues. What has gone wrong here? Many a billion were paid by banks for wrong doing, with many a people supporting the process, what happened, why did banks miss?



Is this like Everybody, Somebody and Nobody? We have first line responsible, which is many a thousands in each of the bank – Everybody. We have second line giving guidance to ensure things right –somebody and then we have coming in finding issues – Nobody around, let me check this? Did all 3 lines miss or was it due to lack knowledge or the process were set, did it make one to fall on the other, which resulted in end no one looking at it completely?

In the world of technology, both business and process are defined by the way technologies or systems are put in an organization. Most of the issues, if not majority of the issues do come out from system or way the system is defined basis which the process is run, let us look at some of the gaps and can it be managed better

FATF – Since 1989 FATF is around to get right identity on the transaction and ensuring same is transmitted all the way through to help identify the 2 main parties or actors involved in the transaction along with other actors who play a role in having the transaction reach the beneficiary. Banks continue to see challenge, many a places still the transactions are not having all the details SWIFT payment is structured, however still the problem exists, has SWIFT got it right. Here, if SWIFT can get field 50 and 59 defined properly along with making to put the right codes of the Bank, lot can go right, identifying the persons becomes easy. The address coming from KYC goes in with clear details on Name, Street, Locality, Town and Country goes into message and systems are defined to have all of them, will help solve the problem. However Banks and the overall system spend great amount of time in looking and addressing the gap. Simple formula of A= B = C would help, getting it right first will help reduce huge cost. With good data analytics available in all banks, banks can continue to ensure there is good quality of data being captured in KYC and are being sent across in right way by just following wind tunnel testing to help ensure the data is right on an ongoing basis.

CRS and FATCA – Every country had tax laws for years and many a places there is control on flow of money, but millions moved out, regulators and banks had idea or little idea and systems in the banks did not pick it up. Why did controls fail, again is it just because of law of Somebody, Everybody and Nobody

Lot of money and resources went in defining the rules and then a great amount of resources have gone to get the system and process right. With Trillions of dollar of money still moved as physical cash, will the control put in will be effective? The gap can be easily solved by having one ID /Account ID globally for a client and get the client account transaction tagged to base country tax authority, lot off issues around this can be easily addressed. Making Tax ID as the ID for the person (refer - Nextgenbanking.org/Thoughts) and then going digital of currency (in an era of digitalization) will help solve the challenge around CRS and FATCA. Just getting one ID globally and having the ID replicated globally and then connecting to tax authority can help address many a challenge around CRS and FATCA. Simple formula A= B = C can help banks and financial world save many a billions. Banks can continue to test end to end along with good quality data analytics can help banks address many a operation risk along with reducing cost.

Regulatory Reporting – Today is an era of data and huge number of data scientists, getting data today is not challenge. However bank continue to struggle, largely due to legacy issues and also way accounts



are maintained. Database management as a technology is now more than 2 decades, however Banks continue to spend huge money and some of the banks have paid fines. Why did controls fail, again is it just because of law of Somebody, Everybody and Nobody

Time we look at standardizing accounts and also aligning it with Tax ID helps control various aspects of reporting needed.

AML – AML has become a fashion, lot of system and people effort are going to get this right. Are the efforts going in right direction? Various system logics are put to get the right kind of information and huge resources across various levels and businesses are put in. The world continue to face problem and cost in handling the activity across the industry is on a increase. A simple change can be easily address, just by having one unique ID for a person/organization will help banks and financial industry save huge chunk of money. Money flow can be easily tracked and this can help bank to move away from spending for a wasteful activity. Simple formula $A = B = C$ can help banks save money as there is continued data flow to Tax authority and this can avoid spending huge amount of money but a good process can resolve. A regular test on a periodic basis can help banks get a good view and be able to reconcile. This also avoid duplication of effort by banks around money and money control.

Financial dealing/Insider trading – We had many a cases of insider trading investigations coming up and people being fined or put behind bar. It is all about money flow, having a good understanding of flow of money and deal would help. If we had one ID, which was tagged to tax account, this would have helped to get a view on the account movement, this tagging to sale of the security would

We have many more such gaps in the banking system today and this will continue, if we do not bring a paradigm shift in way we are connected and working. Just using the technology as a base and with a joined up team, organization can have streamlined risk management and bring in greater control along with reducing risk. Most importantly, can bring down the cost of capital marked in the balance sheet and help bank be agile in managing future challenges coming in their way. **Moving to way a formula one car is looked can help banks bring the change and help bank have an efficient system.**

