

“Enhancing the Bank’s Operational Risk Management Framework” (Circular No. 900)



BANGKO SENTRAL NG PILIPINAS

Operational risk is....



Among the top risk exposures of BSFIs



Inherent in all areas of operations



Often managed on fragmented basis



BANGKO SENTRAL NG PILIPINAS

Definition of Operational Risk



Includes: Legal Risk

Excludes: Reputational & Strategic Risks

Governance: Three Lines of Defense

Board of Directors/Risk Oversight Committee

Senior Management

1st Line of Defense

Business line Mgt Controls

Internal Control Measures

2nd Line of Defense

Risk Management

Compliance

3rd Line of Defense

Internal Audit

External Audit

Regulator



Board of Directors

awareness & understanding of the nature & complexity of the major operational risks

Approval of ORM framework

Adequate oversight on all outsourcing activities

Observance of expectations/ requirements, laws & regulations, industry standards, internal policies

Adequate resources

Promotion of a **CULTURE OF HIGH STANDARDS of ETHICAL BEHAVIOR**

Oversight on business continuity management framework



- RECRUITMENT AND SELECTION

- TRAINING AND DEVELOPMENT

- PERFORMANCE MANAGEMENT

- REMUNERATION &
COMPENSATION

**MANAGEMENT OF
HUMAN-RESOURCE
RELATED RISKS**

- SUCCESSION PLANNING

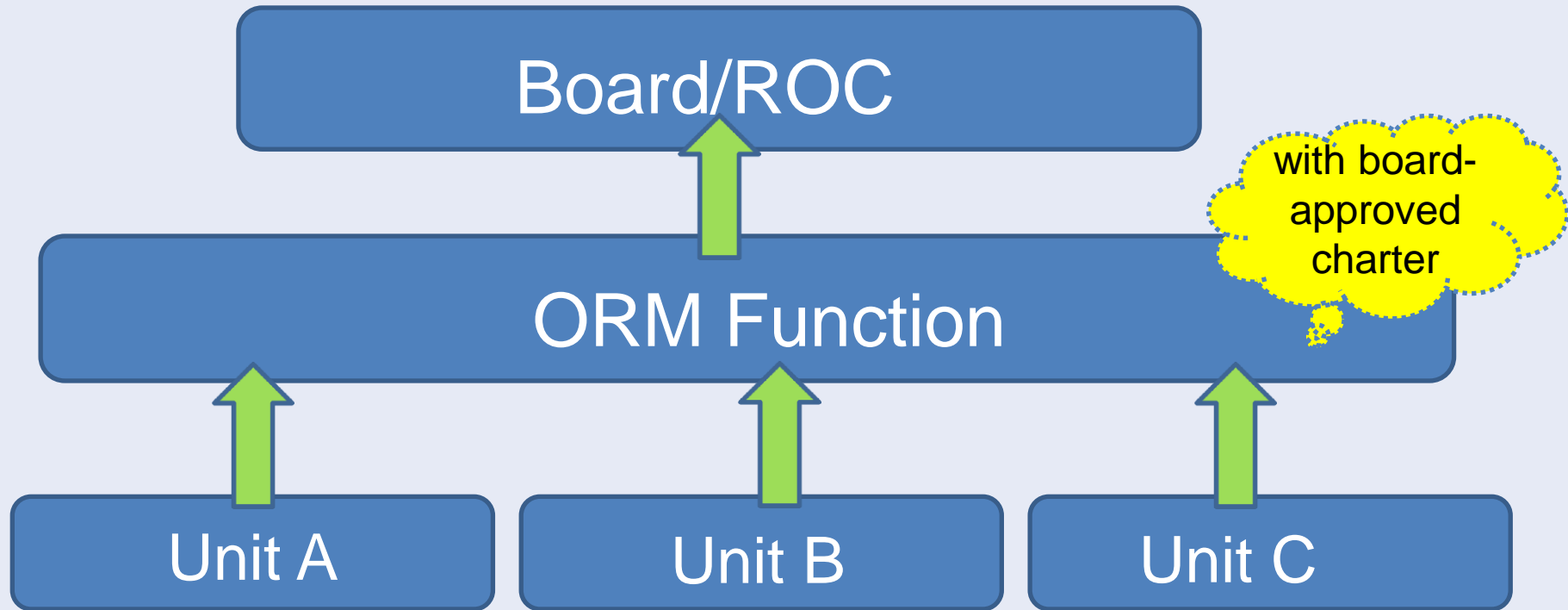
- ADEQUACY OF COMPLEMENT

- DISCIPLINARY ACTIONS

- SEPARATION FROM SERVICE



ORM Function

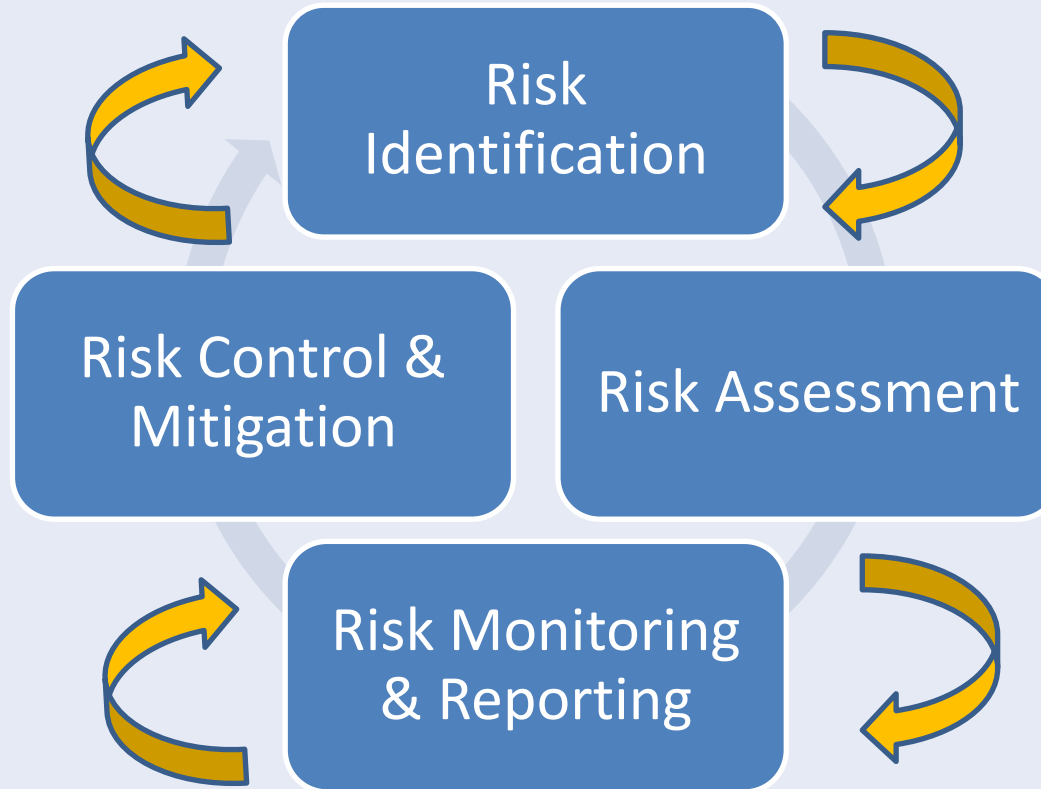


Universal /Commercial banks	Required to establish ORMF
Complex thrift, rural & coop banks	At its own discretion or directed by BSP
Simple thrift, rural and coop banks	Not required (c/o Board of Directors)
Branches of foreign banks	Establish own or covered by parent/regional/group ORMF



Operational Risk Management Framework

Active Board and Senior Management Oversight



Adequate Policies, Procedures, & Limits

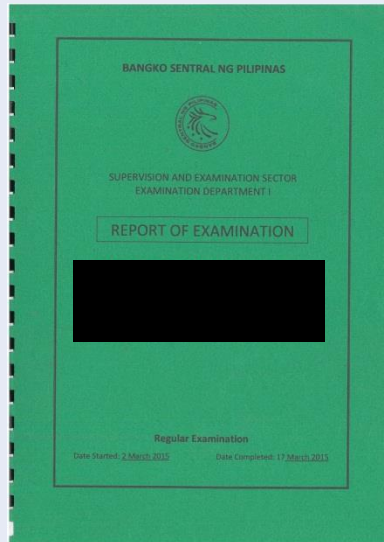
Effective Risk MMIS

Comprehensive Internal Controls and Audit

Risk Identification & Assessment

Operational Risk Management

Identification & Assessment



External Audit
Reports

Audited Financial
Statements

Internal Audit
Reports

Loss Events
Database



BANGKO SENTRAL NG PILIPINAS

Management of Integrity of Prudential Reports or Reports Submitted to BSP



Persistent concerns on the integrity and accuracy of prudential reports including failure to comply with the directives of the BSP in this respect may be considered as unsafe or unsound practice, subject to the applicable provision of laws and regulations.



LEGAL RISK



Assessment of rights and obligations in contractual relationships

Conformity of all agreements/contracts entered into by the bank with legal and regulatory requirements



BANGKO SENTRAL NG PILIPINAS

Financial inclusion



**Inherently
high ops risk**

Small and voluminous transactions

**Incremental
ops risk**

**higher number of personnel or from
the use of technology-based platform**

**Risk
transfer**

**potential transformation or
transfer of risk exposures**

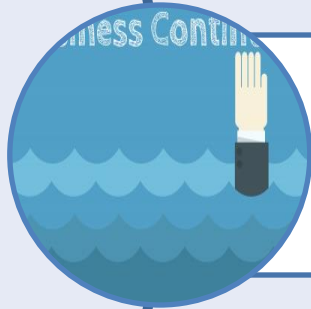


BANGKO SENTRAL NG PILIPINAS

Notification/Reporting to BSP



Significant operational losses or exposures



Activation of business continuity plan;
or



Any material change in business and
operating environment





Transitory Provision – Circular 900



- 2 years from effectivity of Circular (5 February 2018)
- Plan of actions with specific timelines (June 2016)
- Status of initiatives being undertaken to fully comply



Anything
That Can
Go Wrong, 
Go  Wrong,
Murphy's
Law





Thank You



BANGKO SENTRAL NG PILIPINAS