
Operational Risks in Transactional and Branch Banking



Contributed by
Mr. Anthony B. Elam
Managing Director
Bank Central Asia

Bank Central Asia (BCA) is the leading payment settlement bank and the largest domestic private bank in Indonesia, with Rp218 trillion in total assets as of December 2007 and approximately 7.54 million customer accounts.

BCA serves its client base through a total of 814 branches nationwide with representative offices in Hong Kong and Singapore. The bank also has a growing electronic delivery channel platform, including an extensive proprietary ATM network. At present, BCA operates some 5,679 ATM units consisting of 4,294 ATMs, 990 Non-Cash ATM and 395 Cash Deposit. In recent years, BCA's internet banking service has grown rapidly and now a major contributor to overall electronic transaction.

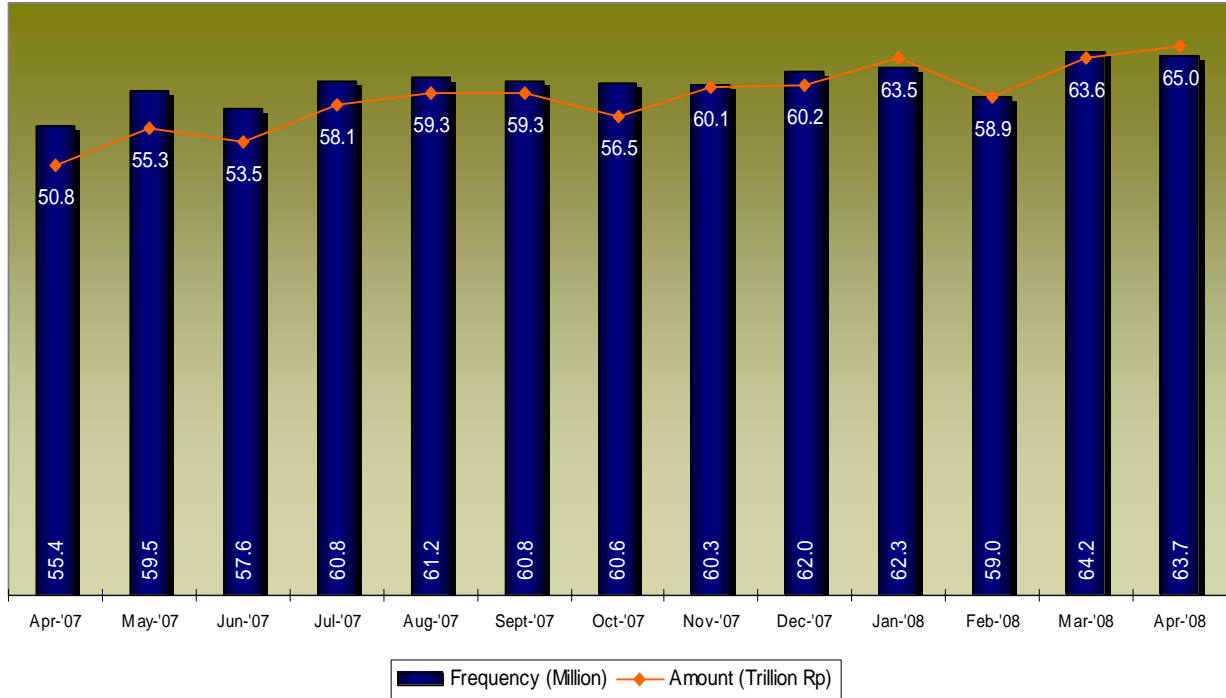
In the future, the bank anticipates a decline in the practice of hard cash payment transaction. In line with directives from Bank Indonesia concerning the reduction of hard cash in circulation, and to promote the use of non-cash payment instruments towards a new era of "*Less Cash Society*", BCA has introduced the Flazz Card and the Gazz Card that are effectively prepaid debit card.

Although initial acceptance of these payment cards has been slow, we expect that usage will improve as more merchants accept the cards and society becomes more accustomed to using the cards.

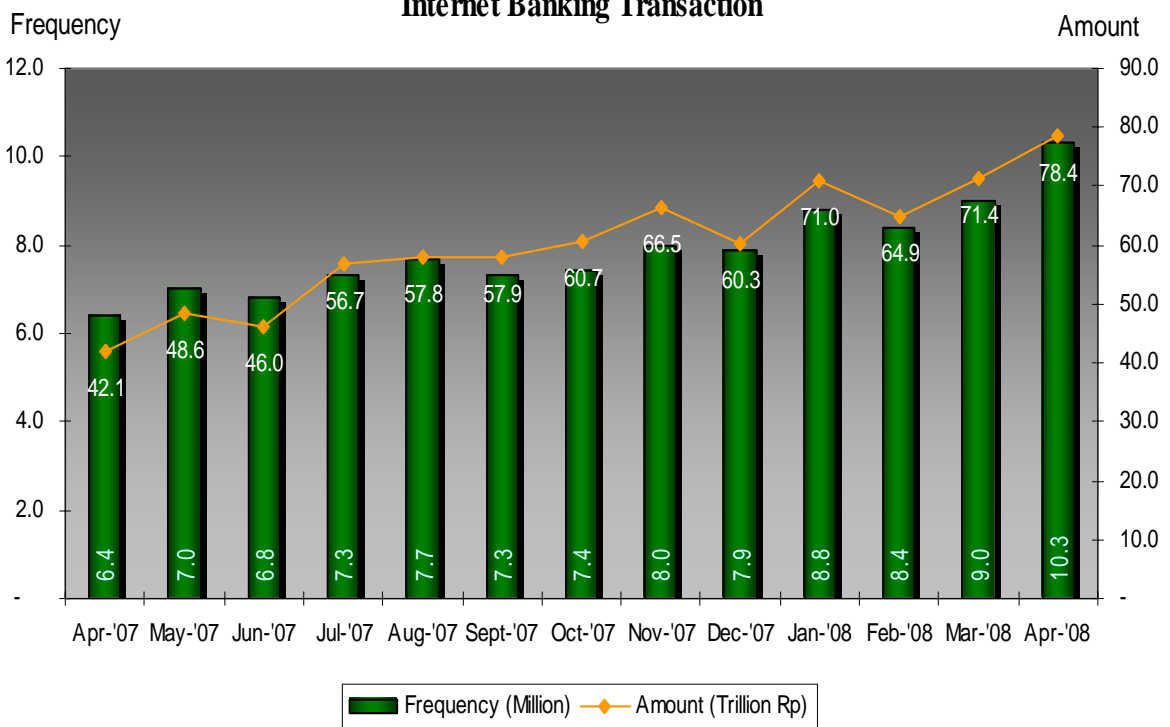
Payment and Settlement

The frequency and total value of domestic payment transactions conducted at branches or through electronic delivery channels continue to increase, as can be seen from the following graphs.

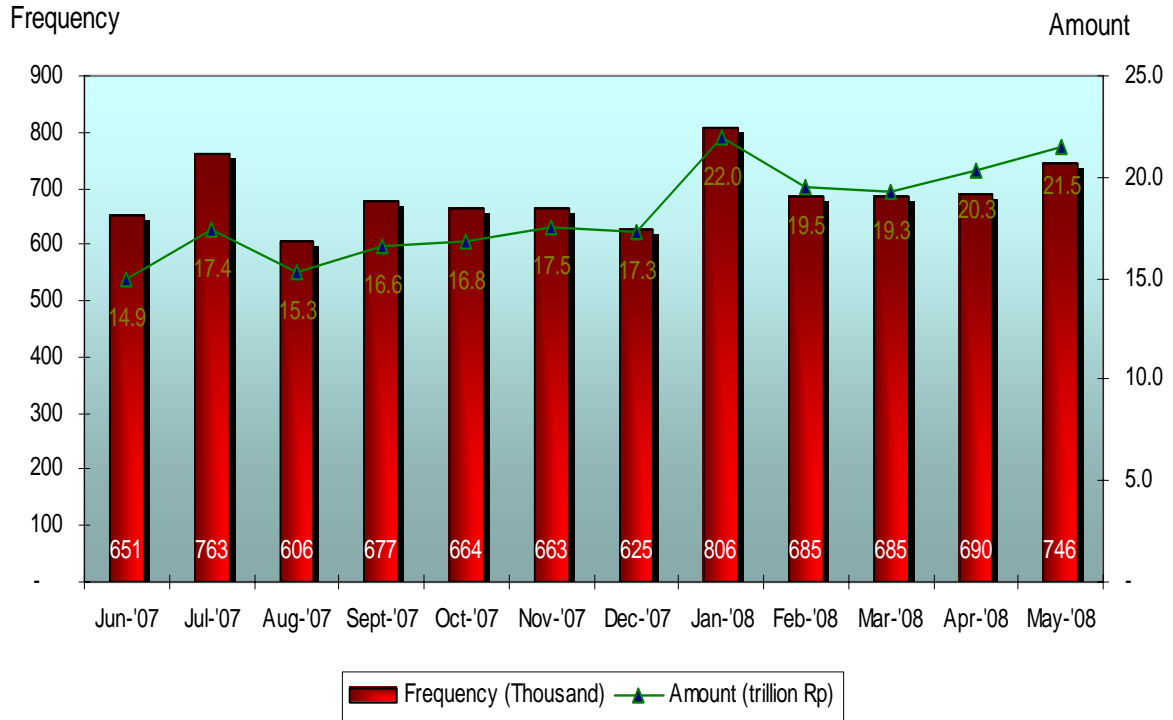
Graph 1.
ATM Transaction



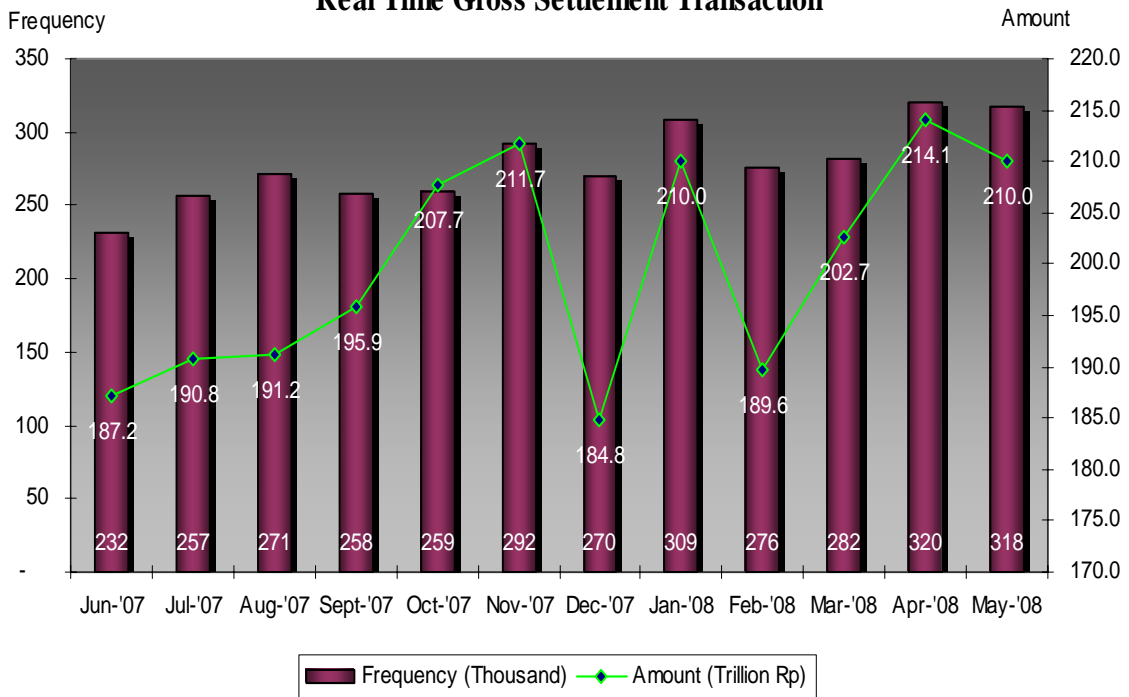
Graph 2.
Internet Banking Transaction

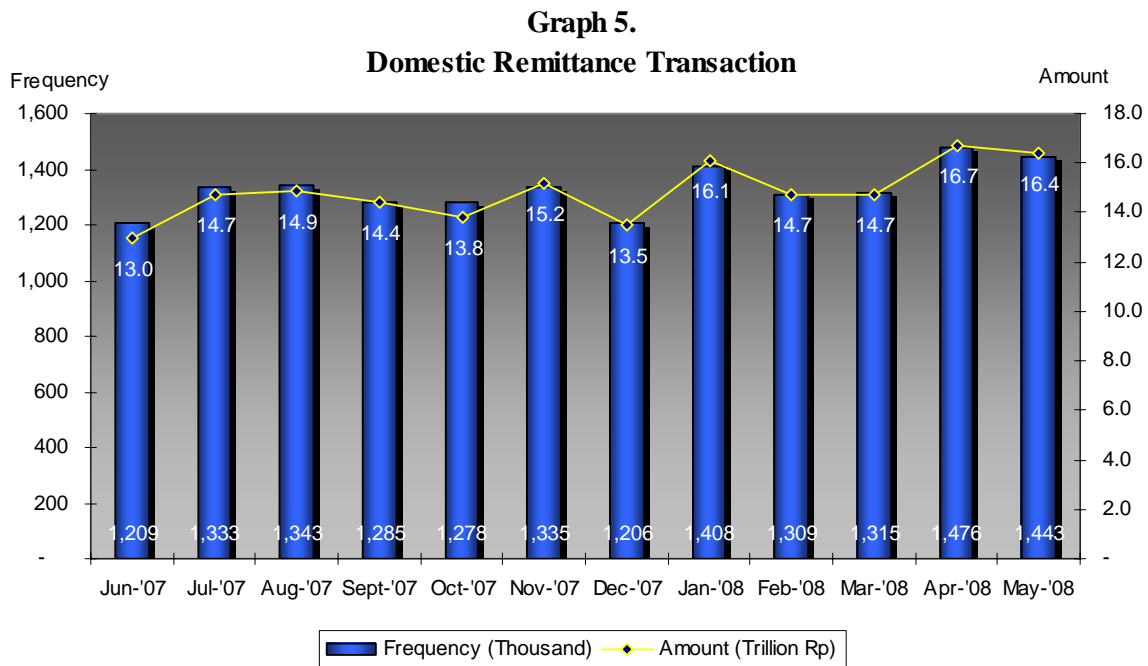


Graph 3.
Clearing Transaction



Graph 4.
Real Time Gross Settlement Transaction





The data on Table 1 show that BCA on the average handles approximately 2.7 million transactions daily with approximately 30% of all real time gross settlement transactions (RTGS) and clearing.

Table 1.
Domestic Payment Transaction Process
On April 2008

Transaction	Per Month		Per Day	
	Amount (Trillion Rp)	Frequency (Thousand)	Amount (Trillion Rp)	Frequency (Thousand)
ATM	65.00	63,700.00	2.17	2,123.33
Internet Banking	78.40	10,300.00	2.61	343.33
Clearing	20.30	690.00	0.68	23.00
RTGS	214.10	320.00	7.14	10.67
Domestic Remittance	16.70	1,476.40	0.56	49.21
EDC	2.36	4,236.00	0.08	141.20
Total	396.86	80,722.40	13.23	2,690.75

From the perspective of risk management, and in particular the management of operational risks, the increase in the frequency and value of transactions is a factor that leads to higher operational risks. Transaction delay/failure constitutes one of the most significant inherent risks in transactional and branch banking operations. These risks may arise from a wide variety of causes, including human error, computer system failure,

disruption in electricity supply, natural disasters (volcano eruption, floods, tsunami, and earthquakes), fire, riots, and bomb threats. The failure of a bank in anticipating or responding appropriately to the risk factors may lead to potential losses for the bank and its customers. Even worse, these risks may trigger a systemic risk to the national banking system.

The preparation of detail risk mitigation plan is a key aspect to ensure the continuing successful operation activities of the bank. Accordingly, BCA has formulated in depth Business Continuity Plans (BCP) for implementation at branch level as well as at its Head Office. The infrastructure of the BCP includes a dual data centre, dual call centre, satellite and land line telecommunications system and network for telephone and cable optics lines, and Disaster Recovery Centre. To ensure the continuous supply of electricity to the Data Center, the electricity installation has been designed to be fed from two different electricity main transformers with an independent generating set as back up.

The dual data center act as a main and a back-up of data center. Periodically, these two data centers change role; the backup become the main and vice versa to ensure smooth switching in time of disruption. The BCP also covers emergency situations that might endanger the employees, physical documents and assets, and the operational premises of BCA. These situations include fires, floods, earthquakes, bomb threats, riots and pandemic breakouts. To ensure that the BCP functions as intended at the time of need, BCA conducts tests and simulation exercises on a regular as well as on a surprise basis.

Throughout 2007, actual losses incurred by BCA due to operational risk factors amounted to Rp14.25 billion, or 0.08% of the bank's shareholders' equity. The success of BCA in minimizing operational losses can be attributed to effective systems and procedures, reliable technology, proper and adequate internal control, an awareness of risk mitigation at each work unit and, most important of all, the full support and commitment from top-level management down to the field operator level.