



Operational Risk Management



Process-Driven Management and Operational Risk Management at Le Crédit Lyonnais

LCL uses a process-based system for its operational risk management. The bank utilized MEGA's Enterprise Architecture solutions to create a process repository and model its risks.



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Michel Raquin, a process organization manager appointed by the LCL General Management.

No one will ever forget the catastrophes experienced by Enron in the United States, Bhopal in India, Perrier worldwide, Parmalat in Italy or AZF in Toulouse. Each of these cases had a significant macroeconomic impact on stock prices, oil prices, high-risk insurers, consumer confidence and all of the major international balances. Companies try to manage these types of catastrophes by implementing their own “Disaster Recovery Plan”, while countries create legislature to minimize the impact of the macroeconomic and political risks created by these disasters. With this in mind, Gartner cited more than eighty European laws related to risk management, such as Basel II, Solvency II as well as Financial Security Laws such as Sarbanes-Oxley (SOX). But just identifying the risks is not enough. *“To manage operational risks, we must manage the processes,”* explained François Tabourot, Managing Director of MEGA.

Business Structured by Process Type

This is the approach used by Crédit Lyonnais. *“We agreed to work on our processes, and for more than a year now, the bank has been organized by type of process,”* explained Michel Raquin, a process organization manager appointed by the LCL General Management. *“All production of products and services is based on a process”.* It can be described as a chain of activities that works to provide «end-to-end» customer service, from the moment the customer's need is stated until that need is met. This chain of activities extends through multiple business lines and business units of the company (branches, decision-making centers, middle office, back office, etc.).

In this way, LCL is organized into twenty-nine different types of processes (savings, credit, securities, etc.) passing through multiple business areas (networks, processing, HR, finance, MIS, etc.). *“This matrix-based organization requires a combination of cooperation and no conflicts between business areas and process types,”* noted Michel Raquin.

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Information and Action

The approach used by LCL involves seven key steps. The first three enable the creation of a **process repository**:

- 1. Identifying the processes and naming them.
- 2. Allocating each process type to one manager.
- 3. Describing the processes as an information flow from the customer's statement of need until that need is fulfilled.

“*Information without action is useless,*” stressed Michel Raquin. Thus, the three “information” steps listed above must be followed by four “action” steps:

- 4. Creating a participatory process for management.
- 5. Defining relevant indicators.
- 6. Analyzing the processes periodically.
- 7. Developing and implementing action plans.

Take action to manage operational risks

The banking world is more and more complicated and restricted. There are not only regulatory and legal limitations such as Basel II, SOX and LSF, but also the French Banking Commission, standards, ethical codes, prudent ratios and more. By drawing on the process repository, the company can take action in the areas of economic performance, operational performance, quality and customer satisfaction and most importantly, risk management. The big danger related to risk management is implementing more and more controls. Based on the process repository, Michel Raquin recommends determining potential risk situations for each process, knowing that each process extends through multiple business units, and comparing them with the actual controls in place (authorization checks, signatures, etc.). This allows to have “*the right controls at the right time, in the right place*” for any given risk situation without losing overall coherence.

A control repository organized by “type of player” was developed. The primary players included are the process owner, the operational manager and the internal audit manager. Accessible via

MEGA AND RISK MANAGEMENT

The MEGA approach to **operational risk management** is based on modeling and documentation of the company's main activities, particularly risk control activities. A risk management policy cannot be applied and control points cannot be established without widely distributed and shared documentation. MEGA helps project teams to precisely identify the operational activities that could affect the company.

MEGA's **compliance** services are based on four complementary components: a proven modeling method, a team of consultants specialized in compliance, a solid project approach and the industry's leading modeling platform. The MEGA Business Repository allows relationships between sensitive risk elements, control and test points, processes, value chains and their associated IT resources to be described and evaluated. This repository guarantees that **information is consistent**. In addition, MEGA tools use customizable libraries of risks, such as Basel II for the banking sector.



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intranet, the repository is designed to include the list of controls and their characteristics in order to simplify the control update process, particularly in the event that regulations change, while adding the most possible value.

“It is very important to prepare the approach properly. Involving general management, internal controllers, process managers and project managers is key,” stated Michel Raquin. “Risk management is an essential part of a process-based approach,” he concluded.

LCL relied upon MEGA tools and consultants for process modeling, creating a process repository and setting up the intranet system to make these elements available to all of the players involved in the processes and in the management of operational risks.

Philippe Haniquaut, manager of process geared operational performance project adds “Such intranet-based Process Repository is a management tool used by several hundred LCL collaborators.”



LCL Le Crédit Lyonnais

It was more than a year ago when the group's 27,000 employees accepted the challenge issued by their General Management and took on the ambitious project of constructing a unique banking model highly different from that of its national competitors. Today, LCL is the only national bank that is solely dedicated to retail banking for individuals, professionals and companies.

This business plan has been cemented by a new purpose and identity, approved by employees and now expected by a large majority of consumers.