

# NEGATIVE NEWS SIGNALS



## Monitoring and Detecting Emerging Operational Risk using News and Derived Data

### Increasing Demand for New Approaches to Managing Operational Risk

Operational risk management is a central task for all organizations across the financial, services and corporate sectors. A few major trends reinforce the need for timely and proper operational risk management, such as the speed with which the impact of adverse network effects can be realized, thanks to the heightened connectivity of individuals, enterprises and economies. This is exacerbated by the heightened demand for corporate, social and environmental accountability.

Operational risk can be defined as the risk of incurring a loss resulting from inadequate internal processes, from people working for an organization or from systems deployed by it. They might also result from external events happening in the environment relevant to an organization. In practice, such risks might take on the form of fraud risks, IT risks, data and privacy risks, liability and other legal risks, infrastructure risks (e.g. production facility shutdown) or environmental risks.

Two major forces drive the complexity in operational risk management. On the one hand, operations themselves often become increasingly complex over time, making the comprehensive identification of operational risks tedious and difficult. On the other hand, changes in the external environment are hard to implement, and subsequently, to track and monitor.

### Data-Driven Approach

Organizations' traditional approaches to the management of operational risk management include ongoing manual research, dedicated internal projects, large volumes of risk manuals, etc. All of this involves great organizational effort, and tends to be reactive. As a consequence, organizations might neglect important risks, such as natural disasters, cyber security, liability or adverse media, and often implement measures only as a reaction to a loss.

Dow Jones DNA helps to reduce the complexity in this context by providing access to a rich content set, which is tagged with metadata related to operational risk. Tags include fraud, legal, as well as ESG (environmental, social, governance) risk indicators, among others. In addition, these tags also include companies and their executives. The content can be retrieved in the form of historical snapshots, but also in near real time (near time) via DNA Streams. This allows data scientists and analysts to create solutions capable of monitoring hundreds of thousands of entities across a wide variety of events, enabling early risk detection and alerting.

## Automatically Detecting Operational Risks

In some areas, such as in banking, improvements in operational risk management can have a direct impact on the competitive position of an organization. For example, the performance of the operational risk management of a bank has a direct impact on the required risk capital a bank needs to have, per Basel III regulations. This is commonly referred to as operational risk capital.

In practice, we worked with the head of operational risk management at an internationally operating European banking group that has set up a project which aims to implement an early warning system. The group's operational risk team are monitoring risks related to the group's major clients, working together with Dow Jones to improve her department's proactive risk management.

Such a task is rather complex since the banking group is dealing with a large number of entities operating in different countries with different regulatory and legal environments. In addition, relevant data and information is often only available in languages other than English.

The risk management team can not screen the huge amount of relevant data on its own.

Therefore, the project team defines the major operational risks to be screened automatically and generates a list of all relevant entities. Making use of historical snapshots, the data from Dow Jones DNA is analyzed by the group's operational risk team, and improvements to the approach are implemented. From these insights, the team builds a solution which, on a daily basis, screens all relevant new data from DNA, making use of the rich metadata (in the form of risk-subjects and company-related tags). DNA data is pre-processed making use of natural language processing capabilities with the relevant articles and other data then flagged based on an automated risk assessment algorithm for further screening by the relevant risk officer.

By using this modern, data-driven approach with news from DNA, the operational risk department can now immediately identify and manage risks -- similar to how market risks are managed in real-time by trading desks.

### What will you build with DNA?

To learn more, visit [www.dowjones.com/dna](http://www.dowjones.com/dna) or contact your sales representative.

If you are located in the US, you may also call **800-369-0166**.



### Dow Jones DNA - Data, News & Analytics

At a time when data fuels the professional world, Dow Jones DNA gives you data for AI and allows you to seamlessly connect datasets. One of the world's most comprehensive licensed news datasets, DNA is designed to readily integrate with your organizations' advanced analytics in order to provide deep insights and automate business decisions.

DNA is a cloud based Data-as-a-Service platform to help you leverage outside insights and increase the accuracy of your data outputs. You can:

- Have confidence and reduce risk with news and data you can trust, from our 31+ year archive of proprietary and licensed news data with storage rights through contract life
- Rely on highly veracious data with 8,600+ sources in 28 languages from extensive regions, industries and topics
- Save time and increase productivity with well-structured metadata from our cleaned and labelled datasets. Features include tagged company codes on 20m+ companies and standardized formatting of timestamps across 1.3bn articles
- Scale and tailor the specifications and delivery method to best suit your data science teams. Our DNA Solutions Engineers are here to assist you integrate DNA