Modeling, Measuring and Hedging Operational Risk

MARCELO CRUZ
RiskMaths

Abstract

Operational risk has been defined by the Basel Committee as the risk of losses arising from problems from internal controls, systems, people and external events. As most financial institutions were not properly structured to deal with such risk the challenges they currently face are extremely demanding and the expected deadlines are short. This lecture will show how banks can develop a conceptual and practical framework to cope with operational risk. Topics that will be discussed will be the issues around database modeling; the development of an operational VaR similar to the ones of market and credit; the development of causal models and hedging programs for operational risk.