

Implementing a Sound Operational Risk Management Framework at HSBC

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Context - the HSBC Group

- We operate in 76 countries
- Not all are EU or G-10 members
- We have diverse portfolios and operations

The HSBC Approach

- Harness the intellectual expertise dispersed in Group
- Avoid pointless bureaucracy
- Don't issue orders from Group if you want buy-in!

Early history

- Set high level principles - May 2002
- Told sites to apply these in their environment
- Harvested the results after a year of experimentation - June 2003

Promoting best practice

- Identify and promulgate best practice - GCL
Dec 2003
- Site visits to “spread the word” throughout
2004
- Enshrine in detailed company instruction
manuals - FIM Jan 2005

Components of the OpR framework

- Risk identification and assessment
- Actions/controls
- loss data collection
- KRIs (being developed)

Risk self-assessment

- Brainstorming sessions
- What risks keep you awake at night?
- Distinguish between inherent risk and controls in place
- Express in common risk language

HSBC Operational Risk Matrix

- Impact x Likelihood = Inherent level of Risk
- Exposure = effect of controls/mitigation

		<i>E X P O S U R E</i>				
		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
<i>R</i>	<i>> 10</i>	C	B	B	A	A
<i>I</i>	<i>8-10</i>	C	C	B	B	A
<i>S</i>	<i>5-7</i>	C	C	C	B	B
<i>K</i>	<i>3-4</i>	D	C	C	C	B
	<i>0-2</i>	D	D	C	C	C

Risk Self-Assessment current status

- All major sites have assessed their risks at least once
- Minimum annual review required or when there is significant change
- In practice some regions chose a quarterly cycle to revisit their risks

Action plans and controls

- Assigned to high inherent risks
- Tracked by line management
- May be no action - accept risk
- Record of the risk reward profile judgement

OpR Loss Reporting

- Integral part of Operational Risk Management process
- Losses have been reported to Group since January 2001
- Quarterly Group Loss Reporting

Why report losses?

- This will lead to:
 - Improved risk management
 - Improved efficiencies
 - Improved business decision making
 - Meeting regulatory requirements!

Individual incident loss reporting

- Nearly six years experience with loss data
- Many issues about quantification of individual losses
- Boundary issues between credit and OpR

Loss reporting issues

- Near misses and potential losses
- The nightmare of “reconciling” to the financial records!
- We handle by providing individual guidance and then standardise via reporting instructions/FIM

How do we record our OpR framework?

- Group Operational Risk Database Online Network (GORDON)
- Web-based browser
- Risks input and approved by business line

Implementation and rollout

- Live for risk self assessments
- Loss reporting (was previously Excel based)
- All losses linked to risk assessments
- Language translation – Brazilian Portuguese, Spanish & French.
- Matrix management reporting being developed

HSBC Bank USA, N.A. - Risk Add - Microsoft Internet Explorer

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Address http://mcswebprd.eds.us.hsbc/opr/servlet/com.hsbc.us.pcms.opr.servlet.risk.UPHHiskAddPage

Risk Add

To add a new Risk, complete the following information, then click **Next**.
 To return to the Risk Summary page without updating, click **Cancel**.
 The * indicates a mandatory field.

Risk Title: *

Business Unit: * HSBC Holdings plc

Primary Risk Type: * Select One

Secondary Risk Type: * Select Primary Risk Type First

Tertiary Risk Type: Select Secondary Risk Type First

Unit Reference:

Risk Categories: *

Operational FDICIA Sarbanes Compliance Fiduciary Credit

Insurance Economic Capital

Insurance Category 1: Select One

Insurance Category 2: Select Insurance Category 1 First

Impact Score *	Likelihood Score *	Exposure Score *	Overall Risk Assessment
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

HSBC Bank USA, N.A.: Loss Event Add - Microsoft Internet Explorer

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Address <http://mcswbuat.ods.us.hsbc/opr/servlet/com.hsbc.us.pcms.opr.servlet.lossEvent.OPRLossEventAddPage> Go Links >>

Menu

GORDON

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[Templates](#)

[Loss Events](#)

[Unit Hierarchy](#)

[KRI](#)

[Controls](#)

[Overview By Unit](#)

Management Control

Customer Support

Group/CFU 44 20 799 21390
 US (716) 841-7140
 UK 44 20 7991 0309
 CA (604) 641-3027
 AP (852) 2288 0294
 HBIO (847) 291-3309
 HTSU (716) 841-7126

Loss Event Add

To add a new Loss Event, complete the following information, then click **Next**.
 To return to the Loss Event Summary page without updating, click **Cancel**.
 The * indicates a mandatory field.
 The * indicates a mandatory field when "Near Miss" is set to "No".

Loss Event Title: *

Loss Event Description: *

Clean Description: *

Near Miss?: *

Remedial Action & Lessons Learnt:

Security Case #:

Country Of Loss: *

Governance

- Group manuals structure used
- Approved by Board
- Reporting to committees of Board
- Locally, challenge process by the ORMG

ORMG

- Oversees OpR framework in site/business
- Challenges business OpR assessments and loss data
- Reviews exposures and mitigation
- Escalates issues to executive management

Six key principles

- Board awareness
- Subject to Internal Audit
- Senior management implementation and responsibility

Six key principles (cont'd)

- Risk identification
- Monitoring
- Mitigation and control

Principle 1 - Board awareness

- Policy set out in Group Standards Manual
- Reporting to Risk Management Meeting
(delegated authority from the main Board)
- Reporting to Group Audit Committee (GAC)

Principle 2 - Internal Audit

- Close liaison with Group audit - informed them of development of the OpR framework
- OpR is an input to risk based auditing process
- Audits carried out of major Group sites implementations

Principle 3 - Implementation and Responsibility

- Group Circular Letter issued by Group COO & CFO
- Framework issued as FIM endorsed by Group COO and Group CFO
- Formation of local ORMGs with Senior Executive membership in all Group sites

Principle 4 - Identification & Assessment

- Risk Self Assessment framework
- Impact x Likelihood = Inherent Risk
(Score 1-5 on variables)
- Overlay exposure/controls over the inherent risk
- Inherent risk x control = mitigated risk
- All risks graded A,B,C or D

Principle 5 - Monitoring

- Losses and risk assessments reviewed and challenged by the ORMG
- Feedback reports on loss events provided to Group sites to share learning experience
- Reports to Risk Management Meeting and Group Audit Committee

Principle 6 - Mitigation & Control

- Risk limitation and control strategies are part of risk identification and assessment
- As with all Banks, we manage our risks
- We do not mitigate all our operational risks
- We decide based on the risk/reward profile.

Management - Training

- Local sites implemented training to meet business needs e.g. case studies, workshops.
- Material live on Group Intranet January 2005

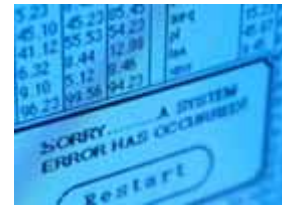
People



Process



Systems



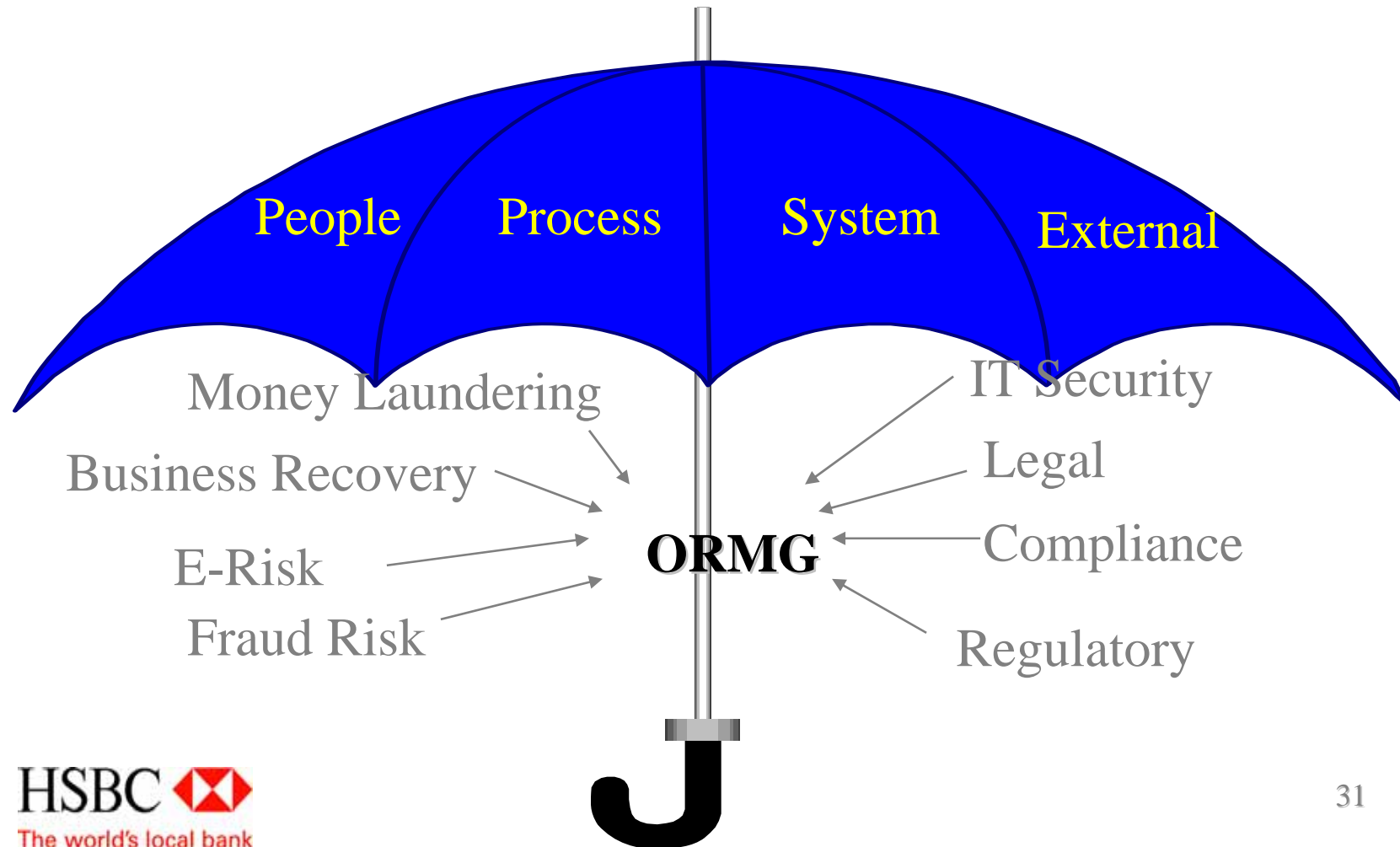
External



Education and awareness

- Article in staff magazine in UK
- face to face training in most Group companies
- “One eyed” monster - Brazil
- Poster campaign – Australia
- Operational risk conference May 2005 and June 2006

Operational Risk Umbrella



Do we believe that we have finished our OpR framework?

- NO! because OpR is dynamic
- And so is our framework
- We see much potential for future added value

Future developments for our OpR framework

- Quality Assurance over sites risks self assessments /benchmarking
- Understand value from linking loss data to risk self assessments.
- Identify and use of generic risks
- Enhanced management reporting to Executive Management
- KRI development is being piloted in a number of Group sites

Role of measurement - HSBC philosophy (1)

- We plan to adopt the Standardised Approach for the Group
- But we comply where the local regulator requires AMA
- Currently only our US operations are required to do AMA

The role of measurement - HSBC philosophy (2)

- Measurement adds value only if it contributes to management
- We have an AMA which directly harnesses our risk assessments
- The development is being closely monitored

Any Questions?

