
CASE STUDY

Operational Risk Assessment

This short case study provides an insight into our operational risk management service, showing how one client benefitted from our work.

Operational risk is defined as *“the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events”*¹. Businesses need to manage operational risk in the same way that they manage other risks, such as credit risk and market risk.

Background

Two institutions with similar business interests were negotiating a partnership which would involve the larger taking over the operations and infrastructure of the other. A due diligence exercise had been completed but the Board of the larger institution felt that the operational risks involved had not been sufficiently addressed. The areas of concern included both the operating environment that would exist while the partnership was being created, and that which would exist during its ongoing operation.

The approach

The agreed approach was in the form of a classic risk review exercise. This approach was unfamiliar to the client’s team. We therefore managed the process and directed the activities, with members of the client’s team heavily involved throughout, thus achieving knowledge transfer regarding the process we followed.

The main stages of our approach were:

- Identification

We reviewed the due diligence documentation and extracted relevant issues which remained outstanding, and studied the operating plan that would apply during the creation of the partnership, and also the operating plan that would apply during its ongoing operation, applying our experience to identify further issues.

We then consolidated all identified issues and reviewed these with the management to ensure that all known issues had been recorded.

- Assessment

We estimated the risk, in terms of both cost and likelihood, for each issue and using ranked each in terms of their likely business impact.

- Mitigation

Addressing all the issues with a significant likely impact, we sought one or more mitigations for each issue and assessed the cost the implementation of each mitigation.

We reviewed this with the Client’s Board and agreed with them which mitigations would be implemented.

¹ <http://www.bis.org/publ/bcbsca.htm>



- Implementation

Finally we develop an action plan for the implementation of each selected mitigation and assisted with the implementation of these plans.

Benefits

The client gained the following benefits:

- **Reassurance:** Greater comfort that the operational risks involved in creating and running the partnership had been fully considered and their likely impacts understood.
- **Action:** A clear action plan to mitigate the most significant risks.
- **Knowledge Transfer:** Staff training in the process of identification, assessment and mitigation of operational risks.

Contact Us

To learn more about operational risk and how it impacts your business contact Burgh House today.

Contact: John Turner
john@burghouse.com

