20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **The Basel Committee defines operational risk as loss from failed internal processes, people, systems, or external events.**
   This definition frames operational risk as arising from process, people, system, or external-event failures, a core IIBF RISKINFINANC concept.

2. **The Basel operational risk definition excludes strategic risk and reputational risk.**
   Strategic and reputational risks are governed by separate risk frameworks, not the Basel operational risk definition.

3. **Basel II and Basel III both identify seven loss-event categories for operational risk reporting.**
   Banks map every operational loss event to one of these seven Basel categories for tracking and capital computation.

4. **Internal Fraud is a Basel loss-event category covering asset misappropriation and insider bribery.**
   Internal Fraud captures losses caused by an employee or insider acting against the bank, such as bribery or intentional mismarking.

5. **External Fraud is a Basel loss-event category covering theft, forgery, and hacking by outsiders.**
External Fraud captures losses caused by third parties, including cheque fraud and hacking attacks.

6. **Employment Practices and Workplace Safety covers discrimination claims and labour disputes.**
This Basel category captures operational losses arising from employee relations and workplace safety failures.

7. **Clients, Products and Business Practices covers mis-selling and fiduciary breaches.**
This Basel category captures losses from failures in obligations to clients, including mis-selling and money-laundering lapses.

8. **Damage to Physical Assets covers losses from natural disasters, terrorism, and vandalism.**
This Basel category captures operational losses caused by damage to a bank's physical infrastructure.

9. **Business Disruption and System Failures covers hardware, software, and telecom outages.**
This Basel category captures losses from IT and utility failures that disrupt banking operations.

10. **Execution, Delivery and Process Management covers transaction and data entry errors.**
This Basel category captures losses from failed processing, reporting, or vendor management in normal operations.

11 **RCSA, or Risk and Control Self-Assessment, is the foundational tool banks use to identify and prioritise operational risks.**
RCSA has business units assess inherent risk and control effectiveness, reviewed by the Operational Risk Management function.

12 **In RCSA, residual risk is the risk level that remains after accounting for existing controls.**
Significant residual risk ratings from RCSA are escalated to the Board Risk Committee.

13 **Key Risk Indicators are forward-looking, measurable signals linked to risks identified in RCSA.**
A well-designed KRI is tracked regularly, has a defined threshold, and is causally tied to an RCSA-identified risk.

14 **Loss data collection is the third pillar of operational risk management alongside RCSA and KRIs.**
Banks maintain an internal loss database recording event type, loss amount, and dates for material operational losses.

15 **Business Continuity Management identifies critical business functions and sets recovery objectives for each.**
BCM determines the maximum tolerable disruption period and recovery time objective for critical processes.

16 **Recovery Time Objective is the target time within which a critical business function must be restored.**
RTO guides which business continuity strategy, such as a hot, warm, or cold site, a bank should choose.

17 **Recovery Point Objective measures, in time, how much data loss a bank can tolerate after a disruption.**
RPO drives how frequently a bank backs up data and which replication technology it adopts for disaster recovery.

18 **Business continuity strategy options include hot site, warm site, and cold site facilities.**
A hot site enables immediate failover, a warm site is partial standby, and a cold site offers only basic infrastructure.

19 **The Three Lines of Defence model assigns risk ownership to business units, oversight to risk and compliance, and assurance to internal audit.**
The first line owns and manages risk daily, the second line sets the framework, and the third line gives independent assurance.

20 **Under Basel III's New Standardised Approach, operational risk capital equals the Business Indicator Component times the Internal Loss Multiplier.**
The New Standardised Approach replaced the Basic Indicator, Standardised, and Advanced Measurement Approaches for computing operational risk capital.