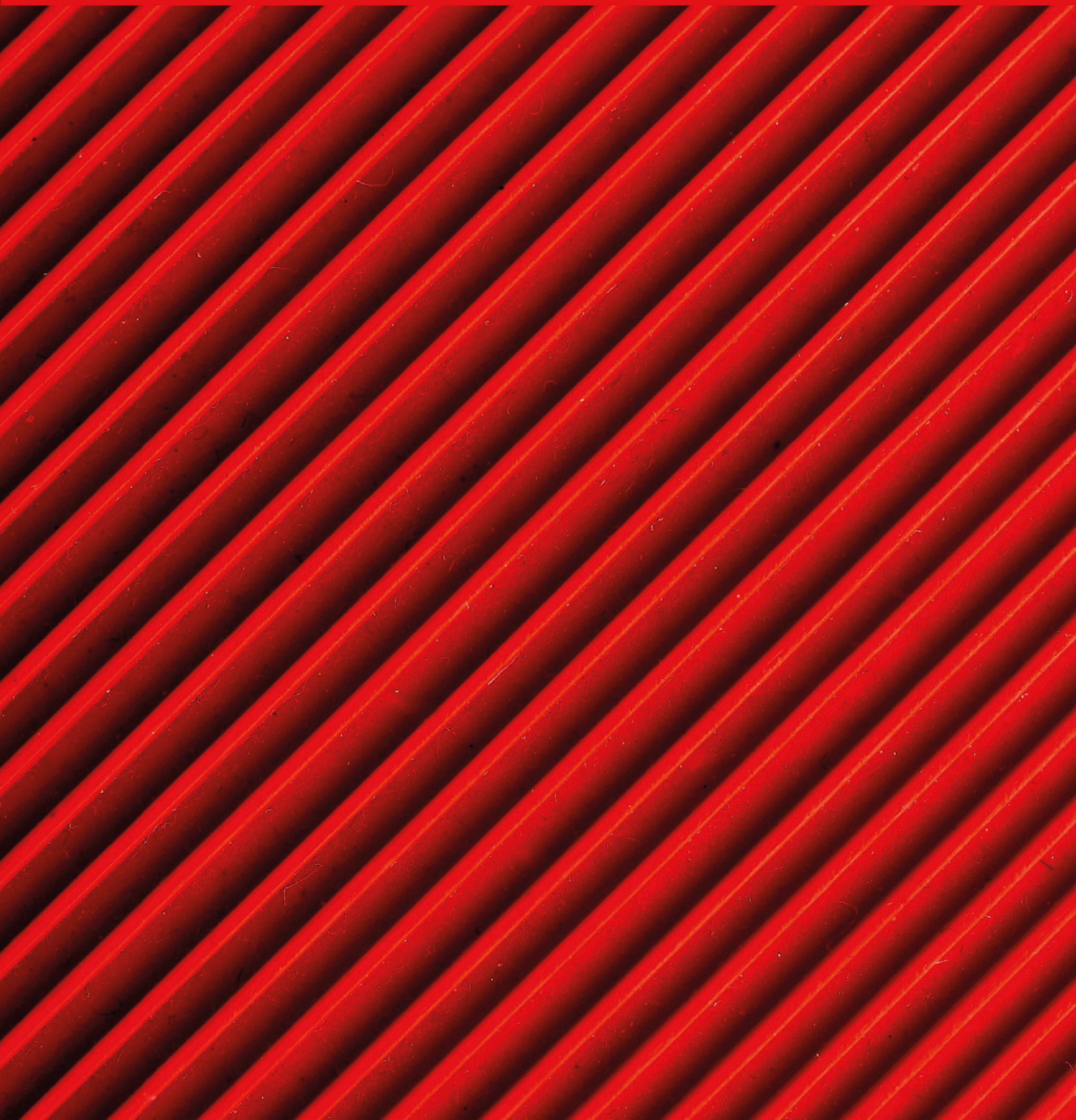
Operational Risk Management in Banks and Idiosyncratic Loss Theory

A Leadership Perspective



Sophia Beckett Velez Ph.D.

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BY

SOPHIA BECKETT VELEZ, PH.D.
Walden University, USA

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To my daughter Shikurah Velez, you are my biggest cheerleader, and I am thankful for your love and support.

To Ms Henry my third-grade teacher at Goshen Primary School, Lucky Hill, St Mary, I thank you for believing in my abilities as a student. This dream could not have actualized if it wasn't for your hard work and time spent mentoring me.

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About the Author

Sophia Beckett Velez, PhD, has worked for over 16 years as a Certified Public Accountant (CPA) with large banks providing consulting services. Her work experience has provided her with valuable background information on the banking industry in general. As a CPA, she worked for firms such as PricewaterhouseCoopers, where she performed financial audits, attestation services, and risk management analysis of large banks. Many of the regulatory compliance problems noted during her review of the large banks required her to cultivate relationships with line of business managers, and work with them to develop action plans and solutions to the issues noted. This has sparked her research interest in exploring the issues at hand in the banks, magnified subsequent to the 2008 recession.

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Preface

This book discusses idiosyncratic viral loss theory and systemic operational losses that are evident in human error, fraud, and legal expenses that are aligned to systemic operational risk. Systemic operational risk events that lead to substantial losses in significant financial institution (SIFI) banks expose them to insolvency, cause significant volatility, and unpredictable negative impact on the US economy. A qualitative e-Delphi study of 10 banking finance experts were convened to build consensus on effective risk management practices. The conceptual framework for this study was the Open Compliance and Ethics Group's (OCEG's) standard that integrates governance, risk management, internal control, assurance, and compliance (GRC capability model) into one functional goal to improve quality and principled performance through measurable tools that may enhance effectiveness and efficiency practices. The important considerations identified are: (a) a comprehensive enterprise-wide risk; (b) controlling fraud; (c) going beyond the minimum risk assessment requirements set forth by the banking regulators; (d) independent risk identification and management that can bolster effective risk management practices. These considerations towards effective risk management practices may help reduce systemic operational losses viral spread in banks.

A systemic risk event that leads to significant losses in banks classified as SIFI can expose them to insolvency and have negative impacts on the US economy. The viral spread of operational losses through global markets by interconnected multinational banks can be compared to viruses' spread through interconnected countries and the significant losses incurred can be referred to as idiosyncratic viral loss theory.

This book offers an original contribution to the field of banking that undergraduates, master's and PhD students, academics, and researchers can use to gain a deeper understanding of idiosyncratic viral losses in banks and the use of effective risk management practices.

This book will be the first to discuss idiosyncratic viral loss theory and systemic operational losses in banks.

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This book could not have been written without the support and encouragement of my daughter Shikurah Velez.