

A GUIDE FOR FINANCIAL SERVICE PROVIDERS

Branch Transaction Risk Reports

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1 What are Branch Transaction Risk Reports?

- **Branch Transaction Risk Reports are a set of three tools focused on identifying operational risk events at a branch level.** Examples of risk events include unexpected computer downtime, bugs in software applications, and misplaced documents. These events are identified at each branch, collated from all branches, and then analyzed to establish trends and identify risk management solutions.
- The tools are designed to capture daily risk events, systematically monitor and analyze these events, and report to management on a weekly basis. The tools encourage staff participation in uncovering risk events, which in turn helps to create a risk awareness culture at the branch level.

Branch Transaction Risk Reports tools:



Branch Risk Registers are used to identify risks at a branch daily. It is a physical (paper) register where any staff at a branch can record actual risk events observed when conducting routine branch transactions. Any activity that poses a risk to the institution should be captured. Staff can identify risks by asking the question: “Are there negative consequences (harm or loss) that could result from this transaction or activity?”

Risk Event Reports are used by branch routine controllers (risk monitoring staff) to consolidate the risks identified in the Branch Risk Registers. These risks are tabulated and ranked according to the likelihood of the risk occurring and the severity of the impact should the risk occur. Each risk event is assigned a mitigation strategy and person(s) responsible for managing the risk.

Incident Reports are a management tool that summarizes and consolidates all Risk Event Reports. It includes the risks at all branches and departments, as well as the recommended action plans to respond to the risk events.

2 Tool terms

Risk Event: A risk event at a branch is an activity that may result in negative consequences for the institution.

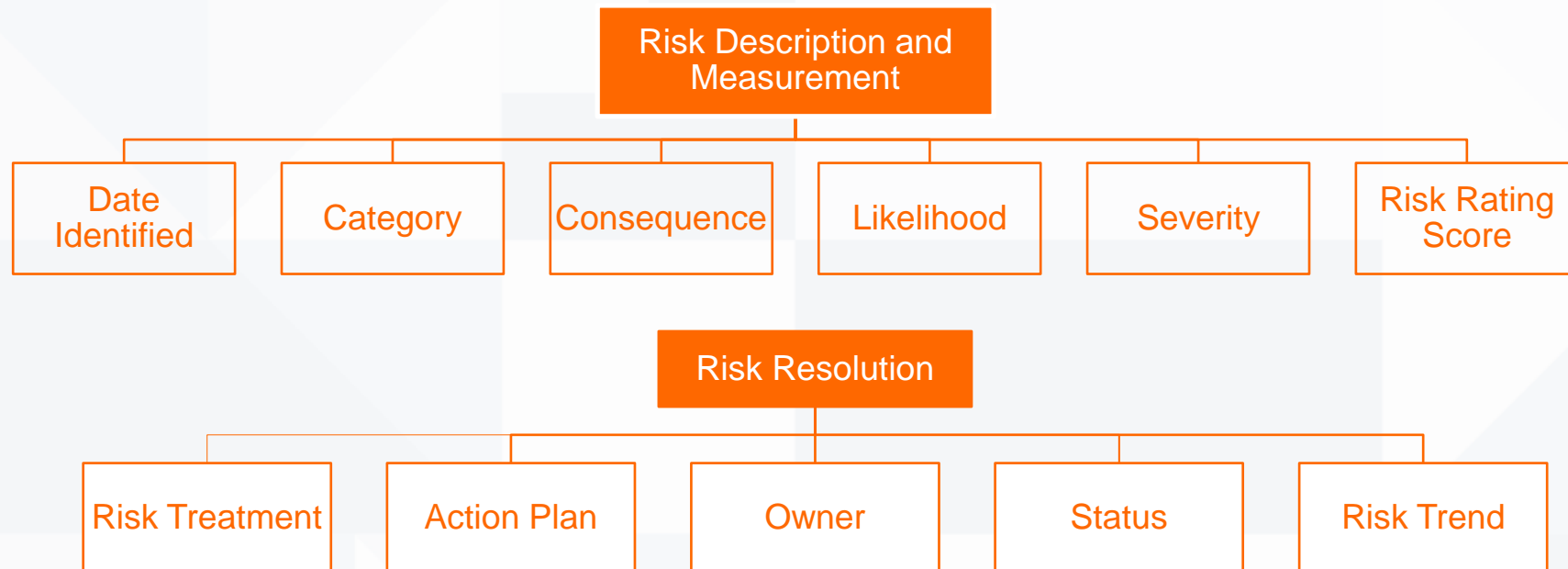
Risk Rating Score: Each risk event is assigned a risk rating score based on the likelihood of the risk occurring and the severity of the impact should the risk occur.

3 Tool inputs and outputs

The **Branch Risk Register** captures the daily raw observations of risk events at branches. The Register includes only the date and a description of the risk event.

Multiple Branch Risk Registers are analyzed to yield two actionable reports: the Branch Risk Event Report and the Incident Report.

The **Branch Risk Event Report** aggregates risk events from physical Branch Risk Registers in chronological order. Risk events receive a risk rating score (high, medium or low) and are assigned a treatment plan and person(s) responsible. The status of each risk event and trends are also tracked and monitored.



3 Tool inputs and outputs

The **Incident Report** outlines the most important risk events by branch and department, and the recommended action plans to mitigate the risks.

| Branch or Department | Risk Events | Recommendations (Action Plans) |
|----------------------|-------------|--------------------------------|
| | | |
| | | |
| | | |

4 Using the tool

When to use Branch Transaction Risk Reports

- The **Branch Risk Register** should be available at branches every day for staff to capture all risk events as and when they occur.
- The **Risk Event Report** is typically prepared weekly to aggregate the observations in Branch Risk Registers, provide strategies for addressing risks identified, and track progress towards resolving risk events. The events are usually tracked in chronological order or by severity. Likelihood estimates are updated if the same risk event occurs more frequently than expected.
- The **Incident Report** summarizes and consolidates the action plans to be implemented by each branch and department in order to address the risk events observed over a period of time, with an aim to prevent re-occurrence. Incident Reports are typically updated and produced monthly.

Who can use these reports?

- **Heads of commercial and operations departments** can use the Incident Report to identify the most critical risk events occurring at their branches and evaluate the effectiveness of controls. The recommendations summarized in the Incident Report make it possible to start resolving risk events immediately.
- The Risk Event Report is used by **branch managers** to dive into the details and prioritize risk events to address. This report is prepared in Microsoft Excel, which allows the filtering of data to easily identify those risks that pose the greatest exposure for the branch, as well as any risks that have been left unresolved for a long time.
- The **risk department** uses the Risk Event Report tool to assign responsibility to risk owners and track progress on risk mitigation actions over time.
- **Heads of departments such as IT and HR** use the Risk Event Report to identify risky events attributed to their function. This report enables them to assess gaps in their services to the branches, and take remedial actions.

4 Using the tool

What is required to use the Branch Transaction Risk Reports?



In order for Branch Risk Registers to be used effectively, **all branch staff members should be informed as to when and how to use the tool.** Staff should be trained on the types of potential risk events to document and the terminology to use to ensure consistency in risk event recording.



Branch routine controllers (risk monitoring staff) are required to aggregate information from the physical copy of Branch Risk Registers, categorize and assess risk events that have occurred, and identify next steps to manage these risks. Consistent terminology in the Branch Risk Registers will make it much easier to aggregate the risk events.



Risk owners at branch and department levels must take responsibility for risk events and be held accountable for implementing the recommendations provided by the Incident Report tool to improve risk controls. The risk team periodically reviews the Branch Risk Registers and monitors the implementation of the recommendations in the Incident Report.

5 Key considerations

Key metrics

The Branch Risk Event Report assigns a numeric risk score to each risk event indicating the importance of that risk. The effectiveness of the action plans proposed in the Risk Event Report and Incident Report can be measured by tracking the aggregate risk score of risk events by branch and department.

The following metrics can be included in an information dashboard for department heads to visualize trends and make projections:

- Number of risk events where risk score is high, plotted by branch and department
- Number of risk events where risk score increased and decreased over the past month for a particular branch or department

Tool variations

The risk score can be aggregated to show the branch trend performance by number of high-risk events encountered.

The risk status information from Risk Event Report can be aggregated to evaluate how many risk events have been successfully addressed over time.

Complementary tools

The Branch Transaction Risk Reports can be used as an input into the DRACA Tool as these reports capture risk events as they occur. The Reports will serve as a record for department managers to identify risk events, which is useful when listing risk events for the DRACA tool. See the DRACA Guide for more details.

6 Case study

Institution

Bank of Copa (BoC) is a mid-sized microfinance bank in Africa that had been in operations for 10 years. It caters to microfinance clients through both credit and savings products. It has approximately 15,000 borrowers and 90,000 savers, with a total staff of 400.

The problem

BoC had grown rapidly and opened several new branches. However, management noticed an increase in customer complaints related to accessing their accounts and conducting transactions at the branch. Branches had auditors to help identify gaps in services, but audit reports were only prepared quarterly and were not sufficiently actionable. Management needed a way to track the quality of services at branches and uncover best practices that could be applied across branches.

How the Branch Transaction Risk Reports were used

The Branch Risk Register was the key tool to diagnose operational issues at the branch level. By involving every staff member in capturing potential risk events in the Risk Register, branches were able to collect information quickly and without additional overhead. Moreover, the staff felt engaged and committed to identifying areas of improvement in branch activities. Unlike the audit reports, the Branch Risk Registers were updated daily and built using the contribution of all staff members.

Risk Registers were collected from all of BoC's branches, and analyzed to identify areas for improvement. Key risks identified included "mistakes in quarterly savings account statement," "long waiting times for disbursements," and "improper behavior of branch staff." Risk events were compiled and mitigation strategies recommended in a Branch Risk Event Report. In analyzing the Incident Report, management realized that some of these activities occurred very frequently and needed immediate intervention. Action plans were implemented to tackle the most pressing issues and over time the frequency of customer complaints declined.

6 Case study

Insights and solutions

BoC discovered quickly that consolidating detailed information from the Branch Risk Registers into meaningful Risk Event and Incident reports was a difficult task because of variations in how similar activities were described. As a result, it was important to introduce a common terminology to describe branch activities and responsibilities. This also helped to eliminate the process differences that had emerged between BoC's old and new branches.

BoC's management realized that the Branch Risk Registers offered quick solutions to risk events – like “improper behavior of branch staff” – which, if not managed early, could damage the image of the Bank and lead to client desertion. Also, the rigor of documenting and reviewing risks regularly created a culture of risk awareness and ownership of the risk events at the branch.

The Branch Transactions Risk Reports tool guide is one of a four-part series including guides on Detailed Risk and Controls Assessment (DRACA), Credit Scoring, and Portfolio Quality Analysis (PQA).

Learn how to implement these tools and how we can help manage operational risks.

Contact us



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First published 2016 with support from JPMorgan Chase Foundation.

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