

## CREATING INSTITUTION-WIDE VISIBILITY INTO RISK

Ada Financial\* aligns its organization with risk information through the creation of operational risk scorecards.

On the y-axis, events occur with varying frequency; on the x-axis, event severity varies. Every system of categorization is forced to trade off between depth and breadth. A system that creates internal consistency for only one type of operational risk cannot be used to classify and compare across all types of operational risks.

The challenge is that comparability comes at the expense of quantification. Operational risks are different; in order to compare them, qualitative judgments are needed.

These scorecards carry advantages over other approaches. Besides providing incentives to manage risks, they are applied institution-wide to a variety of risks.

While scorecards are not perfect, Ada concluded the disadvantages of time and cost were a lower price to pay than methods that actually did not measure or improve risk management.

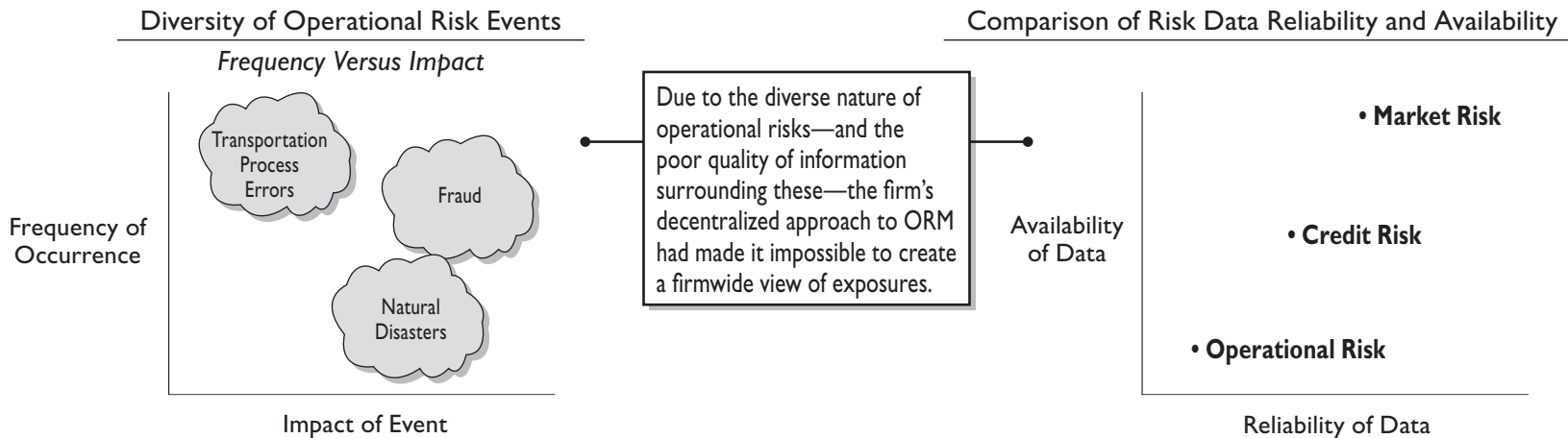
\* Pseudonym.

Ada\*

INSTITUTION-WIDE RISK-VISIBILITY DASHBOARD

# WEIGHING IN

**Realizing that the imprecise nature of operational risk information makes aggregation of locally developed data impossible...**



**...Ada Financial selects scorecards to unify the capture and reporting of risk information for institution-wide visibility**

**Operational Risk-Methodology Trade-Offs**

ORM Methodology	Advantages	Disadvantages
Proxies	<ul style="list-style-type: none"> <li>• Simple to implement</li> <li>• Inexpensive</li> </ul>	<ul style="list-style-type: none"> <li>• Do not properly measure operational risks</li> <li>• Do not improve risk management</li> </ul>
Benchmarks	<ul style="list-style-type: none"> <li>• External data available</li> <li>• Improve risk measurement</li> </ul>	<ul style="list-style-type: none"> <li>• Do not improve risk management</li> <li>• Do not properly measure risks</li> </ul>
Statistical Analysis	<ul style="list-style-type: none"> <li>• Improves measurement and analysis of risks</li> </ul>	<ul style="list-style-type: none"> <li>• Does not improve risk management</li> </ul>
Scorecards	<ul style="list-style-type: none"> <li>• Improve measurement and analysis of risks</li> <li>• Provide incentives to manage risks</li> <li>• Applicable across risk categories</li> <li>• Capture diverse risks</li> </ul>	<ul style="list-style-type: none"> <li>• Expensive</li> <li>• Time-consuming implementation</li> </ul>
Causal Modeling	<ul style="list-style-type: none"> <li>• Uncovers previously unidentified risks</li> <li>• Helps predict scenarios</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable across risk categories</li> <li>• Costly</li> <li>• Time consuming</li> </ul>

\* Pseudonym.

Source: Ada Financial; Operations Council research.

# CROSS-FUNCTIONAL SCORECARD DEVELOPMENT

At Ada,\* scorecards gave business units actionable detail while supplying the central risk team visibility into risks organization-wide.

On the following page we see how two groups collaborated to develop risk-specific scorecards. The central Operational Risk-Management Project Team developed the frameworks and set quality and consistency benchmarks for completion. This team also set capital allocations.

The Risk Category Expert Panels designed the risk-specific scorecards. Six teams identified risk drivers and formulated questions to include on each scorecard.

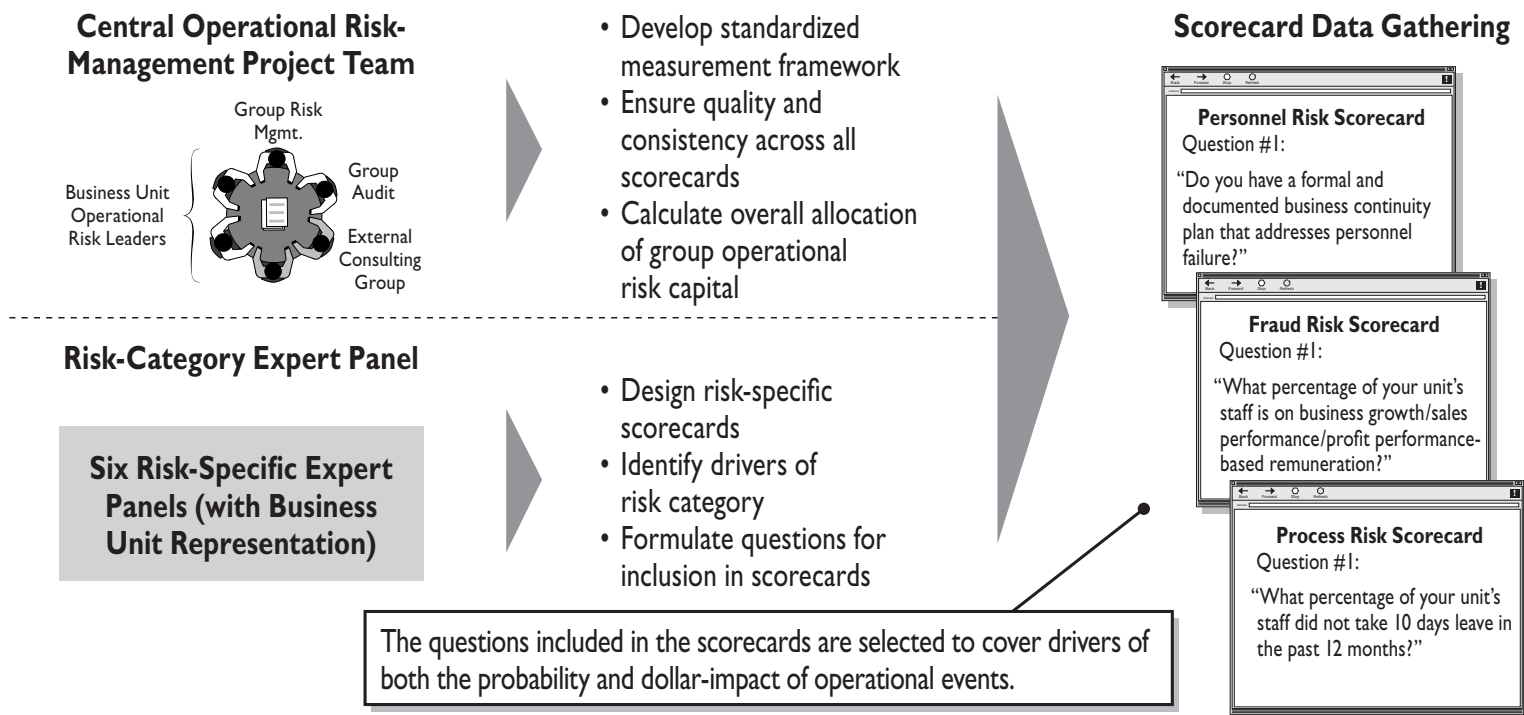
\* Pseudonym.



# DESIGN PRINCIPLES

## A Central Operational Risk-Management Team Collaborates with Risk-Category Specialists to Develop Risk-Specific Scorecards

### Operational Risk-Category Scorecard/Development



\* Pseudonym.

Source: Ada Financial; Operations Council research.

## USING SCORECARD INFORMATION FOR OPERATIONAL RISK DASHBOARDS

The scorecards feed into an operational risk dashboard shown on the bottom of the figure. From a summary measure on the left, Ada can drill down to see category and subcategory level risks.

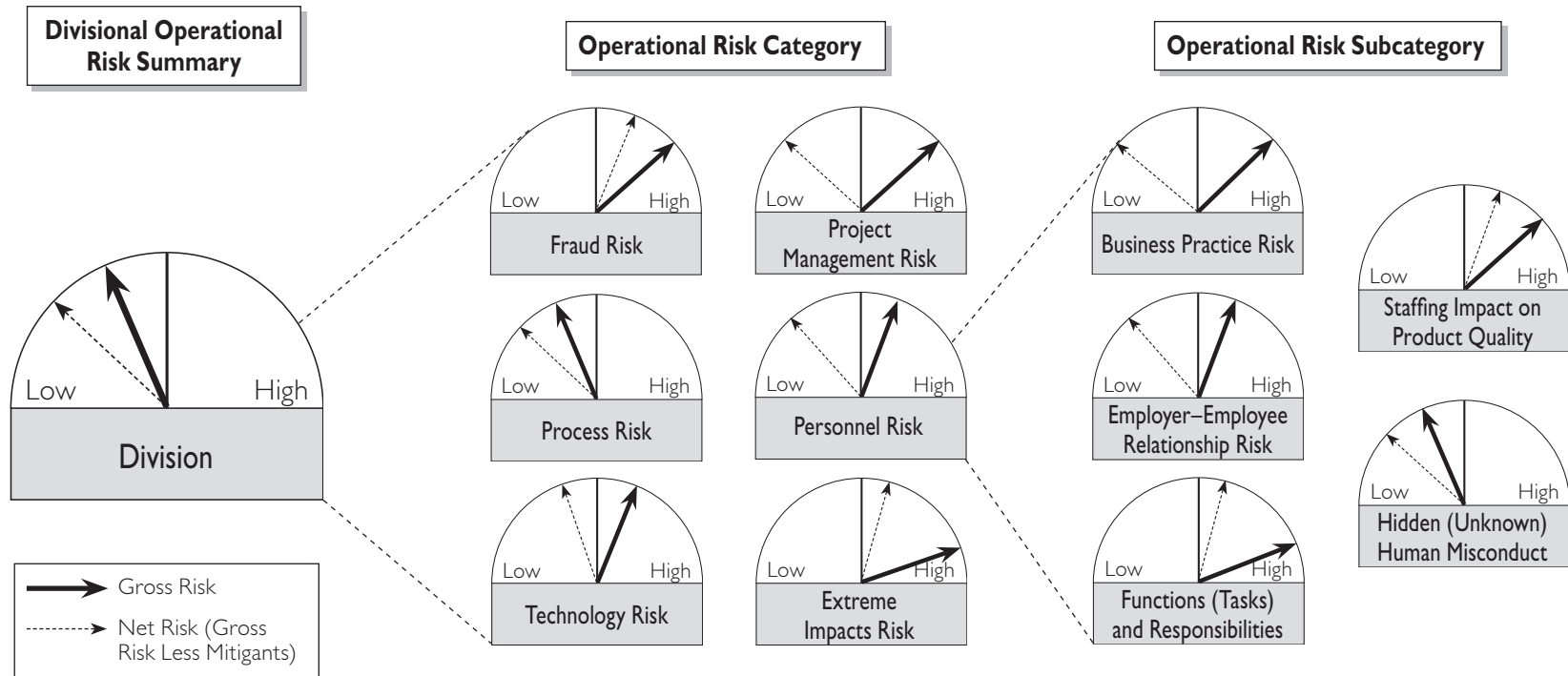
Note the solid- and dashed-line indicators on each risk meter. The solid-line “gross risk” doesn’t factor in mitigants. Gross risk equals unmanaged risk. The dashed line is “net risk.” It subtracts from “gross risk” the benefit of mitigating controls.



# DESIGN PRINCIPLES (CONTINUED)

**Risk-Specific Scorecards Are Used to Assess Division-Level Operational Risks**

Cascading Division-Level Operational Risk Dashboard



\* Pseudonym.

Source: Ada Financial; Operations Council research.

## INTERESTED IN MORE ON THIS TOPIC?

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