Systematic integrity risk analysis
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EUROSYSSTEEM
Questions?
Why?

This project

• Root cause analysis of shortcomings
• Insufficient insight into integrity risks
Why?

An integrity risk analysis

- Necessary to take a risk-based approach
- Think out-of-the-box about threats and vulnerabilities
- Focus on most significant risks
- More where necessary, less where possible
Threats and vulnerabilities
Level of control measures
Level of control measures
What?

Integrity risk analyses of 170 financial institutions examined

Based on detailed assessment criteria

 Majority of analyses were insufficient
## Assessment criteria

<table>
<thead>
<tr>
<th>Criteria</th>
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<tbody>
<tr>
<td>Recent and periodically</td>
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<tr>
<td>All business lines, brands, departments are included</td>
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<tr>
<td>Attention for several integrity risks</td>
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<tr>
<td>Insight into gross risk scenarios and multiple risk factors</td>
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<tr>
<td>Likelihood and impact: substantiated, plausible</td>
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<tr>
<td>Control measures: clear, plausible</td>
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<tr>
<td>Nett risk is determined</td>
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How?

- Countries
- Customers and delivery channels
- Products, services and transactions
- Staff and corporate culture
- Third parties

- Likelihood of a risk occurring
- Impact: costs and damage if a risk occurs

Risk identification

Risk analysis

Risk monitoring and review

Risk control

- Review of risk analysis
- Compliance and audit programmes

- Policy and procedures
- Systems and controls
Step 1: preparation and identification

- Business inventory: make an inventory for each business unit/branch office/subsidiary of the organisation with respect to products, customers, countries, staff, third parties, et cetera.
- Scenarios: assess which integrity risks may occur and the form that they may take.
- Scoring system: determine how to assess likelihood and impact.

Step 2: analysis

- Gross risks: for each scenario, determine the likelihood of the scenario occurring and the resulting impact.
- Risk appetite: assess the gross risk and verify whether this is within the boundaries of your risk appetite.
- Controls: list and assess the control measures in place for each scenario.

Step 3: assessment and measures required

- Nett risks: determine the net risk for each scenario by comparing gross risk and level of control.
- Risk Appetite: determine whether net risk is within the boundaries of your risk appetite.
- Measures: determine the type of action to be taken to increase control or reduce risk.

<table>
<thead>
<tr>
<th>IDENTIFICATION</th>
<th>ANALYSIS</th>
<th>ASSESSMENT</th>
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<tbody>
<tr>
<td>Risk</td>
<td>Likelihood</td>
<td>Impact</td>
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<tr>
<td>(Which integrity risks is the institution likely to face?)</td>
<td>(What is the risk likely to manifest itself?)</td>
<td>(What is the likelihood of a particular scenario occurring?)</td>
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<table>
<thead>
<tr>
<th>Risk</th>
<th>Factor</th>
<th>Scenario</th>
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<tbody>
<tr>
<td>Money laundering</td>
<td>(Which factors play a role for each risk?)</td>
<td>(How is the risk likely to manifest itself?)</td>
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<tr>
<td>Corruption (bribery)</td>
<td>(What is the likelihood of a particular scenario occurring?)</td>
<td>(What will be the impact on the institution if the scenario materialises?)</td>
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<tr>
<td>Tax fraud</td>
<td></td>
<td></td>
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<tr>
<td>Circumvention of sanctions</td>
<td></td>
<td>(Determine the inherent risk by assessing its likelihood and impact)</td>
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<tr>
<td>Terrorist financing</td>
<td></td>
<td>(Is the inherent risk within the boundaries of the risk appetite?)</td>
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</table>
What kind of risk scenarios?

What is the likelihood that
• By facilitating complex corporate structures we cooperate with aggressive tax planning
• By working with intermediaries we run the risk of ID fraud
• Because of our international activities we evade sanctions
• An employee colludes with a third party
• Because we accept large sums of funds from high risk countries we launder money
• Because an SME client frequently deposits cash we cooperate with money laundering
• Through our bitcoin exchange clients we facilitate financing of terrorism
What’s next?

- Gross risk scenarios
- Risk appetite
- Determining gaps and control measures
- Steering document for management
- Communication to staff
Other questions?