

Risk Profiling Service



“Operational risk is not a ‘permissioned’ activity. Despite this, it is useful to talk about targets, general appetite and parameters of comfort. The concept of zero tolerance is misleading at best and highly constraining at worst. Zero implies that you never lose money. Businesses know that this is not the case”.

Joe Sabatini, head of corporate operational risk, JPMorgan Chase & Co

A “risk profile” is essentially a representation at a given point in time of an organisation’s overall exposure to some specific risk or group of risks. Many progressive risk managing firms have defined “desired” risk profiles, that is, a target risk profile which the organisation wishes to adhere to over time, based on its risk appetite, corporate governance approach and overall strategic objectives. Management is thus tasked with continually adjusting the “current” risk profile through risk mitigation and risk transfer mechanisms so as to align the organisation with the desired risk profile.

There is often considerable confusion about the difference between a “risk profile” and the results of, say, a risk and control assessment – surely if the organisation undertakes a lengthy risk assessment process, it must have a good understanding and view of its “current” risk profile? The issue is that these are two very different risk management tools, each with a different objective, different implications and different levels of information for management. The development of a risk profile is usually reasonably high level – at the business unit, product or branch level, while a risk and/or control assessment is far more detailed, usually within individual processes performed within business units or branches. Secondly, the output is intended for different purposes – a risk profiling exercise is aimed at identifying high level areas of greater or undesirable exposure which require management attention, while a risk and/or control assessment is trying to assess how great the potential frequency/ probability/severity of some risk is and how effective controls against such risks are deemed to be.

A risk profile can be constructed in a number of ways:

- A group of “subject matter experts” can be convened to debate, assess and quantify their views on how much risk the firm faces, typically reducing their output to the well-known green/orange/red “heat-map” structure – despite much scepticism, this highly visual mechanism highlights where experienced people consider their risk to be.
- The organisation can define different severity bands, based on economic capital applied to individual business units as well as their respective loss history, then can ask business managers and even subject matter experts to express their views on the likely frequency of the risk manifesting itself, the likelihood of such a manifestation and then a range of severity impacts, covering worst case, most probable case and average case. These can then be interpreted through weighted equations to arrive at a less subjective low/medium/high risk profile.

Individual inputs based on changes in loss data, risk/performance indicators, scenario assessments, audit points and risk/control assessments can be weighted to drive a dynamic “real-time” profile.

The RiskBusiness Risk Profiling Service allows an organisation to develop multiple risk profiles per business unit, per division, per product area or for the organisation itself over time and then to undertake an assessment on changes in that risk profile. For example, a risk profile can be developed monthly for a given business unit, then, once authorised, can be compared to itself over time to show how each form of risk has changed in its exposure level. Alternately, the business unit can be compared at a specific point in time to the risk profile for another, similar, internal business unit – or, could be compared to one of the standardised consolidated risk profiles provided as part of the Service based on regular inputs from the global financial services industry on a regional and product basis. The core concept is to allow management to understand where the deemed higher areas of risk are, where the assessment unit differs from its peers or the industry and then to initiate investigation to determine why it is so different.

Risk Category	Process Risks				Control Risks				External Risks	
	Strategic	Operational	Compliance	Other	Strategic	Operational	Compliance	Other	Market	Reputation
Strategic	High	Medium	Low	Low	High	Medium	Low	Low	High	Medium
Operational	Medium	High	Medium	Low	Medium	High	Medium	Low	Medium	High
Compliance	Low	Low	High	Medium	Low	Low	High	Medium	Low	Low
Market	Low	Low	Low	Low	Low	Low	Low	Low	High	High
Reputation	Low	Low	Low	Low	Low	Low	Low	Low	Low	High

The RiskBusiness Risk Profiling Service also allows the organisation to define aggregation rules and then to dynamically build summary risk profiles higher and higher within the organisation structure – for example, a group of branches can be aggregated to create a regional hub risk profile, a number of business units aggregated to create a divisional risk profile or a series of divisions aggregated to develop the organisation's overall risk profile.

- *Aggregate to higher organisation levels*
- *Undertake trend analysis over time*
- *Compare different entities to each other*
- *Compare the organisation to a set of standardised industry risk profiles*
- *Compare risk profiles to actual loss profiles*

All RiskBusiness services are based on the RiskBusiness Framework, with a risk profile essentially being a current manifestation of the Framework. Our services can be accessed in any of three ways – the user can identify a risk point – the intersection of a given risk on a specific business activity or function at either organisation or product level – and then select the type of service which the user wishes to employ; alternately, a menu driven approach allows the user simply to select a service and start using it. With the RiskBusiness Risk Profiling Service, once a specific risk profile has been created, the user can then start accessing other RiskBusiness services to investigate those areas deemed to be of specific higher risk – for example, by initiating a detailed risk and control assessment, by undertaking a scenario analysis, by identifying, implementing and monitoring risk/performance indicators relevant to that risk point or by collecting internal loss data or assessing external loss data for that risk point.

Each subscriber can customise the RiskBusiness Risk Profiling Service according to its own risk appetite and risk thresholds. Action plans can be added, monitored and can generate overdue action warnings. Aggregation techniques can be customised to facilitate a real-life estimation of your own exposure levels – along with warning triggers to automatically notify designated staff when things are out of kilter.

RiskBusiness Services Limited
www.RiskBusiness.com
 2 Claremont Way, Halesowen
 West Midlands B63 4UR, UNITED KINGDOM

For more information on the Risk Profiling Service, please contact RiskBusiness Services Limited through our website or email us at info@RiskBusiness.com.