

## Categorization Analysis

### Part A: Internal Fraud, External Fraud, CPBP & EDPM

FRAUD		Intended Beneficiary			
		Individual	Firm	Counterparty	No one
Intended Loss Sufferer	Individual				
	Firm	X			
	Counterparty				
	No one				

FRAUD		Intended Beneficiary			
		Individual	Firm	Counterparty	No one
Intended Loss Sufferer	Individual				
	Firm				
	Counterparty	X			
	No one				

General Principle: Individual must intend to do wrong and to benefit him/her self, but MUST NOT intend to benefit the firm.

Difference between internal and external fraud: to qualify as an internal fraud event at least one involved party must be an employee.

#### INCLUDES:

Fraud/credit fraud, worthless deposits  
 Theft, extortion, embezzlement, robbery  
 Misappropriation of assets  
 Forgery  
 Check kiting  
 Account takeover/impersonation  
 Insider trading on the individual's account (associated penalties)  
 Hacking damage

#### DOES NOT INCLUDE (all moved to CPBP):

Unauthorized activities  
 Tax non-compliance/evasion (willful)

Bribes/Kickbacks<sup>1</sup>  
Smuggling<sup>2</sup>

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<sup>1</sup> Bribes and kickbacks paid are illegal costs - not operational losses. Fines and penalties from bribes and kickbacks are operational losses. If an individual receives a bribe or kickback to do something that would harm the firm, that event should be categorized in a manner that is consistent with the actual loss.

<sup>2</sup> Smuggling by the individual, for his/her own benefit, should generally not result in a loss to the firm.

CPBP		Intended Beneficiary			
		Individual	Firm	Counterparty	No one
Intended Loss Sufferer	Individual				
	Firm				
	Counterparty	X	X		
	No one				

CPBP		Intended Beneficiary			
		Individual	Firm	Counterparty	No one
Intended Loss Sufferer	Individual				
	Firm				
	Counterparty				
	No one	X	X	X	

General Principle: Individual must intend to do wrong and to benefit him/her self (through bonuses, commissions, promotions, etc.) and MUST also intend to benefit the firm.

General Principles for Sub-Categories:

Sales Practices: Customer(s) are intended to be harmed directly.

Market Practices: No Customer(s) is intended to be harmed directly; Competitor(s), the Government and/or the Public at large are intended to be harmed.

Unauthorized Activities: Nobody is intended to be harmed.

INCLUDES:

Sales Practices

Fiduciary breaches/guideline violations

Suitability - disclosure issues

Retail consumer disclosure violations

Breach of privacy (in a manner that harms customers)

Aggressive sales

Account churning

Misuse of confidential information (in a manner that harms customers)

Failure to investigate client per guidelines

Exceeding client exposure limits

Disputes over performance of advisory activities

Bribes/kickbacks to customers (associated penalties only not payments)

Market manipulation (affecting customers)

Market Practices

Antitrust

Improper trade and market practice

Market manipulation (affecting competitors only e.g., dumping)

Insider trading (on firms account)

Unlicensed activity

Money laundering

Willful non-compliance/tax evasion

Smuggling (associated penalties only)

Bribes/kickbacks not to customers (associated penalties only not payments)

Unauthorized Activities

Unauthorized trading

Unauthorized loan approvals

DOES NOT INCLUDE:

Product defects (moved to EDPM)

Model errors (moved to EDPM)

Lender liability (if no intent to do wrong may be business risk)

EDPM		Intended Beneficiary			
		Individual	Firm	Counterparty	No one
Intended Loss Sufferer	Individual				
	Firm				
	Counterparty				
	No one				X

General Principle: An event in the process stage of a transaction: no intended beneficiary and no intended loss sufferer. The person(s) who caused the loss individual must not have intended to do wrong. (If a large “inadvertent” gain is discovered by external party one may suspect wrongdoing: Fraud or CPBP.)

INCLUDES:

- Miscommunication
- Data entry
- Maintenance or loading error
- Missed deadline or responsibility
- Model misoperation
- Accounting error, entity attribution error
- Other task misperformance
- Delivery failure
- Collateral management failure
- Reference data maintenance error
- Failed mandatory reporting obligation
- Inaccurate external report
- Clients permissions, disclaimers missing
- Legal documents missing, incomplete
- Unapproved access given to accounts
- Incorrect client records
- Nonclient counterparty misperformance
- Misc. nonclient counter party disputes
- Outsourcing
- Vendor disputes

DOES NOT INCLUDE:

- System Misoperation (moved to Systems)
- Inadequate oversight (cause)
- Negligent loss or damage to client assets (moved to Damage to Physical Assets)

## Part B: Other Risk Categories

### EMPLOYMENT PRACTISES AND WORKPLACE SAFETY

General Principle: Any violation of accepted employment practices, employment laws, labor agreements or with health and safety laws.

#### INCLUDES:

Compensation, benefit, termination issues  
Organized labor activity  
All forms of discrimination  
Fines/Penalties from employee safety rules events

#### DOES NOT INCLUDE:

General Liability (slips and falls, etc.) (moved to Damage to Physical Assets)

DAMAGE TO PHYSICAL ASSETS:

General Principle: Any physical asset damage

INCLUDES:

Natural Disaster losses

Human losses from external sources (terrorism, vandalism)

Human losses from slips and falls, etc<sup>3</sup>.

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<sup>3</sup> Moved for consistency; no clear way of differentiating between small disasters and major disasters.

**BUSINESS DISRUPTION AND SYSTEMS FAILURE**

General Principle: any event in which a computer or a computer related issues was the primary cause for the loss (Systems takes precedence in cases where there are overlaps with other categories).

**INCLUDES:**

Hardware

Software

Telecommunications

Utility outage/disruptions



## Contact Information

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