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THE KEY PRINCIPLES AND BEST PRACTICES FOR OPERATIONAL RISK MANAGEMENT

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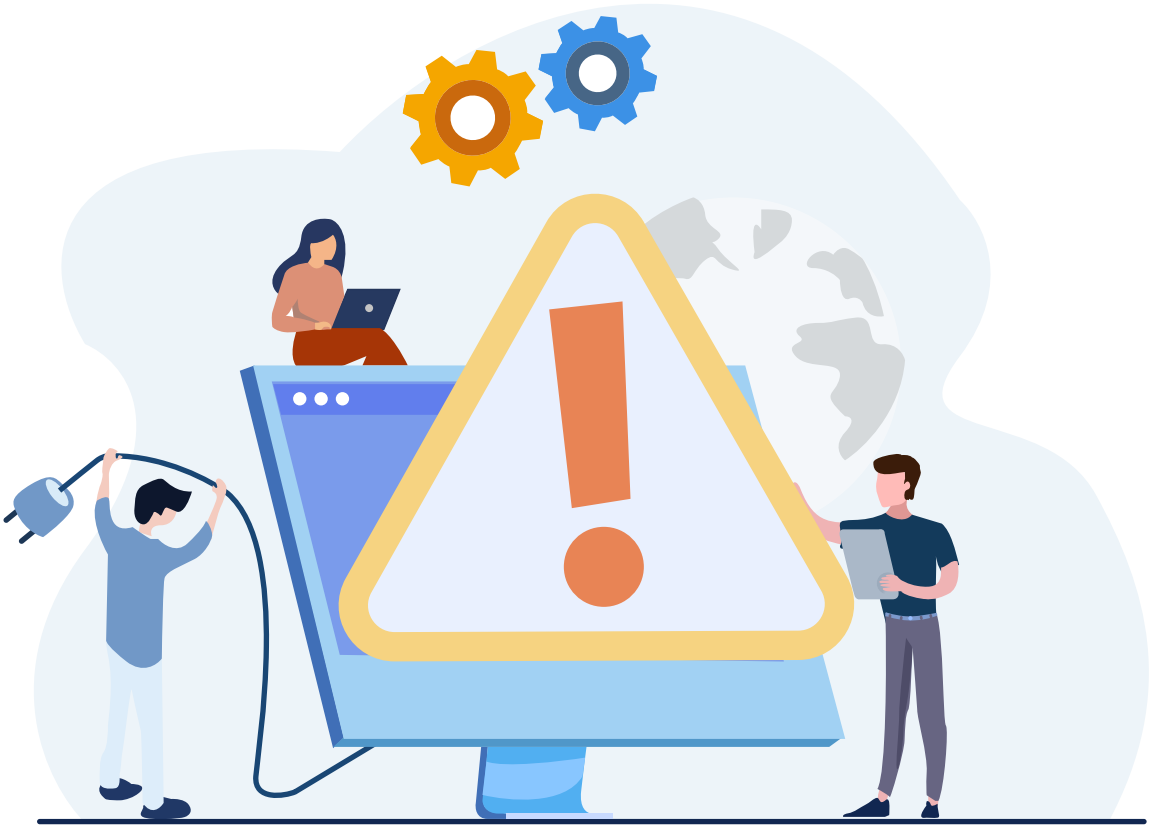
INTRODUCTION

Any risks arising from failures in your company's business procedures can lead to losses known as operational risks. These losses are not necessarily monetary; they can also result in regulatory issues or reputational risks.

Operational risk management (ORM) is the discipline of safeguarding your firm from these possible threats and limiting any disruptions that may arise from internal or external events. ORM originated in financial institutions and has now been refined by the Basel Committee on Banking Supervision (BCBS) and extended to other industries.

Risk is inherent in all jobs, operations, and personal activities. Human error, especially the failure to consistently manage risk, is the most prevalent cause of performance deterioration or project failure. ORM minimizes or mitigates risks by systematically detecting threats, analyzing and regulating the associated risks, and enabling decision-making to improve outcomes.

Understanding the ideas and components of the ORM process will enable you to prioritize the highest risk of loss and then respond accordingly.



THE 4 KEY PRINCIPLES OF OPERATIONAL RISK MANAGEMENT

When dealing with operational risk, the business must analyze all aspects of its goals. Given the increasing prevalence of operational risk, the objective is to decrease and mitigate all risks to acceptable levels.

While deciding who controls operational risk, operational risk management seeks to reduce threats through risk identification, assessment, mitigation, and monitoring.

Every business's risk appetite, risk profile, and risk exposure is unique, based on the needs and conditions of the organization. Generally, risk management programs are based on four basic principles:

Don't Take on Any Unnecessary Risk.

Unnecessary risk adds no value to completing an activity or goal safely. The most logical options for carrying out a task are those that satisfy all mission criteria while exposing business continuity to the least amount of danger.

Plan Ahead to Predict, Identify, and Remediate Risk

To implement effective operational risk management, senior management must devote time and resources to incorporating risk management concepts into all operations' planning and execution phases.

Including the risk management process within the early stages of planning enables decision-makers to utilize ORM principles in their daily business processes.

Address Risks at the Appropriate Level

Create a clear line of accountability to ensure risk decisions are made at the right level. Managers must ensure that their employees understand how much risk they may bear and when they should escalate the decision-making to a higher level.

THE KEY RISK LEVELS

Level of risk is a method of evaluating which threats are the most significant and, as a result, must be addressed within a specific time limit. In an ideal world, a business might have the means to analyze and manage all risks, but in reality, you'll need to judge depending on which threats have the most potential harm.

The following are the risk levels:

Strategic

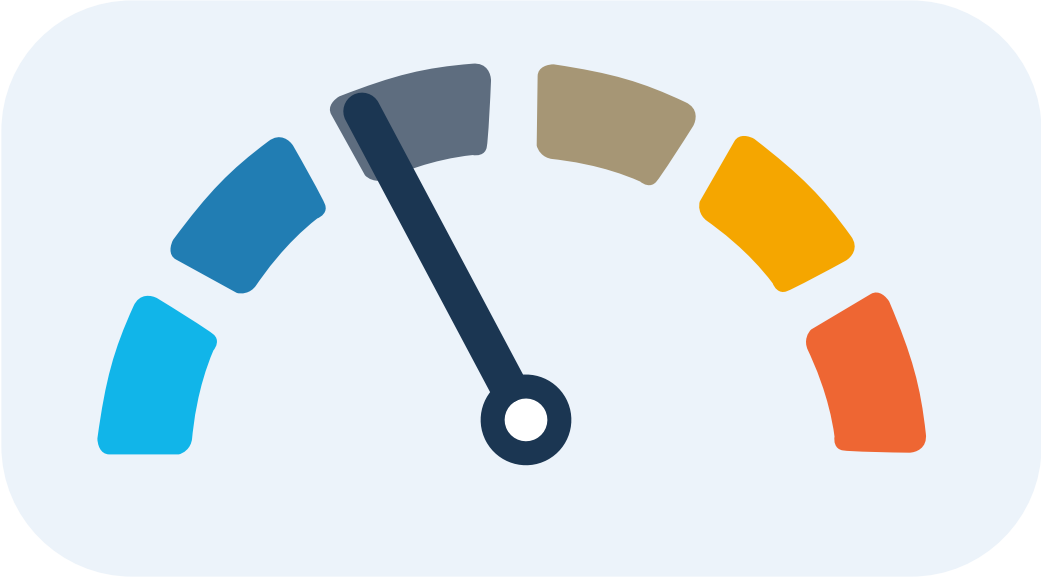
These risks, also known as in-depth risks, are not time-sensitive and may be analyzed over a more extended period of time. Therefore, this category is better suited for unique threats that require comprehensive research and consultation to determine the best approach.

Deliberate

Most threats fall into this mid-level group. These are common risks, and the evaluation methodology is detailed and deliberate to minimize the risk of losses.

Time-Critical

This category is allocated for imminent threats, as the name implies. This level is designed for a hazard that demands a determined plan within a limited amount of time.



THE PHASES FOR MITIGATING OPERATIONAL RISKS

Because it is challenging to eliminate operational risk entirely, ORM focuses on lowering and managing essential risks associated with its day-to-day operations. ORM is a continuous process since operational hazards are continual, ubiquitous, and diverse. The ORM process is divided into five stages:

Risk Identification

The logical first step in risk mitigation and reduction is identifying operational hazards in the organization's objectives and goals.

Risk Assessment

After identifying all operational threats, risk events are appraised based on potential consequences and the likelihood of occurrence. This practice assists the company in determining which risks need to be prioritized and why.

Risk Mitigation

The mitigation approach depends on the cost of managing inherent risks versus the cost of possible risk exposure. Scenario analysis will determine the best course of action to address the potential risk:

- Transfer the risk
- Avoid the risk
- Accept the risk
- Control the risk

Risk Monitoring and Reporting

Operational risks are regularly assessed to see if the severity or probability of occurrence has changed. The initial list of identified threats has to be periodically updated. Key risk indicators and metrics should be used to monitor the control environment and anticipate risk events.

THE 4 OPTIONS FOR OPERATIONAL RISK MITIGATION

Of the phases mentioned above, risk mitigation is arguably the most crucial phase, as this is where you'll determine how to tackle the threats identified in your risk assessment. Depending on the severity of each main risk and the possibility for loss, you can employ a variety of risk mitigation strategies:

Risk Transference

Risk transfer entails sharing or attributing your risk to another entity. You can accomplish this by buying insurance or storing your information with a cloud-based supplier.

Risk Avoidance

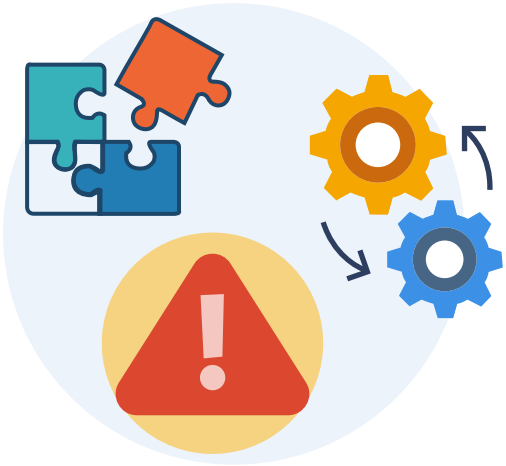
To avoid risk, you must refrain from situations where the risk is likely to exist. This cautious approach will reduce your risk exposure and avoid operational loss, but it may prevent you from taking advantage of opportunities to help your business grow.

Risk Acceptance

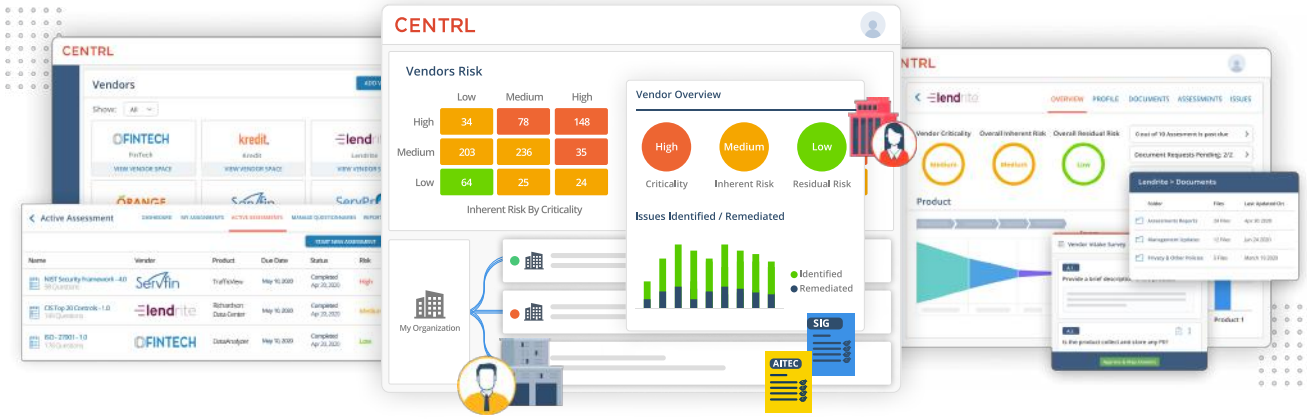
You can't avoid all risks. Sometimes the best option is to proceed with the knowledge that some risks are unavoidable. Acceptance focuses on preventing damage rather than risk. A robust business continuity plan is imperative to sound management of operational risk and reducing the risk of losses.

Risk Control

Accepting inherent risk does not imply disregarding it; controls are any efforts made by your organization to mitigate the effects of a risk that comes your way. A well-planned set of internal controls and thresholds on key risk indicators can help you anticipate risk events and mitigate the adverse effects.



HOW VENDOR360 CAN HELP YOU SIMPLIFY OPERATIONAL RISK MANAGEMENT



As your business grows, you may find that your risk appetite shifts, and you want to strengthen your risk culture. Keeping track of third-party providers and their risks to your business is a significant piece of enterprise risk management–and far too tricky for spreadsheets or conventional techniques.

Vendor360 is a cutting-edge, consolidated third-party risk management software that allows you to select and onboard new vendors more efficiently. With Vendor360, you will be able to assess vendor risks and mitigate supply chain attack threats while also having a complete picture of your third-party risks.

Its third-party risk management software capabilities assist you in expediting pre-contract inherent risk assessment for new vendors by distributing questionnaires and tracking responses. Auto-scoring features evaluate answers and flag deviations.

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