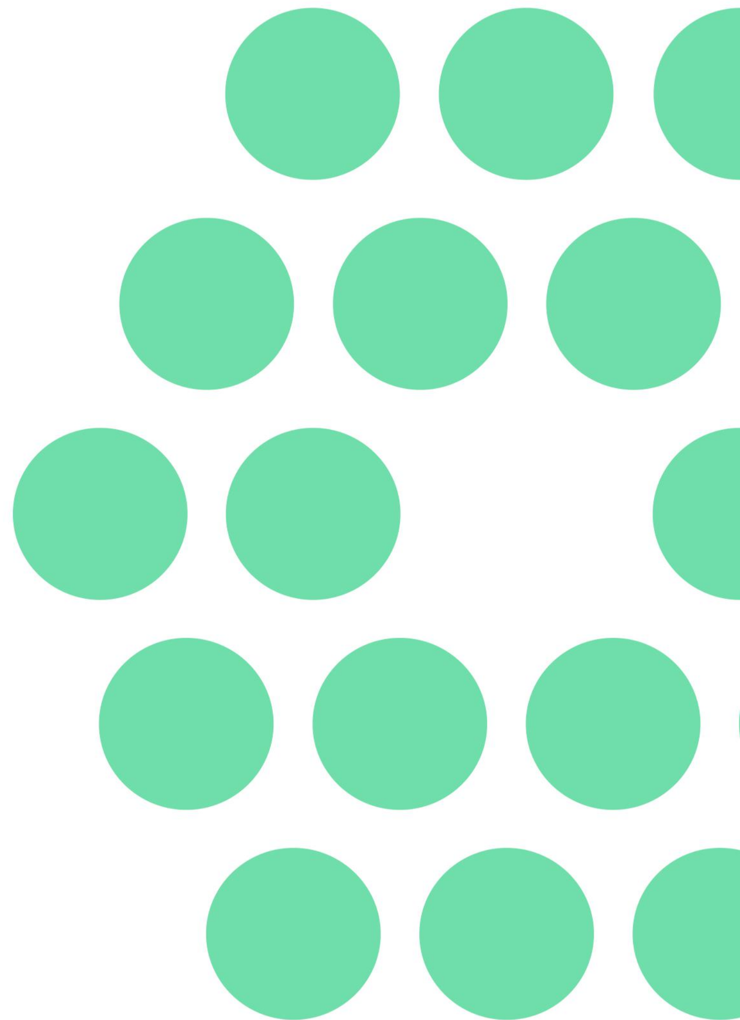
Whitepaper on risk scoring in the financial services industry

Five reasons why Financial Services organisations need to be scoring their risk

Authored by Sarah McCurdy



hivera

In March 2021 the Basel Committee on Banking Supervision (BCBS), an international committee formed to develop standards for banking regulation, made revisions to its Principles for the Sound Management of Operational Risk.

The Principles were first introduced in 2003 and were revised in 2011 to incorporate the many lessons learnt from the global Financial Crisis of 2007-2009.

A review of the Basel Principles in 2014 identified that several had not been adequately implemented and that further guidance would be needed on these.

Significantly, these included risk identification and assessment tools, such as risk and control self-assessments (RCSAs) and key risk indicators.

Enter the 2021 Principles which state that, “Sound risk management allows the bank to better understand and mitigate its risk profile. Risk management encompasses identifying risks to the bank [and] **measuring** and **assessing** exposures to those risks (where possible)...”

Now a spotlight has been shone on the importance of being able to recognise and **quantify** the extent of risk for financial services organisations globally.

hivera

What is quantification of risk?

Quantification of risk is a process to evaluate the amount of risk within an organisation.

It is being able to calculate the degree of potential dangers and threats and gauge the impact that these could potentially be having on the organisation. It also provides a reference point so organisations can track changes and progress over time.

Only once you evaluate risks into a measurable quantity can you make decisions on what to do with the risks as part of your risk control strategy.

The objective of quantification is also to establish a way of arranging the risks in order of importance. In most projects there will not be enough time or money to take action against every risk that is identified.

Is there really risk within unstructured data?

Traditionally, financial institutions have shied away from analysing this data, for many perceived reasons which include:

- **The unstructured information is spread across, and siloed in, many disparate sources**
- **It is complicated to analyse**
- **It is costly to analyse**
- **Storage is cheap so there is a tendency to 'keep everything forever'**

But risks within unstructured data are prevalent. Take payment card [illegible]

Interested in reading more?
Download the full whitepaper at
www.hivera.ai