New OCC Rules on Fraud Risk Management

Part 1: Governance and Operations

On July 24th, 2019, the OCC issued Bulletin 2019-37 Operational Risk: Fraud Risk Management Principles. The OCC guidance can be broken down into two separate components: **governance** and **risk management operations**. The governance component includes:

Culture
Ethical standards and employee accountability.

Infrastructure
Policies, procedures, processes, controls, personnel sufficient to identify, measure, monitor, and control fraud risk.

Management
A system that allows bank management to assess fraud risk in senior management and board support and knowledge of the impact of fraud on the institution's business.

The risk management/operational component is simultaneously simpler and more complex, but is made more effective when the institution's governance house is in good order. We glean that the essence of OCC's operational requirements is satisfied when the institution implements an effective system that assesses its fraud risk in formal fraud risk assessment and implements systems to:

At an operational level:
- **Identify** potentially fraudulent transactions
- **Investigate** fraud in a timely manner and react to known fraud by updating risk assessment and systems to identify/prevent future occurrences
- **Interdict/prevent** high-probability fraud in real time

At an institutional level:
Quantify, Categorize, Measure, Analyze, Report, React:
This speaks to a comprehensive fraud risk assessment that includes data analysis demonstrating to management, institutional leadership, auditors, and regulators a comprehensive view of the institution's fraud risk (including losses and recoveries) and how the institution mitigates that risk. Much more on this later in this series. From the OCC:

> A bank's risk management system should include policies, processes, personnel, and control systems to effectively identify, measure, monitor, and control fraud risk consistent with the bank's size, complexity, and risk profile.

> The board should receive regular reporting on the bank's fraud risk assessment, resulting exposure to fraud risk, and associated losses to enable directors to understand the bank's fraud risk profile.

About the Author

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