20 True or False

Decide, then check the answer and reason below each statement.

Question 1

The Basel Committee's definition of operational risk excludes strategic risk and reputational risk.

TRUE

Both strategic and reputational risk are governed by separate frameworks, outside the Basel operational risk definition.

Question 2

The Basel Committee's definition of operational risk includes strategic risk and reputational risk.

FALSE

The Basel definition deliberately excludes strategic risk and reputational risk from operational risk.

Question 3

Basel II and Basel III both recognise seven categories of operational risk loss events.

TRUE

The seven categories range from Internal Fraud to Execution, Delivery and Process Management.

Question 4

Basel II and Basel III identify only three categories of operational risk loss events.

FALSE

Basel II and Basel III both identify seven, not three, operational risk loss-event categories.

Question 5

RCSA stands for Risk and Control Self-Assessment.

TRUE

RCSA is the foundational tool banks use to identify, evaluate and prioritise operational risks.

Question 6

RCSA stands for Risk and Capital Structure Assessment.

FALSE

RCSA actually stands for Risk and Control Self-Assessment, not Risk and Capital Structure Assessment.

Question 7

A well-designed Key Risk Indicator has a predefined threshold or traffic-light boundary.

TRUE

KRIs are measurable on a regular cycle and are causally linked to a risk identified in the RCSA.

Question 8

Key Risk Indicators are backward-looking measures with no defined threshold.

FALSE

Key Risk Indicators are forward-looking and require a predefined threshold or traffic-light boundary.

Question 9

In the Three Lines of Defence model, Internal Audit is the third line providing independent assurance.

TRUE

Internal Audit tests whether controls work and reports directly to the Audit Committee of the Board.

Question 10

In the Three Lines of Defence model, Internal Audit is responsible for implementing day-to-day risk controls.

FALSE

Implementing day-to-day controls is the First Line's job; Internal Audit provides independent assurance as the third line.

Question 11

Under the Basel III New Standardised Approach, operational risk capital depends on the Business Indicator Component and the Internal Loss Multiplier.

TRUE

Operational risk capital equals the Business Indicator Component multiplied by the Internal Loss Multiplier.

Question 12

Under the Basel III New Standardised Approach, operational risk capital is found by dividing the Business Indicator Component by the Internal Loss Multiplier.

FALSE

The formula multiplies the Business Indicator Component by the Internal Loss Multiplier; it does not divide.

Question 13

Recovery Time Objective refers to the target time to restore a critical function after disruption.

TRUE

RTO is the timeline within which a bank aims to resume a critical business function.

Question 14

Recovery Point Objective refers to the target time to restore a business function after disruption.

FALSE

That describes Recovery Time Objective; Recovery Point Objective instead measures tolerable data loss in time.

Question 15

Business Continuity Management includes conducting a Business Impact Analysis to identify critical processes.

TRUE

BIA identifies critical processes, dependencies, and the financial impact of disruption as the first BCM step.

Question 16

A cold site provides immediate failover with zero downtime for disaster recovery.

FALSE

A hot site provides immediate failover; a cold site offers only basic standby infrastructure with longer recovery time.

Question 17

External Fraud, as a Basel loss-event category, includes hacking and forgery committed by outside parties.

TRUE

External Fraud covers theft, forgery, hacking, and third-party cheque fraud committed by outsiders.

Question 18

Internal Fraud, as a Basel loss-event category, refers exclusively to losses caused by external hackers.

FALSE

Internal Fraud covers misappropriation and bribery by employees or insiders, not external hackers.

Question 19

The Second Line of Defence, comprising risk and compliance functions, challenges the first line's risk assessments.

TRUE

The Second Line sets the risk framework, provides tools, and challenges the First Line's RCSA assessments.

Question 20

The First Line of Defence's responsibility for owning risk can be fully outsourced to the risk department.

FALSE

Business lines must own and manage their own risk; this responsibility cannot be outsourced to a risk department.